

August 8, 2020

Dear Partners:

During the first-half of 2020, the Fund declined by (~10.7%). Since the Fund's inception in May of 2014, our portfolio has returned ~114% compared to the ~87% delivered by the S&P 500 Total Returns (our benchmark) as shown below:

	Q1 2020	Q2 2020	1H 2020	Since Inception (5/1/14)
Fund: <sup>1</sup>	(4.87%)	(6.16%)	(10.74%)	114.00%
S&P 500 TR:	(19.60%)	20.54%	(3.08%)	86.79%

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Phew! With the first seven months in the books, 2020 has felt a bit like watching one of those livestreamed, wild police chases. As the fleeing car careens past innocent bystanders, the resulting spectacle is at once so darn suspenseful you can't force yourself to look away, yet so terribly reckless you can't help but fear a grisly conclusion.

As the longest bull market in history screeched into the new year, it wasn't long before 2020 started looking a bit unsteady at the wheel. Not only were valuations already a bit full-*ish*, but China's response to an infectious outbreak seemed to all but scream "buckle-up:"

- January 23rd: Just twelve days after China's first reported death, Chinese authorities ordered - and strictly enforced - a complete lockdown of Wuhan's eleven million residents,
- January 24th: Chinese authorities began broadcasting the lighting-fast construction of overflow hospital capacity.

By late January, Chinese authorities were leaving little room for ambiguity: 1) they thought the virus was serious, 2) they expected it to produce bad news galore, 3) they expected it to do so soon, and 4) they were preparing aggressively. To the extent actions often speak louder than words, China's frantic actions presented a sobering contrast to the apathy and indifference on display elsewhere in the world.

With much of the world unconcerned and unprepared - and the US *egregiously* so - our portfolio began bracing for impact:

- January 31st: Purchased Apple put options as downside protection on ~92% of our position.
- February 11th: Purchased Nike put options on the basis that their lofty valuation was not yet reflecting the virus' potential impact.

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<sup>1</sup> All performance numbers are presented *before* allocation to the General Partner.

## Near-Term Delusions & Long-Term Collisions

After more than a decade of refusing to “sweat the small things,” the markets remained surprisingly sanguine through mid-February. But every party has a pooper, and this time around would be no exception. As “herd immunity” became the new talk of town, the old “herd” finally found something to sweat about. And sweat they did! In the month that followed, the S&P 500 would go on to fall by more than ~35%, peak to trough, and the aging bull was finally sent to pasture.

Before investors had time to ponder what might come next, *The Today Show* veered from its regular news-lite programming for an interview with Fed Chairman Jerome Powell. Although the resulting snoozefest would go on for twelve minutes, viewers didn’t have to wait long for the assurance they were seeking:

Papa Powell would scare away the boogeyman, and all would be a-ok.

Those weren’t his exact words, of course, but that was certainly the message heard by investors. Later that *same* day, it was official: the longest bull market in history would be replaced by the shortest bear market in history.

Voilà!

But wait, there was more. Lots more! After increasing a whopping ~41% from its March 23rd trough, the S&P 500 no longer appeared to be sweating much of anything by the end of the first-half. An impressive feat by any measurement, but downright herculean in a world where . . . let’s see . . . a) the virus wasn’t remotely contained, b) tens of millions remained unemployed, and c) uncertainty loomed larger than ever.

How might someone make sense of this glaring “disconnect?” Well, according to those tasked with the unenviable job of pretending they have the explanations . . . this “disconnect” was entirely sensible. A spritz of Finance 101, stirred with heavy pours of monetary policy and head-in-the-sand optimism, was all that was needed:

- bated breath over what “shape” an economic recovery may adopt,
- updates (no matter how dubious) related to the virus and/or vaccine,
- the pixie dust of low interest rates on valuations,
- the Fed’s pinky swear to keep rates low for longer,
- government stimulus galore, and
- the markets’ tendency to be forward looking and/or amoral.

With investors eager to take *full* advantage of the Fed’s bottomless punch bowl, “details, schmetails” became the prevailing mantra. Soon enough, the cheering investment community was embracing a sleight of hand that would’ve made Houdini blush:

Bad news went into the tophat, rainbows and unicorns poured out.

Voilà!<sup>2</sup>

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But even in Fantasyland, generous monetary initiatives are better at mitigating hard landings than revising unwelcome realities. Therein lies the pickle: as realities go, the Covid-19 virus is a doozy - and an uncontained one, at that!

Whereas other countries were quick to *collectively* mask up and stay home, the US response has been neither quick nor collective. In stark contrast to the willingness of other countries to adopt the advice of experts early *and* fully . . . the US squandered months (!! ) while an unending clown car of dingbat politicians and faux experts fomented skepticism, politicized even the most basic aspects of containment and prevention, and whined about how goshdarn inconvenient/unnecessary this whole thingamajig was.

And yet, even when the US belatedly concluded that pausing the economy - *and* daily life - offered the best means of “flattening the curve,” we still only managed to do a kinda-pause. After all, a kinda-pause is the best you can hope for when a sizable portion of the country (including the man behind the Resolute desk) is unwilling/unable to accept the humble *reality* that viruses spread unless/until we stop them.

Absent a collective science-based strategy, the US is engaged in a daunting battle against the virus *and* stupidity. With the latter hindering efforts to overcome the former, the result is as unfortunate as it is predictable: a you-have-to-see-it-to-believe-it gusher of inconveniences and uncertainties. A veritable worst of all worlds.

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**In Closing**

At the risk of sounding like an old fogey, I must confess: celebrating the fact that trillions (with a “T”) of monetary initiatives has - so far - successfully managed to prevent any hard landing(s), seems akin to bragging about dodging a bullet before the gun has even left the holster. In other words, premature at best, downright fanciful at worst.

At a time when the managements at ~40%+ of the S&P 500 are too uncertain about their near-term prospects to offer guidance on the next 90 days . . . our goal isn’t to ignore *all* uncertainties (that’s just dumb), nor to avoid uncertainties at *any* price (that’s too cautious). Instead, we aim to recognize uncertainties when we see them, and make darn sure we aren’t paying a premium for them.

On that note, today’s valuations - especially of companies we would be most eager to own - suggest investors aren’t merely *wishing* for the best, they are also *paying* handsomely for such wishful thinking. While only time will tell whether such optimism proves to be more delusional than warranted . . . during the first-half, our portfolio adopted the caution evident in the C-Suites, rather than the optimism evident in analysts’ spreadsheets. Accordingly, the Fund:

- Initiated positions in Allstate, Corecivic, Mastercard, and Pinterest,
- Added to our existing positions in 1347 Property Insurance Holdings and Verisign,

## Near-Term Delusions & Long-Term Collisions

- Exited from our positions in Apple, Entravision Communications, Tivity Health, Under Armour, and ViacomCBS,
- Exited - and then reinitiated - a position in Quotient Technology, and
- Initiated several bearish positions via put options.

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May 1st marked the six year anniversary of the Fund. To each of you who have supported me over the years, a sincere thanks for your continued trust and encouragement along the way.

As always, please feel free to email or call with any questions or concerns.

“Get your facts first, then you can distort them as you please.”  
Mark Twain

“Yeah, well, that’s just, ya know, like, your *opinion*, man.”  
The Dude  
*The Big Lebowski*

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