Weybosset
RESEARCH & MANAGEMENT LLC

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Want to make God laugh? Tell him your plans!

--My doctor

We had a respectable year in 2023, I think, though certainly not in the way we may have anticipated. The Standard & Poor's 500 Index returned 24.2%, far outpacing foreign markets. Bonds had one of their worst years in history and most commodities declined.

The accounts for which we are responsible trailed the broad averages by a considerable margin, with returns in the mid-to-low teens. Nevertheless, those returns were enough to make back the entirety of the decline in value we suffered in the bear market year of 2022 which, in turn, was far less than that endured by the broader market. Henceforth any further advances on our part represent fresh profits. In this longer-range sense, we are ahead of the broad market.

Justin begins his part of this letter by citing an old Wall Street aphorism asserting that markets do whatever is necessary to thwart the maximum number of investors. I think of my doctor's comment which I cite above.

In our case, we were bamboozled by the composition of market leadership in 2023. 2022 saw—at long last! at long last! —the so-called FAANG stocks—Facebook, Amazon, Apple, Netflix, and Google—dethroned. For years, since the 2008 market meltdown, most of the market index's advance was disproportionately, if not almost exclusively, delivered by the FAANG stocks. 2022 looked like the end of the road for this most recent Wall Street craze, but it was quickly replaced in 2023 with The Magnificent Seven—essentially FAANG minus a name or two and plus a few names like Tesla and Nvidia. Without these securities the performance of the averages would have been far less than it was, and their absence from our portfolios explains why we finished behind the averages.

But we had some good ones, some very good ones, strong enough to get us to our mid-teens conclusion and capping off a good five-year run. And it may be that the kinds of companies in which we invest, shiny new tractors and wrecked cars, for instance, will at last receive the attention they deserve from the investing public. An ascent in price to full value for these stocks, or better yet, an overshoot to over-valuation, will do wonders for our respective net worths. A respectable 2023 will segue to a delightful 2024.

Those are our plans. But don't tell Anybody!

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Dear Fellow Investor,

An old Wall Street adage goes something like, the market will do whatever it needs to do to thwart the maximum number of investors.

At the beginning of 2023 almost every Wall Street pundit and economist around the world was calling for a recession and a declining stock market; that did **NOT** happen. The reasons given were significant headwinds to the economy due to bank failures, multiple wars, and a Fed on a dramatic tightening policy; despite the litany of negatives, it was quite a good year for equity prices and the Weybosset portfolio.

Fortunately for you and for us, we do not invest your capital based on any particular opinion about the direction of the stock market. We seek excellent companies with sustainable competitive advantages available at prices that we believe will prove too low as time goes by. We then buy shares in these companies and hold them for long-term income and appreciation. No attempt is made to trade or "play" the market.

All of the accounts for which we are responsible posted positive results for the full year of 2023, but shy of the magnitude of the move for the S&P 500. Our results were mostly in the mid-to-low teens rather than the mid-twenties appreciation delivered by the S&P 500.

We are satisfied with the mid-to-low teens result as we have compounded your money at roughly mid-teens annually for the last 5 years, despite numerous declines and a down year in 2022; we hope you are pleased too! (Performance may vary for new money coming in this year and previous years)

Both the markets and our performance happened for two reasons. The first reason is that 95% of the S & P 500's gain can be attributed to 7 stocks in 2023: the "Magnificent Seven", Apple, Microsoft, Meta, Alphabet, Nvidia, Amazon, and Tesla.

The most important reason, as I have repeatedly emphasized, is that our portfolios are designed to protect and grow your capital with the highest quality securities. By this we mean companies that have excellent balance sheets, little to no debt, and managements that have the experience to grow their companies through any economic environment.

The best quality securities do not always perform best in the short run; however, over the long haul, they always outperform, and they always beat inflation. Our portfolios did a good job maintaining their values during the wrenching declines of 2022, but it is too much to expect them to also outperform in a certifiably "hot" market like we had in 2023.

The good news for us and you my fellow investor is that though the S & P 500 finished 2023 one percent lower than where it ended in 2021 (an All-time high) despite multiple bouts of volatility; due to the law of mathematics the accounts for which we are responsible are roughly mid to high single digits ahead of the S & P 500 on a two-year basis and sitting at fresh all-time highs.

In our previous letter I opined on the magnitude of the move in interest rates in America, specifically the 10-year Treasury yield moving from 4% to 5% in a month. As luck would have it (my astute forecasting abilities), that parabolic move came and went just as quickly as it arrived. The Federal Reserved signaled to the market that it was most likely done with raising interest rates to curb inflation; the hard part seems over. The market then rallied as investors could now value an asset with interest rates on a seemingly more stable path.

Fortunately, to prosper as an investor, it is not necessary to know what will happen geopolitically, in the economy, or what the Federal Reserve will do next, in the ensuing several months or years.

"*All there is to investing is picking good stocks at good times and staying with them as long as they remain good companies*" -- **Warren Buffett**

So, what does 2024 have in store for us?

We are seemingly back to a "normal" rate environment-- remember the 10-year Treasury has yielded on average 4.50% over the last 100 years. I expect more of the same: periodic bouts of market misery, intertwined with stretches of gains giving long-term investors, such as us, the ability to purchase wonderful companies at reasonable prices and hold for long term handsome returns.

With inflation moving closer to the fed's target of 2%, the Fed should be able to cut interest rates to keep liquidity ample for businesses and the economy.

Investors who have listened to the Wall Street pundits or economists have now amassed a staggering 6 trillion dollars in money market funds, most likely missing a part of last year's gains. Yes, this is because one can earn a higher yield in a money market than sitting in pure cash at the bank; however, this also a signal of skepticism that the average investor has towards markets and their future returns: contrarians take note, 6 trillion in cash has the potential to fuel equities even higher.

Our fortunes are tied to the brilliance, ingenuity, and growth of the American economic engine. Never bet against the United States of America.

You might have noticed that we recently raised some cash in your accounts. This is by no means an attempt to "play" the market, rather from time to time a business does not live up to our standards and we must move on.

We have been on the hunt for a few new gems to add to our curated portfolios. When Mr. Market decides to throw a tantrum or when the securities that we have been analyzing reach our purchase price we will act. Sell offs are inevitable, however they afford us the ability to do something intelligent with your capital, increasing the compounding effects over the long haul.

As you may know we lost an investing giant this year. Mr. Charlie Munger, Warren Buffett's esteemed business partner passed away at the age of 99, just a few weeks before his 100th birthday. Charlie has taught us invaluable lessons about investing and life over his almost ten decades run. He will be missed but he has left us with plenty of reading material. I'll leave you with his thoughts on business and life, an approach we adhere to at Weybosset Research & Management.

"*A great company keeps working when you're not. A great company will eventually earn more and more and more while you're just sitting and doing nothing. And a mediocre company won't do that. So, you're harnessing a long-range force that will help you. It's very important. These mediocre companies, by and large, are going to cause a lot of agony and very modest profits. If you do fine, you've got to sell it and find another one. It's a lot of work. Whereas you just buy one great company, and if you get the right thing at the right price, you just sit there*." --**Charlie Munger**

"Our job is to find a few intelligent things to do, not to keep up with every damn thing in the world." – **Charlie Munger**

"What are the secrets of success? One word answer: rational"—**Charlie Munger**

Thank you for your continued support and for the privilege of working for you. As ever, if you have any questions or comments, don't be shy, get in touch with us. We welcome the opportunity to further discuss with you the interesting times in which we live.

Sincerely,

Justin Edward Deutsch