Weybosset
RESEARCH AND MANANGEMENT LLC

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*"Rationality is often the first casualty in a speculative frenzy."*—**Charles P. Kindleberger**

Dear Fellow Investor:

I'd like to touch base with you on how we, at Weybosset Research & Management, view the current investment situation, where we see opportunities and where we see dangers. As usual, this quarterly letter is a summary in nature, designed to give you, our investors, insight into our outlook and thought processes.

The bull market in stocks continued its surge into the end of the second quarter of 2024. The S & P 500 was up 16% year to date. The accounts for which we are responsible were flat to up low single digits (performance may vary for accounts that have recently come in).

In our last letter to you I remarked how the technology component of the S & P 500 was at its highest point in history, surpassing even the dot.com era of the late 1990s. Currently, as I pen this letter, it is now **twice its 1999 level (!!). In 1999 technology reached 18% of the S & P 500, today it is 36% of the S & P 500.** The S & P 500 today is essentially a concentrated tech fund.

For all the headlines that this is a spectacular bull market, let me explain to you the dynamics of what is going on underneath the surface. We love statistics in this business so here are a few that we find interesting, alarming, and opportunistic.

The first half of the year's return was disproportionately delivered by the Magnificent 7 (Apple, Nvidia, Microsoft, Meta, Netflix, Tesla, and Amazon). Seventy percent of the S& P 500's gain can be attributed to just 4 stocks, Apple, Nvidia, Microsoft, and Meta: the narrowest market leadership since the Great Depression. **On the contrary, seventy percent of the S & P 500 were down on the year (!!).**

The Momentum Index is now at a 100-year high. The Momentum index is calculated by ranking stocks by their 12-month historical total return. **This momentum has pushed the spread between technology stocks and value stocks performance to 2x its peak in 1999 (!!).**

The S & P 500 now trades at 23x next year's estimated earnings, while the equal weight index (every stock is weighted the same) trades at just 16x, a substantial discount. Sentiment, excitement, momentum, and popular beliefs have pushed technology shares to one extreme and the majority to another.

Historically Americans love a good financial mania. However, it is only through the trainwreck that we will know who the winners and losers of this Artificial Intelligence revolution will be. Rember 1999 and 2000? If history is a guide, history tends to repeat not rhyme, the momentum of the favored technology shares will break.

At the peak of 1999 Cisco was the largest company in the world. Its stock has yet to recover and is still down 50% from its all-time high. Microsoft was in the top 5 and it took 14 years of consolidating, with its stock price going sideways, before it made new all-time highs.

The stocks DuJour are all wonderful businesses, with amazingly talented management, there is nothing bad to say about them. Rather this is about investors pushing valuations to unreasonable levels where expectations that are in the stratosphere may never be met. On the other hand, expectations are historically low for the other parts of the market providing what we believe could be a once-in-a-generation opportunity.

The July 11th release of the Consumer Price Index changed this dynamic abruptly, we believe, creating an inflection point in markets. Newton's First Law of Motion says *a body in motion at a constant velocity will remain in motion in a straight line unless acted upon by an outside force.*

The negative inflation print signaled to investors that the Federal Reserve will be cutting interest rates in September (or next week), providing relief to consumers and the economy. Lower interest rates will spur economic activity, eventually increasing earnings for the general economy and the other 493 companies in the S & P 500.

The S & P 500 and technology shares suffered steep declines in the year 2000. However, the sectors that were left out in the rally, value and small caps, financials, industrials, cyclicals, healthcare stocks, came roaring back, that is exactly what started to happen on Thursday July 11th, 2024. **Because of technology's weight in the S & P 500 you had the index down on the day while value, small caps and everything else were up!!**

With expectations and valuations in nosebleed territory for technology shares, and investors crowded into such a handful of names, it doesn't take much of a missed expectation to get the snowball going downhill.

We are optimistic that the impressive rebound that started in mid-July can continue, as most shares, including the ones that we have curated for you, have started their rally from depressed levels. Given reasonable valuations and decent fundamentals, the trend should likely continue as the economy stays strong.

Fortunately for you and for us, we do not invest your capital based on a 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.

We stick with an investment discipline, so tried and true, that my father and grandfather, and Fla's father and grandfather would be quite familiar and comfortable.

*"I didn't get rich by buying stocks at high price-earnings multiple in the midst of crazy speculative booms, and I'm not going to change".* **—Charlie Munger**

As investors became enamored with Artificial Intelligence and technology sucking in all investor capital, we found two new investment gems in areas where capital is scarce (your best forward returns come from investing in areas where there is little to no investor appetite). Companies that are world-class leaders in their respective industries, think insurance and infrastructure, companies evincing long and consistent records of high profitability, growth in earnings per share, sustainable competitive advantages, balance sheet strength, and outstanding management.

Perhaps in the next phase of this bull market the companies in which we invest (think wrecked cars, tractors, financials, insurers) will receive the attention they deserve from the investing public. A move from out of favor and depressed valuations to full value will do wonders for our portfolio and our returns. So, stay tuned for the finish of 2024, it's sure to be filled with excitement in many ways.

I conclude with an excerpt from Berkshire Hathaway's 1999 annual shareholder letter. Warren so eloquently puts it, *"Our lack of tech insights, we should add, does not distress us. After all, there are a great many business areas in which Charlie and I have no special capital-allocation expertise. For instance, we bring nothing to the table when it comes to evaluating patents, manufacturing processes or geological prospects. So, we simply don't get into judgments in those fields. If we have a strength, it is in recognizing when we are operating well within our circle of competence and when we are approaching the perimeter. Predicting the long-term economics of companies that operate in fast-changing industries is simply far beyond our perimeter. If others claim predictive skill in those industries — and seem to have their claims validated by the behavior of the stock market — we neither envy nor emulate them. Instead, we just stick with what we understand. If we stray, we will have done so inadvertently, not because we got restless and substituted hope for rationality. Fortunately, it's almost certain there will be opportunities from time to time for Berkshire to do well within the circle we've staked out".*

Thank you for your continued support and, as ever, do not be shy about contacting us with any questions, comments or complaints. We're glad to hear from you.

Yours very truly,

Justin E. Deutsch

As the late and very great Charlie Munger put it so often, *I have nothing to add*, except for my thanks to you for your continued support as we advance into a brighter future.

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