



Weybosset

RESEARCH & MANAGEMENT, LLC

October 21, 2024

It is my practice to write to you after the conclusion of every fiscal quarter to give you an update on our progress on your behalf, commentary on the market and to keep you apprised of our plans here at Weybosset. Lately we've been changing things up a bit (more on that below).

For the 9 months ending September, the S & P 500 index returned 20%, reaching new all-time highs. Most of the accounts for which we at Weybosset are responsible also reached new all-time highs, though not as high as the averages, returning high single digits year to date. In a previous letter we explained the averages were led by the mega-cap technology stocks-Facebook, Apple, Amazon, Netflix, and Nvidia, none of which we own directly. The same goes for this quarter. **Nvidia alone accounted for 30% of the index's return.**

In the third quarter the markets grappled with another round of heavy macro problems- escalation in the middle east, the Russian Ukraine war, stubborn inflation, spiking oil, labor strikes, hurricanes, the US election and questions surrounding the Federal Reserve's monetary policy. Despite all these uncertainties and the doom and gloom from investors markets pushed higher because of a resilient economy and strong earnings.

At the beginning of the year, I had mentioned to you that the 2024 market environment was setting up to be like the mid 90s, or at least we had hoped it would be. History tells us if the Fed is cutting rates, inflation is moderating, and the economy is not heading into imminent recession, markets can continue to perform well.

In late September the Fed cut rates by 50 basis points, starting the process of normalizing interest rates. As inflation has now ebbed to the mid 2's there is no reason for the federal funds rate to be at 5% with inflation at 2.5%. Since the end of the quarter the market has indeed acted well and has started to broaden out; meaning it is not just big tech reaping the rewards of a good environment, the other 493 stocks in the S & P 500, the average stock, is starting to move higher as well.

Lower interest rates will have a profound influence on the economy. Markets move on two main drivers over the long term, liquidity-money coming into the system through lowering interest rates- and earnings growth. We have now entered a period where central banks around the world are lowering interest rates, China is stimulating its economy, and inflation is moderating. This is a solid economic backdrop for equities as earnings will continue to improve and grow, moving equities higher.

That is not to say the market will never go down or "correct" while global central banks are easing. However, it is a favorable environment for equities for the foreseeable future.

Many investors have sat out the 2024 stock market rally as measured by the now \$6.5 trillion of cash sitting in money market funds. One significant contributor to the gloom is the twenty-four-hour news cycle which plays out for us prominently on cable network news and social media.

An example of the latter is the upcoming U.S. Presidential election, about which many investors are deeply concerned. As an *American*, or for that matter as *an inhabitant of the free world*, there is plenty of reason for concern. As an *investor*, not so much, at least if we examine the historical record. Such an examination reveals that markets are little effected by whether a Republican or Democrat is in the White House. (Democrats on average actually do a *little* better.) Markets, heartless as they are, ultimately only care about two things: 1) profits; and 2) the present value of future profits, as indicated by the level of interest rates. On both points we are confident that Weybosset portfolios are on the right track.

Remember, news outlets are not in the business to help us with our investing; they are in the business to sell advertising. And scaring viewers does exactly that. I rarely watch cable news or use social media but I do keep in touch with the companies in which we are invested.

Regarding our recent purchases the outlook is excellent. The market Cassandras and economists have been quite vocal over the last two years screaming recession and a lower stock market. Surely the barrage of bad news and things to worry about would cause the economy to falter and equity prices to get slammed- that hasn't happened. The attitude towards equities and cash on the sidelines is not the kind of sentiment normally associated with market tops. **Markets are better predictors than professors.**

I am reminded once again of how fortunate we are that neither your investments nor mine depend on a particular view of the markets, but rather on a discipline focused on acquiring high-quality securities at bargain prices. The combination of a "hot market"-one dominated by a handful of companies- and investors' fears of a recession have caused some areas of the market to become downright cheap giving us the ability to do a few "smart" things with your capital.

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." --**Charlie Munger**

We are always looking for opportunities to upgrade our portfolios to find the best assets in their respective industries. With the most recent purchases, think insurance, pipelines, search/advertising/ai, and building materials, we have positioned ourselves to take advantage of the coming boom in not only AI and infrastructure but also the great American economic engine. Note also the North American tilt towards our portfolios.

With solid balance sheets and ample cash flow, we are confident, even when stock markets may be reacting poorly to events of the day, that our companies can meet the business challenges confronting them and continue strengthening their competitive advantages.

Therefore, we are mindful that we need to stay with the highest-quality investments. Things can go wrong quickly, and we do not want to be found swimming naked when the tide goes out. All well and good, but we also have to understand that in "hot" markets, the best quality securities do not always perform best; in the long run they do.

We need to be sure our investments are in solid businesses, and above all, **to be careful what we pay**. This could well cost us relative performance in the short run but, after all, around seventy percent of successful investing is just staying out of trouble. This is an approach that has served us well over the long haul through various types of markets, and I see no reason why that should not continue to be the case.

As ever, my thanks for your support and the confidence you have placed in us. We remain permanently available for any and all questions, comments, or complaints. We enjoy hearing from you.

Sincerely,

Justin Edward Deutsch

I have nothing further to add.

Sincerely,

Fla Lewis III

The foregoing content reflects the opinions of Weybosset Research & Management, LLC and is subject to change at any time without notice. Content provided herein is for informational purposes only and should not be used or construed as investment advice or a recommendation regarding the purchase or sale of any security. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct. Past performance may not be indicative of future results.

Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Securities investing involves risk, including the potential for loss of principal. There is no assurance that any investment plan or strategy will be successful.