REPRINTED FROM AUGUST 8, 2022

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

3 Great Companies Finally Cheap Enough to Buy

FLA LEWIS III is Principal of Weybosset Research & Management, LLC. At the start of his career, he went to work at Kidder, Peabody & Co. in 1980. He was named Assistant Vice President in 1985 and Vice President in 1986. He was affiliated with Kidder, Peabody Asset Management from 1990 until 1995. In January 1995, he joined Compton Capital Management as Vice President and Senior Portfolio Manager. Mr. Lewis graduated from Brown University with honors. He was awarded the Samuel T. Arnold Fellowship, Brown's highest honor for a graduating senior. After study in Vienna and London, Mr. Lewis received a Master of Arts degree from Harvard.

SECTOR — GENERAL INVESTING

TWST: Could you tell readers about the company?

Mr. Lewis: Weybosset Research began in August 2000, as a continuation of my activities at Kidder, Peabody & Co. and after that, Compton Capital Management, in Providence. There are three of us here. We have around $300 million worth of assets under management. Our clients are all individuals. We have no institutional clients as usually defined. We are long-term fundamental investors.

TWST: And when you say you are long-term fundamental investors, maybe you can expand on that philosophy.

Mr. Lewis: Sure, be happy to. We have discretionary authority over our clients' investments. And we aim to significantly increase the value of our clients' investments over the long haul. By that I don't mean the next quarter or the next six months or the next year, but more like years, decades. We're even finding over generations. We've had many clients for years and years. Now, we have their children and grandchildren as our clients. If you want us to take your money and make a bunch for you by this time next year, you're probably talking to the wrong people. If you're saving for retirement or education or to pass some money along to your heirs, we are probably a better place to be.

TWST: What was the impact from the pandemic? What did investors learn from it? Also, are inflation and supply chain issues affecting the market?

Mr. Lewis: Excellent question. The pandemic just came out of nowhere. We heard spooks about bird flu or things like that before, but nothing like this. The prospect of the entire world's economy, not slowing down and perhaps tipping over, but just stopping — I can't recall that happening in my experience before. It was something brand new.

One of the things we've always insisted upon in our investees is the strength of the balance sheet. I think what the pandemic taught us is the darndest things can happen, can simply fall out of the sky. It could be economic. It could be some kind of world health thing. It could be a personal problem — you just never know. And you want to have your investments such that they can weather any kind of storm.

And boy, am I glad for the strong balance sheets in the companies we own. Because we got hit, just like everybody else. But there was never any question of not being able to pay our bills, or companies paying their bills, or anything like that. They would still be standing there when the whole thing was over. It was bound to be over at some point. You just didn't know when or where or what would be left. But it worked well for us. We had a very good year both in 2020 and 2021. So it taught me something about the paramount importance of resiliency.

For people in general, I just don't know. I think the pandemic and the strong stock market coming out of the pandemic and the fact that there was just a lot of money around — all these people with their stimulus checks sitting at home. They got busy speculating in cryptocurrencies and meme stocks and all kinds of crazy stuff. The more sober minded put even more money into the FAANG stocks. I don't think that's worked out too well so I'm not sure how the world in general feels as speculative excesses unwind — as they always do.

But I know that I feel like we did do the right thing. And I'm glad.

TWST: So, one of the lessons might be for investors is: Don't dump your stocks the second they start to go down?

Mr. Lewis: Of course. Of course you don't. One of the advantages we had was that when the pandemic hit, it hit just as companies were reporting financial results for 2019. You knew what kind of conditions your companies were in when the problem hit. We had every reason to think they would be alright. You don't panic and sell at the first sign of trouble. Make sure you can ride out any storm.

Also, a crucial aspect of our asset allocation is that we recommend clients maintain adequate liquidity. That means money that you can get your hands on at any time, no questions asked. Insured bank accounts, Treasury securities, that kind of thing, enough to live for a year or two. So you don't have to sell something that is down. The necessity of maintaining adequate liquidity to meet unanticipated disasters plus strong companies that constitute your longer-term investments, that's our policy. It worked very well in 2020. And it's working fine in 2022.

TWST: And did you want to highlight a stock?

Mr. Lewis: Yes. It's in times like these that people are running as hard as they can away from stocks, all stocks. But it's a good time to look around, see what's available out there as babies are being thrown out with the bathwater. In our case, we've bought three new stocks since the first of the year. And remember, we don't do many transactions. We bought nothing in 2020, for instance, and that was just because the whole thing happened so fast. We didn't understand what was happening, so we didn't act.

But this time around two companies that I've been following for nearly 30 years caught our attention. I had met up with them in the 1990s and the early 2000s and love the businesses, love the management, loved everything about them, except they were selling at very, very high prices. I just couldn't get myself to pay those prices.

I'm talking about **C.H. Robinson Worldwide** (NASDAQ:CHRW) and **Expeditors International** (NASDAQ:EXPD). These are two freight forwarding companies. Their businesses overlap to a degree, but they're both pretty much in different aspects of the same business. I followed them for a long time, admired them intensely, and just woke up one day earlier this year and discovered they were selling at the cheapest prices relative to earnings, book value, etc., that they had ever sold — I mean ever.

They came public in the 1980s or '90s. And were selling at by far the lowest prices since coming public. Nothing had changed except the prices. The business was the same. And they were selling at prices that were low enough that even I would gladly pay.

And just to show that we're not afraid of anything, we put some money into a big furniture retailer, **RH** (NYSE:RH). **RH** used to be Restoration Hardware. And **RH** has been more controversial and more difficult. But we think it'll work out. If it works out, it will work out very well indeed. And we think it will work out.

TWST: And did you want to detail each of the three companies?

Highlights

Fla Lewis III discusses his investment and allocation strategy which focuses on a combination of long-term investment in resilient companies with strong fundamentals and adequate liquidity to weather unanticipated events. Mr. Lewis recommends two freight forwarding companies he has admired for decades but found too expensive until recently: C.H. Robinson Worldwide and Expeditors International. He describes them as asset-light businesses that arrange for the best combination of trucks, airplanes, trains, and intermodal transportation to move freight across the globe. He says that a more controversial pick is RH, formerly Restoration Hardware, which he believes to be extremely well run and very profitable, with high return on shareholder equity and invested capital. In terms of portfolio diversification, Mr. Lewis advises looking at the correlations rather than the number of stocks in a portfolio. He prefers buying U.S. companies receiving revenues from overseas to get foreign exposure, versus direct investment.
Companies discussed: C.H. Robinson Worldwide (NASDAQ:CHRW); Expeditors International of Washington (NASDAQ:EXPD); RH (NYSE:RH); AMC Entertainment Holdings (NYSE:AMC); Alphabet (NASDAQ:GOOG); Apple (NASDAQ:AAPL) and Berkshire Hathaway (NYSE:BRK.A).

Mr. Lewis: Sure. Our two freight forwarders, **Expeditors** and **C.H. Robinson**: Imagine that you own a manufacturing business where I live, Massachusetts. You source your materials abroad, maybe in Asia. A lot of your customers are in Europe. You've got to bring stuff from China. You've got to get it from where it's manufactured to a port across the ocean, through customs, across the North American continent to where you have your facilities and turn out whatever it is that you're that you're turning out. And then you've got to get it from Massachusetts across the Atlantic into Europe or wherever it's going.

Well, you know, it's going to be some combination of sea and land and air. And if you're going to figure out the best way to put all these things together, you better have a pretty good in-house transportation outfit — or you can call **C.H. Robinson** or **Expeditors** International and they'll arrange everything for you.

Expeditors and **Robinson** are what are called asset-light businesses. They own no trucks. They own no airplanes. They own no ships. They'll just arrange for the best combination of trucks, airplanes, trains, intermodal transportation, whatever, to get whatever it is you're moving from where you need to move it to you and then to other places. They just make the arrangements. They don't move it for you.

It's complicated. We read about problems in the global supply chain. Well, these guys are the right ones to help you with it. And they've got a lot of experience and a lot of contacts. They know how to handle these things. You can have your own staff and hope that they are good, or just bring these guys in — and I'll bet they will save you some money while they're at it.

So I followed these companies for a long time. The story has remained largely the same for the past 30 years or so. So all of a sudden, the price is right, so what are you going to do? We stepped up and bought shares of those companies. They've held up pretty well since we bought them.

The third one is **RH**. Used to be Restoration Hardware. **RH** has come under new management in the last six or eight years and has set out to become an aspirational brand. It wants to sell furniture to rich people. They've got beautiful galleries. They've got beautiful catalogs. Some of the galleries feature fancy restaurants, which our bottom-up research reveals are good. It's quite an experience, I will tell you. And they've recently begun operations abroad. We'll see how that goes, but **RH** is a very, very profitable business, extremely well run. But we're in there with these guys. Leadership is quite good. Visionary CEO, usual thing, clean balance sheet, strong finances. Very, very high return on shareholder equity and invested capital. These are things we always look for in any investment, but **RH** has got them all. And that's it. We'll see how it goes.

TWST: When you interact with people who are in retirement or saving for retirement, what advice do you give them now?

Mr. Lewis: If you're talking about the last six months or so: "Aren't you glad you've got that adequate liquidity on hand?" It depends on with whom you're talking, how comfortable they are, but plenty of liquidity. So you don't have to sell something that's down to buy groceries. That's what I'd be saying to the investor since the first of this year until now. Last year, when things were looking great: "Isn't it wonderful that you have a lot of money in long-term investments?"

We've had some people calling up, saying, "I'm getting nervous." But we really haven't had much of that. I've done very little hand holding through this experience. And that just shows that our clients understand what we're doing and what they're doing. And I think it's working. We've had more new money come in.

TWST: And what about interest rates and fixed income?

Mr. Lewis: We don't right now own any fixed income in our portfolios. The returns offered have just been too low. I mean, don't get me wrong on bonds at these prices. We do encourage people to have plenty of liquid money. Higher interest rates are good for them. But if say, bank deposit rates are going to go from one quarter of 1% to three quarters of 1%, that's not going to buy a lot of groceries. At some point, short-term interest rates will pick up to the point that they're attractive and everybody will be happy about that, including me.

TWST: And what about the younger investors, the millennials? Do you think they will invest more and some might be inheriting as heirs to their parents' or grandparents' estates?

Mr. Lewis: Yes. One of the gratifying things about the business I'm in, we're in long-term investing. We have long-term relationships with our clients. A number of them go back 40 years. And so we've now got the kids and we're starting to get the grandkids. It's been fine. They understand this is where their parents' and grandparents' wealth came from. This is the way it was accumulated. They want to get on the gravy train too.

Sometimes, it's very difficult to battle the media when you're a long-term investor. When everybody's screaming at you about cryptocurrencies or an **AMC** (NYSE:AMC) stock or something like that. It's hard to resist, but you've just got to tell them: That's not the way you want to go, stay away. Seventy percent of what we do is try not to make mistakes. Don't set yourself up for a bad experience. The last time we talked five years ago, everybody was scared to death of stocks, but not so much today.

TWST: And do you think that some of the people that are new to investing may be partial to a handful of technology stocks that everybody talks about? Do they need to go beyond just those four or five names?

Mr. Lewis: What was the saying? What the wise do in the beginning, fools do in the end. **Google** (NASDAQ:GOOG) stock was fantastic some years ago, but damn expensive today. So don't expect to make a lot of money on it.

We have had some grumbling among younger people that we don't own the famous tech stocks. But when I hear much of that grumbling today, we're doing a lot better than the famous tech stocks. I had one client call up and say, "There's one thing I'd really like to own — shares of **Apple** (NASDAQ:AAPL)." And we haven't been **Apple** shareholders, alas. But I emailed the guy back and said: "You already own **Apple**." The biggest shareholder is **Berkshire Hathaway** (NYSE:BRK.A) and we own lots of **Berkshire Hathaway**. So sort of indirectly we own a lot of **Apple**.

1-Year Daily Chart of C.H. Robinson Worldwide Inc.

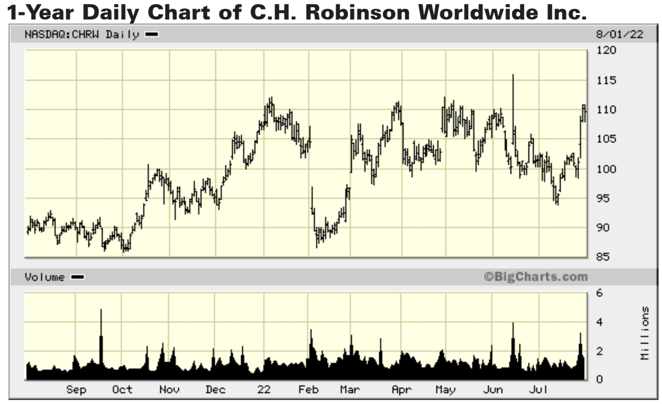

Chart provided by www.BigCharts.com

TWST: Given the volatility that we're seeing, any advice for how to diversify a portfolio for individual investors?

Mr. Lewis: I believe strongly in the standard thinking about diversification. Diversification is not a function of how many different securities you own. It's a matter of correlations. If you own 50 stocks, you're not better diversified than if you own 10 stocks necessarily. It depends on how you handle it.

Again, we advise number one, adequate liquidity. That's just because, as we've said, the craziest things can and will happen without warning. You want to be ready for anything, that's the liquidity part.

And then you want to own productive investments. That might be an apartment building, that might be a farm or a business. What we offer is the opportunity to own businesses. And we do diversify as to businesses. A government contractor has a very different profile of risks and rewards than a semiconductor manufacturer or a company that makes tractors or a freight forwarder. So you get a lot of variety of business characteristics within a properly diversified portfolio.

TWST: And how important is it to have geographic diversity? Where you have maybe some international investments in the mix?

"Also, a crucial aspect of our asset allocation is that we recommend clients maintain adequate liquidity. That means money that you can get your hands on at any time, no questions asked. Insured bank accounts, Treasury securities, that kind of thing, enough to live for a year or two. So you don't have to sell something that is down."

Mr. Lewis: A good business is a good business. It might be located in Rhode Island or Massachusetts. Or it might be in Shanghai. The problem is not knowing what you own. People think they bought this beautiful foreign-domiciled thing and it turns out to be a pig. And that's such a horrible place to be. People are used to investing in the United States. You can't assume that the kinds of transparency that we enjoy here, you're going to enjoy all the way around the world. And you better be aware of that.

If you're going to go diversify overseas, you get involved in discussions of foreign currency and all that kind of thing. Man, things get complicated under those circumstances — not to mention rule of law. There are just a million different things that we take for granted in the United States. If you're going to go make a long-term investment in India or Kazakhstan, you better know what you're buying. And be careful. I mean, it's fine to own something abroad. It can be very, very lucrative, but just know what you own. And it's easier to do in the United States than it is elsewhere.

1-Year Daily Chart of Expeditors Intl. of Washington

Chart provided by www.BigCharts.com

TWST: And some American companies might have exposure to the foreign markets and regions that you're considering. And the regulation might be stronger here.

Mr. Lewis: It seems to me S&P 500 companies get something like 40% of their revenues from abroad. Well, that's pretty good. And there are any number of companies that you can own or we can own, that do business all over the place. And our managements know how to handle the rules and the regulations in China. They know how to handle the rules and regulations wherever they are. They know what they're doing. So you leave it up to competent managers that have proven they know how to handle this situation. To me, that's the best way to get global diversification rather than to buy some company you've never heard of on the Singapore exchange.

"Expeditors and Robinson are what are called asset-light businesses. They own no trucks. They own no airplanes. They own no ships. They'll just arrange for the best combination of trucks, airplanes, trains, intermodal transportation, whatever, to get whatever it is you're moving from where you need to move it to you and then to other places. They just make the arrangements."

TWST: And anything we haven't talked about?

Mr. Lewis: I think it's a good time to buy some stocks, I really do. Everybody is scared to death. They're probably going to get even more scared. So it's a good time if you've got some money to put to work.

I was looking at some of the things we talked about five years ago, some of the stocks. They worked out pretty well. And I'll bet that today they're selling at valuations not much different than they were in 2017. After you and I first talked, those stocks took off and did very, very well. I'm not talking about in terms of the dollar price per share, but relative to earnings and annual cash flows and all that kind of thing, probably about the same, and they're just as attractive today as they were then.

So don't let those opportunities get away from you. But at the same time, we do face some serious problems. The list includes inflation, higher interest rates, and the possibility of global recession. All of a sudden, we've got a land war in Europe that we haven't seen in 70-something years. There are plenty of dangers out there. There are always plenty of dangers out there. In that respect this is no different from any other time. But see if you can make some money on it.

TWST: Thank you. (ES)

FLA LEWIS III
Principal
Weybosset Research & Management LLC
(401) 421-7171
www.weybosset.com