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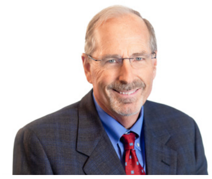

Bill Smead
Chief Investment Officer

Dumb and Dumber III

Dear fellow investors,

Dumb and Dumber was a 1994 movie which tells the story of Lloyd Christmas (Jim Carrey) and Harry Dunne (Jeff Daniels). They are two dimwitted, but well-meaning friends, who travel cross country from Rhode Island to Aspen, Colorado to return a briefcase full of money that was ransom for a kidnapping. This farcical movie could teach us a great deal about two camps of investors in the marketplace today. These are hedge funds and investors who have come into the market out of boredom with the stimulus money from the U.S. government in the pandemic.

Warren Buffett and Charlie Munger emphasize that the key to investment success is weak competition. Recently, two sets of investors, newbie investors through Reddit (and other chatrooms) and hedge fund managers running non-transparent portfolios of immense size, were both blessed and cursed by unusual success at the same time. One of the worst things a market can do to you is reward you for bad behavior and that has happened way more than normal. A quick review is necessary.

Good Behaviors

1. Buy future success for way less than it is worth (value investing).
2. Use long duration holding periods to gain your success and reduce taxation.
3. Participate in ways that allow you to survive the temporary setbacks the marketplace will deal you.
4. Avoid the "bigger fool theory." Momentum investing is great while it lasts, but when momentum investing gets hit, the declines are dramatically more powerful and less survivable to the average common stock investor.

Dumb Behaviors

1. Buy popular securities that have been popular for a long time.
2. Trade often.
3. Magnify your risks with leverage.
4. Gang up on short sellers.

It is easy to watch the newbie investors using their stimulus checks to speculate in common stocks and view them as "dumb" investors. They are buying based on short durations, emphasizing options for leverage, and are unfamiliar with the market's ups and downs. You can almost hear them saying, "So, you are telling me there's a chance!"

They have been chasing glam growth stocks based on momentum and what businesses have benefitted from the COVID-19 quarantines and the dependence we've all had on technology. They have turned the Ark ETFs and their managers into rock stars. It looks "dumb" and to us and that is fine, because newbie investors are supposed to do very poorly as they learn how difficult getting rich quickly is. It is like Lloyd said in the movie, "I'll bet you twenty bucks I can get you gambling before the end of the day." Many investors, us included, started out that way. I remember that I swore off ever trading in options in 1984, when I got the cure.

In many ways, the major hedge fund investors are looking "dumber." In Dumb and Dumber, Harry said, "Just when I think you couldn't possibly be any dumber, you go and do something like this... and totally redeem yourself." To say that this Archegos liquidation "redeemed" something would be a stretch. It was nothing but a forced redemption! Recent studies show that most investors have never been so concentrated in over-crowded ownership of popular tech-related securities. These managers are trying to justify over-paying for common stocks based on historically and unsustainably low interest rates. They are disrespectful of the history of forward returns, unafraid of antitrust enforcement and scrambling to support their compensation structure which favors leverage and risk!

You'll be shocked to hear that we are reaffirming our dedication to value investing. We are tacking towards businesses which benefit from the largest adult population group (millennials) forming households and bearing children. This includes home builders, buying gasoline/motor oil and returning to stores/public entertainment venues. We are practicing low turnover and holding our winners to a fault.

We are resisting the temptation to gravitate to popular securities and try our best to not envy those who have made a great deal of money in short periods of time. Charlie Munger says, "Envy is a really stupid sin because it's the only one you could never possibly have any fun at!" We have no animosity for short sellers who are trying to weed out financial shenanigans or expose corrupt behavior from the marketplace.

The movie, *Dumb and Dumber*, was viewed as a big risk for the career of Jeff Daniels. He was a serious dramatic actor and ran the risk of being tainted for filling the role as Harry Dunne. We are value investors who fear stock market failure for our end clients. We are happy to play a role in this momentum-based market working its way toward returning to the principles which will last and deserve to be practiced.

Warm regards,

William Smead