

## 2024 Letter

*"Do not take yearly results too seriously. Instead, focus on four- or five-year averages."*

– Warren Buffett

*"We never take the one-year figure very seriously. After all, why should the time required for a planet to circle the sun synchronize precisely with the time required for business actions to pay off?"*

– Warren Buffett

I hate to begin my first letter to you like this, but the quotes above perfectly sums up the message I want to convey this year. For much of 2024, your (and my) portfolio performed quite well, more or less tracking the extremely strong performance of the S&P 500 (my yardstick). However, in the past couple of months, that has not been the case. For 2024, your return on investment was 2.4%, while the S&P 500 return was 25%.

This divergence arises because I typically select a basket of equities based on key criteria. These filters primarily include valuation (or intrinsic value), strong company management, and a durable competitive advantage. The outcome of this selection process is a focused portfolio of 5–10 carefully chosen businesses, which naturally drives the value of your portfolio.

Given this approach, portfolio performance can vary widely. It may outperform, align with, or underperform the S&P 500. My goal is twofold: to outperform or at least match the market when it's up while minimizing losses during downturns. Howard Marks describes this as achieving "asymmetry"—a manager's ability to do very well when conditions are favorable and not too badly when they aren't.

Performance should always be evaluated over the long term (5+ years). I hope you will continue to trust me to steward your capital. If not, I completely understand—no hard feelings.

With this perspective, I don't feel particularly disappointed in myself. The "Magnificent 7" stocks—Apple (AAPL), Microsoft (MSFT), Alphabet (GOOG), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA), and Meta—now account for approximately 33% of the S&P 500's total market capitalization, an all-time high. Prior to the emergence of the "Magnificent 7," the highest share for the top seven stocks in the last 28 years was roughly 22%, reached in 2000 at the height of the tech-media-telecom ("TMT") bubble. Most of these companies have valuations that, in my opinion, are priced for incredible growth and perfection.

I'll leave this topic with a quote: *"Investing is a popularity contest, and the most dangerous thing is to buy something at the peak of its popularity."* – Howard Marks

## **Holdings**

Below, I've outlined a brief commentary on a few of our key holdings:

### **Nubank**

This company is one of our largest holdings and requires a strong stomach to endure the stock's volatility. For 2024, Nubank has returned approximately 31%; however, at its peak this year, returns were close to 100%. The stock's recent decline is largely due to Brazil's weakening currency relative to the USD, which has been impacted by increased government spending. Brazil remains Nubank's largest revenue stream.

These developments have not shaken my conviction. Nubank continues to grow, expand into new regions, and is led by capable and trustworthy management. With strong fundamentals underpinning the business, I have no plans to sell this outstanding company in the near future.

### **Lyft**

This is another recent conviction of mine. Alongside its primary competitor, Uber, the company has faced public concerns about the potential rise of autonomous vehicle ride-hailing technology. Having personally ridden in a Waymo vehicle a few times, I can attest to the technology's fascinating potential. My initial thought was that this innovation could eventually replace human drivers.

While autonomous vehicles may play a larger role in the future, Uber and Lyft present compelling opportunities today and quite possibly in the long term. Despite the hype, autonomous vehicles are incredibly expensive—Waymo vehicles, for instance, cost approximately \$100,000 each, according to Wikipedia. These are depreciating assets that also require ongoing maintenance and cleaning (e.g., dealing with a passenger's vomit in the back seat).

In contrast, ride-sharing platforms like Lyft and Uber don't bear these costs. Waymo's expansion is heavily subsidized by Google, its parent company, and I believe there's a reasonable chance that Google may eventually reduce or halt these subsidies (this recently occurred with GM's Cruise robotaxi business line). For now, traditional ride-sharing platforms continue to grow, expand, and offer attractive valuations.

### **Capri Holdings/U.S. Steel**

These investments fall under the category of "merger arbitrage," or, as Warren Buffett calls them, "workouts." I now personally refer to them as "radioactive." These situations involve a price discrepancy (or "spread") between the current stock price of a target company and the price offered by an acquirer in a merger or acquisition.

Recently, these spreads have been influenced by government interventions aimed at blocking such transactions, sometimes successfully. While I've had success with merger arbitrage in the past, my recent attempts have been less favorable. These situations often seem obvious—"This deal won't get blocked"—but in investing, what seems obvious is often wrong.

For example, the Federal Trade Commission (FTC) successfully challenged Tapestry Inc.'s acquisition of Capri Holdings Limited, with a U.S. District Court judge granting the FTC's motion to preliminarily halt the transaction. U.S. Steel's future remains uncertain, as President Biden recently blocked Nippon Steel's attempted acquisition of the company. In response, Nippon Steel and U.S. Steel have filed lawsuits alleging wrongful interference. Notably, former President Trump also vowed to block this deal, emphasizing its implications for national interests. As politics and demagoguery continue to cloud the issue, this case underscores the importance of upholding the rule of law—not just for our sakes, but for the sake of the country.

Regrettably, I ignored this principle and made a mistake. I've learned from this experience and will no longer participate in these "workout" situations.

### **Closing Thoughts**

Thank you for entrusting me with your capital. I remain committed to the principles of delivering superior results while maintaining unwavering control over risk.

Looking ahead, I plan to change the structure of our relationship by establishing a legal entity to formalize our operations. My goal is to bring in additional partners, and formalizing the operations should put me on the right path. Additionally, I will not charge any performance fee for this year.

I hope you choose to continue this journey with me. Below is a table summarizing my personal investment performance over the past five years. Please note that my 2024 returns are slightly different from yours due to holdings I've held before 2024 and option trading. Please note that past results do not guarantee future performance.

<b>Year</b>	<b>Return (%)</b>	<b>S&amp;P 500 Return (%)</b>
2020	24.3	18.4
2021	32.9	28.7
2022	17.4	-18.1
2023	28.1	26.3
2024	17.5	25
Annualized	23.9	14.5
Cumulative	191.9	97.0

Thank you again for your trust and support. I am always available to discuss any questions or concerns you may have.

Sincerely,  
Tom Wirgau  
1-7-2025