January 18, 2023

Dear Fellow Investor,

Two years ago, as I was reporting the year 2020's results to you, I cited a photo sent to me by my sister comparing 2020 to a decrepit, hopelessly broken-down old car. I suppose the appropriate comparison for 2022 would be a train wreck or the early stages of the Apocalypse: *Brutal warfare in Europe! Worst inflation in 40 years! Belligerent China! Pandemic STILL raging! Political dysfunction in the U.S. and around the world! Recession? Interest rates through the roof! De-globalization!* And so on.

The nightmare scenario expressed itself in the financial markets via bear markets in almost everything. The S&P 500 dropped 19.4%, NASDAQ down 33%--the worst performance by the stock market since 2008—commodities came down meaningfully from their highs, and even the trusty safe haven of bonds lost significant value as interest rates blasted off from zero or negative territory. (Remember, bond prices move in the opposite direction of interest rates.)

And that was the good news. Speculative bubbles, which in the preceding period of loose money and near-instantaneous communication, inflated in markets from housing to crypto-currency to SPACs, burst in spectacular fashion (as they always do). Speculators were creamed.

The funny thing is, for the long-term fundamental investor (that would include you, Fellow Investor), a glance at our results in 2022 reveals, while not a step forward, not a very big step backward either. The accounts for which we at Weybosset Research & Management LLC are responsible declined in value mid-to-high single digits in 2022.

Mild damage is important not only because it *feels* better than severe damage, but because it puts us on the right side of the arithmetic of negative numbers, which Justin will explain to you anon. In other words, ending the year in relatively good shape makes progress going forward much easier as we don't have a deep hole out of which we must dig.

So, 2022 strikes me as a year in which our conservative, patient approach paid off. Results are attributable not only to what we own, but to what we don't own. The same approach should serve us well in 2023 and beyond.

So thank you for your loyal support, and let me turn it over to Justin to take you a little further into the weeds,

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In bear markets, stocks return to their rightful owners.

- J.P Morgan

Dear Fellow Investor,

2022-what a year!

Though it is no fun reporting a down year to you, it is my great pleasure to report that the accounts for which we are responsible were down low to mid-single digits: performance this year reminds me of the dot com era when unprofitable tech stocks flew too close to the sun and ended up crashing in spectacular fashion, while old guard value managers came back to life.

Preserving your hard-earned capital in down markets is our foremost responsibility.

We try not to chase fads, which in 2022 included: speculative assets (unprofitable businesses down 75-90%), crypto currencies, SPACs (special purpose acquisition companies-blank checks to acquire existing businesses), and commodities (down 60% from their highs). We at Weybosset consider ourselves value investors, broadly defined, and the kinds of companies and prices at which these stocks trade (as well as questions as to their long-term business advantages) preclude us from investing in them.

Value investing has not been a good way to go for at least the last ten years. Over long periods of time, value investing beats any other strategy. But "long periods" kept getting longer over the last few years. The will of value managers was tested.

The average equity holding period of investors has declined from eight years in the 1960s to six months today. We believe one of our greatest advantages at Weybosset is the ability to allow our businesses to compound money not in months but in years and decades.

We own highly profitable, well-run businesses that provide goods and services you need in your daily life, businesses that win in the long run; businesses for which we paid depressed prices.

The bear market in stocks continued its destructive path for the last three months of the year, with the S & P 500 declining 19.40% on the year, the tech heavy NASDQ down 33%, and the Dow Jones losing roughly 8%.

At year end 2022 the S & P 500 logged its worst annual performance since 2008. Global bonds fell into a bear market for the first time in 70 years. By all accounts looking at the Weybosset portfolio the world doesn't seem in such dire straits.

The stock market kicked off 2022 with one of the worst Januarys in history, a gut-wrenching plunge reminiscent of the dark days of 2008. The S & P 500 finally put in a bottom in March, to close the quarter almost flat on the year, and that is where the good news ended.

The rest of the year saw massive volatility as investors fretted over the rate of change in interest rates and the belief we were/are going into a recession. Due to the Federal Reserve's inflation fighting policies, interest rates rose from 0.25% to over 4% in just 9 months, the quickest and largest tightening cycle markets have ever seen (!!) The middle and end of the year saw two more market plunges, followed by equally impressive rallies to the upside. However, the damage was done.

The average American's portfolio lost more than 25% on the year. Your grandfather's 60% equities 40% bonds portfolio was down high teens. Bonds, a presumed safe-haven, lost 15%.

While the Weybosset portfolio gave up ground, the arithmetic of negative numbers is on our side: Being down 5% on the year one would only have to gain 6% to reattain old highs: being down 25-30% you would have to gain 40% to get back to new highs (!!), a feat that is not so easy in a year or two. We like our odds better.

Among the biggest mistakes that investors make is that they drift from their circle of competence. In times of mania investors tend to lose their minds and pay absurd prices for assets. Markets do crazy things and that's good for us at Weybosset, not because we are smart but because we try to remain sane and stick to what we know has worked for over thirty years.

It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price. - Warren Buffett

The good news from a contrarian standpoint of view: stocks and risk assets are absolutely hated. One of the best ways to measure investor sentiment is through the AAII (American Association of Individual investors) index which has been at its lowest level for a full year.

Sentiment is worse than at the bursting of the dotcom bubble and the 2008 financial crisis. In time, from each of these bear market episodes, positive returns were enjoyed.

A down market lets you buy more shares in great companies at favorable prices. If you know what you're doing, you'll make most of your money from these periods*. You just won't realize it until much later.* -Shelby Davis

For companies in general, and the ones owned by Weybosset Research & Management clients in particular, business is good, cash flows are strong, dividends are secure and rising, balance sheets are healthy, prospects are bright, and valuations are somewhere between reasonable and way too low. Indeed, despite a long list of macro headlines, (Russia/Ukraine, the Fed, recession fears, a pandemic, elections) and economic headlines, the opportunity for satisfactory returns looks good to us.

The US economy is strong, resilient, and can take a lot of punches. When sentiment is this poor **only a few things need to go right for the markets to rise.**

At Weybosset Research we try to stick to fundamentals. When you invest in a stock, you become part owner of a business. (If you own 50 shares of John Deere you are a very small part owner, but you are part owner nonetheless). Over time if the business thrives, so shall your investment. If the business fails to thrive, it is unreasonable to expect the investment to do well.

We find analyzing individual businesses the most reliable route to investment success. It's easier to find and research thriving businesses than to predict how investors all over the world will react to the macro news du jour, or any other host of possibilities we can think of.

The second consideration is the price we pay for an investment. Any productive asset—an apartment building, a business, a farm—will produce only so much over its lifetime. As an investor, your return on such an asset will depend on the price you pay for it. That's where the markets come in—the market will, from time to time, offer us a desirable asset at an attractive price. We are happy to accept the offer.

This approach to investing has worked well for us and Weybosset clients for decades now, and it is the approach to which we adhered in 2022. We plan to stay the course for the next thirty years.

I would like to share with you that 2022 was one of our best years for signing up new clients and inflows from our existing clients. Weybosset is thriving even in a bear market. We believe this is a testament to the proof that we can protect and grow your capital through any economic environment, handled with the utmost care and first-rate service from Jeannine.

Thank you for your continued trust and support and we look forward to working for you again in 2023. Please let us know if your situation has changed in any way, we would be more than happy to discuss how we can better serve you. Don't be shy, call, email, we would love to hear from you.

All the best,

Justin Edward Deutsch