

April 7, 2025

Dear Fellow Investor,

I write, as is my custom, to report to you on the progress we have made on your investments during the just-concluded quarter. But more important, to comment on events since the conclusion of the quarter, namely the events of last week around so-called "Liberation Day".

The S&P 500, having set an all-time high in February, trailed off in March, closing 4.6% lower than it started the year. The accounts for which we are responsible fared noticeably better, up a little bit or down a little bit, but basically flat on the year. This advantage, and the reasons for it, served us well when the goo hit the propeller last week. My partner Justin has more on this for you in his part of our communication.

The reasons global markets are in such turmoil are far from trivial. The United States, the most powerful country in the world by almost any measure, has done an abrupt about face, a 180-degree turn, away from policies in place since at least the Second World War. John F. Kennedy's "We will pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and success of liberty" or Ronald Reagan's vision of America as a "shining city on a hill" have ceded to a trade and foreign policy paradigm that more resembles a shakedown racket. (Time will tell whether our Leader is Don Corleone or Fredo.)

Markets are treating Liberation Day and the mentality behind it as a shock, but it is difficult to see why. Did anyone pull the Trump lever in the election booth last November and NOT think she was voting for a trade war? "Trade wars are easy!" proclaimed our Leader during his first administration. (Few economists would agree.)

Although there have been any number of dustups on the trade front in the past few decades, the last time we had a true global trade war was 1930, when the Smoot-Hawley Tariff Act took the already bad recession of 1929 and turned it into the Great Depression of the 1930s. The generation that endured that disaster is largely gone now. I hope we don't have to re-learn the lesson.

The shock of Liberation Day came at a highly inconvenient time for the stock market. You have heard from Justin and from me for years now that market leadership has become increasingly narrow and concentrated in a handful of famous stocks, sometimes called

FAANG, sometimes “the Magnificent Seven”, but all sharing the same characteristic, the allure of momentum with a sexy story as a kind of ornament. The rest of the market languished; the valuation gap between the favored few and everything else became untenable.

As revered philosopher Herb Stein, Nixon’s economic advisor, observed, “If something cannot go on forever, it will end.” That moment appeared to have arrived late last year and was ongoing (the adjustment was difficult enough to take the market down 4.6% in the first quarter of 2025) when Liberation Day arrived. (Note our Leader did not reveal the contents of his plan until after the stock market closed on Liberation Day. Investors were able to get a night’s sleep before pushing the panic button the next morning.)

And push it they did. The question is, now what? To begin, the thing we should NOT do is to panic alongside the rest.

You recall that a key part of our investment philosophy is we prepare for the worst while hoping for the best. Every security in your portfolio was selected with the requirement that the underlying company be able to survive the scariest market or economic challenge. We try to invest in businesses making goods or offering services that people need in their daily lives: food, transportation, defense against foreign enemies, healthcare, news, energy, and, yes, insurance. More than 10 years ago, we began moving away from fixed income—yields on offer were too low, the threat from inflation too high. In 2012 I wrote to you that globalization, the dominant economic trend since the end of World War II, was going into reverse, and we began restricting our investments to those located primarily in North America. We also recommend clients keep on hand sufficient cash to live out an extended period—say, 6 months to 2 years—without having to access portfolio funds.

This approach served us well when another panic, this time the COVID19 pandemic, burst upon the scene. We got through the crisis in decent shape (although it was no fun!) and went on to thrive when “normality” reappeared. We were then, and should be now, in a good position to sit out yet another global tsunami.

Ok, if we don’t panic, then what? The picture is unclear, to put it mildly, but the thing that occurs to me is that this crisis is entirely homemade, and the solution is probably here at home as well. Such a solution would depend heavily on the man we elected Leader. On the one hand, he is congenitally unable to admit a mistake, but he is also known to change his mind. There are other people in government, too, even if we can’t remember their names, and they could summon the courage to demand a change of course. This is a policy crisis, and we need policymakers, at home and abroad, to take a deep breath.

But the important thing is that we have portfolios designed to weather this kind of storm as they have in the past. (I mentioned COVID 19, but there was also the Global Financial Crisis of 2007-9, the bursting of the Dot.com bubble in 2000, and a few others.) There is evidence the worst of the storm is behind us—panic is widespread, there is blood in the street, signs of a market bottom. So, we intend, at least for the time being, to stay the course, with eyes wide open.

We heartily appreciate the trust you have put in us, Fellow Investor. We are determined to show ourselves worthy of that trust. And finally, if you have ANY questions, concerns, or even complaints, do not hesitate to call, email or message-in-a-bottle us. We'd love to hear from you, and these are difficult times,

Fla

Dear Fellow Investors:

We are writing to you today to provide an update on the performance of your investments during a challenging quarter. The past three months have been marked by significant volatility and a broad market downturn, driven by persistent inflation concerns, geopolitical uncertainties, tariffs, and an unwinding of technology momentum stocks.

2025 started with a final surge in tech stocks as animal spirits and euphoria took over. The term animal spirits in economics refers to the emotional and psychological factors that drive investor confidence and behavior. It's about how feelings like optimism can significantly influence market trends, sometimes independently of purely rational economic analysis.

In mid-February as the major tech stocks *du jour* began to release quarterly earnings, though the numbers were fantastic, they were not “good enough” to meet investors high expectations. This was the start of the market sell-off, as investors fled the over owned, overvalued technology stocks. If you recall from our previous letter, technology shares had made up 40% of the S & P 500 by early January. A dramatic drop in technology shares could and did begin to cause a sell-off in the broader stock market.

As Fla mentioned in his portion of the letter, our relative outperformance is not a matter of luck but rather a direct result of our disciplined approach to investing and our unwavering commitment to risk management. Over the past year, we have intentionally taken steps to reduce the overall risk profile of your portfolios.

As investors took more and more risks in 2024, paying ever higher prices and chasing momentum (what's hot), we looked for and found opportunities in businesses on the other

side of the spectrum. Companies that had stable cash flows, little to no debt, and that would be used in our daily lives. Most importantly these businesses traded at reasonable if not downright cheap prices. Think insurance, building materials, and pipelines.

We have prioritized investments in companies with strong balance sheets, consistent cash flows, and proven track records of profitability. Crucially, we have remained disciplined in our valuation approach, avoiding overpaying for growth and focusing on companies trading at a significant discount to our estimate of their intrinsic value. This emphasis on valuation provides a margin of safety, protecting us from the sharp declines experienced by overvalued growth stocks.

I would add that our companies are headed by experienced management teams that have navigated a slew of crises, from financial collapse in 2008 to trade wars to negative interest rates to a global pandemic. These people know how to respond quickly and appropriately when trouble arises. We are fortunate to have the likes of Warren Buffett (Berkshire Hathaway), Evan Greenberg (Chubb), Jason Adair (Copart), George Gleason (Bank OZK), Alan Armstrong (Williams Companies) running our businesses. We don't have to worry about what to do in an emergency because these people know their businesses and know what to do.

Our investing approach was on full display as the week of April 1st came to an end. As I write this letter on Friday night April 4th, the S & P 500 has now declined 17.5% from its peak and the Nasdaq has declined 22.80% from its peak. Since the launch of the new administration's tariff plan on April 2nd, the S & P 500 has lost 10% and the Nasdaq has lost 11.44% in two days (!!). The most popular technology shares have fallen 25-30% while smaller companies have fallen 40-60% on the year.

Year to date, as of the market closing on April 4th, the accounts for which we are responsible at Weybosset are down roughly 6-7%, while the S & P 500 is down -13.75% and the Nasdaq is down -19.28%, demonstrating the resilience of our investment strategy.

"You make most of your money in a bear market, you just don't realize it at the time." -

Shelby Cullom Davis

We have steadfastly avoided speculative investments and trends, such as high growth technology. These areas have been particularly vulnerable to the recent market correction, reinforcing our belief in the importance of fundamental analysis and long-term value creation.

Our investing philosophy is designed to protect capital during downturns and generate attractive long-term returns. In a market dominated by short-term speculation and

momentum trading, our disciplined adherence to value investing principles has proven to be a significant advantage.

Since the end of 2021, even with technology stocks driving the market's performance over the last two years, we have regained our lead versus the S & P 500. Due to the law of mathematics and the fact that our portfolio has not sold-off nearly as much as the markets, we are now 5%-6% ahead of the S & P 500 on a cumulative basis.

The market has now experienced its quickest and deepest correction since the Covid 2020 induced sell-off. It is also the 3rd fastest sell-off in the last 100 years. **Every indicator that we watch is flashing signs of investor panic.**

Typically, the market's best days come after its worst days. Though we recognize the difficulty of such horrifying and steep selloffs, if one tried to exit the markets and time them, missing the best 10 days of the year would create a **negative** return year over year.

"In bear markets, stocks return to their rightful owners." - **J.P. Morgan**

The market has now priced roughly 85% of what a recession would look like. Meaning the market historically goes down 25% in anticipation or during a recession. Being able to ride through periods of volatility where other stockholders might get washed out is a very important aspect of getting through these difficult times. **The silver lining: Your forward returns after a sell-off of such magnitude and speed are upwards of 25% in the next 12 months.**

Though they are not fun, uncomfortable, painful and terrifying to some, market sell-offs like these do happen roughly every year or two, they are an inherent part of markets. Thus, it is important to remember and understand that this too shall pass, the road to profits does not come without a few speed bumps.

Looking ahead, we remain optimistic about the long-term prospects of our portfolio, our approach 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.

We appreciate your continued trust and confidence. We are committed to providing you with transparent and insightful communication. Please do not hesitate to contact us if you have any questions or concerns.

Thank you for your partnership. We are lucky to have you as our clients.

Sincerely,

Justin Edward Deutsch

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