



Bolingbroke Capital

To the Partners of Bolingbroke Capital,

Over the course of 2022, the value of our portfolio decreased by 24%. As ever, our performance alone means little; we aim to outperform the market; therefore, some of our best years may have the smallest returns. Whilst we attempt to prevent losses, this is often out of our control within a single year. Should our returns exceed a measly market performance, this is as much a win as significant absolute gains. This year, the FTSE-100 increased by 9%, and the S&P500 decreased by 17%.

In this letter, we will highlight up front, in bold, our mistakes, followed by some notable points of the year. We highlight in our supplement where we currently have interests and wish to draw your attention herein to how you, as *owners* of these businesses, ought to benefit from our shared interests in their success. This, of course, does not mean that this success will (a) be imminent; or (b) even materialise. Should you have any questions, please contact me directly any time of the day or night, 365 days a year.

Bloopers

As Shakespeare noted¹, the nature of bad news infects the teller. Rest assured, the following was written by ~~someone-else~~ me!

An initial note on our performance: this is the first time in our history that we have failed to increase wealth over 12 months and the first time we have gone the opposite way to the market. Whilst not the result we were aiming for, we do not believe this is due to a mistake or a result of greed, sloth, envy, or pride. The market simply decided to take its chips off the table. This year, only one in three stocks in the S&P500 went up. Likewise, only 32% of our stocks went up. Therefore, our ability to select '*stocks that went up this year*' was average. Our subpar results, therefore, are due to sizing; our

¹ Antony and Cleopatra: Act 1 Scene 2

largest three positions all went down. This is not something we control. Our top three positions are those we believe we know best. Should the **businesses** change, we will be open and honest in the annual letter, hold our hands up, and say we were wrong. Should the stock price wiggle up or down more than anticipated, we must treat these two imposters the same: we check our calculations when it wiggles down, and we try to keep our head about us when it wiggles up. Our primary objective is not to select stocks that go up in a year but rather to select businesses we like that are unfavoured in the market. Much to our dismay, when we kiss these ugly frogs, they rarely turn into princes overnight...

Now, our mistakes: mistakes made this year and those made in previous years that have only recently materialised. We describe our mistakes as owning companies we should have otherwise left untouched. Our mistakes are not limited to positions where we lose money. In fact, many may *make* us money. This does not exempt us from highlighting them up front herein.

Our initial mistake was avoiding our responsibility and not being 100% aligned with you. By ‘outsourcing’ our investment process to our in-house algorithm (BCMA portfolio), we avoided responsibility by being unable to reposition when we think we were wrong. This was, however, the entire point of the portfolio. The algorithm removed human bias and was built and tested to outperform over time. But, like a self-driving car, we praise the algorithm when all goes well. But, when all goes wrong, we interrogate **the person who built it**. Whilst nothing went wrong, I want complete responsibility and accountability. More importantly, irrespective of our relationship, I should always make decisions that put our money in the best place. To ensure that I do just this, I must be 100% aligned with you all to prevent treating partner A any differently from partner B or myself. Having multiple portfolios distorts this as partner A may have a 50% allocation to two portfolios, whereas partner B may have all their money in one. Since our transition to one single portfolio, we are all in this together.

Now, you may think of me as (a) an honourable gentleman who only wants the best for you; or (b) a dishonourable gentleman who only wants the best for himself. Fortunately for you, irrespective of

whether I am ‘(a)’ or ‘(b)’, you will benefit. If I am honourable, I will always want the best for you and act accordingly. If I am dishonourable, I will only think about increasing my bank balance; thus – given that 107% of my net worth is in Bolingbroke – you will also benefit. When we talk about skin in the game, it is not that little tuft of skin you occasionally get protruding from your thumb – it is everything. We eat our own cooking, and I will be the only one left washing the dishes, irrespective of how it tastes. Bolingbroke is not four portfolios; it is a single mission to provide independence to its founding family. Welcome to the family.

A bonus mistake: we looked too far ahead. We owned a UK housebuilder despite a not-so-good short-term outlook on the stock: increasing interest rates, an expensive housing market, more personal debt than ever before, and more. Despite this, over time, on this little island we call home, we have the largest millennial population, which has exceeded the baby boomer generation for the first time, alongside a significant housing shortage. The company is debt-free; has a small number of cladded buildings over the government-recommended height for Grenfell-linked reparations; a considerable share of the housing market; and (with a potential recession looming) would enable them to scoop up the laggards at a suppressed price and yet we made the wrong call. Why? Because we had opportunities elsewhere that seemed more predictable. We shifted from capital appreciation to capital preservation and did so behind the curve. We are not day traders, and we do not make short-term moves. But this one made sense, and by the time we decided to reallocate capital fully, we were down 17% on our investment which, by June, represented less than 1% of our portfolio. As such, we can say that I lost us 0.15% due to my inability to act swiftly. A minor penalty to pay, but a mistake, nonetheless. If we still held that position, we would be down another 31% resulting in a further loss of 0.30%.

Successes

Our successes – once materialised – will speak for themselves.

MMXXII

This year, as in all years, the market has experienced multiple talking points which cloud the overall mechanics of our companies hard at work. In 2022 we had a war *on* Ukraine, concerns over China, a stock market crash, inflation, recession fears, Putin's chokehold, Britain's wobble (politically and economically), the FTX cryptocurrency collapse, and more...

In January, the Financial Times stated that Investors are increasing their cash and bracing themselves for global market turbulence. They showed that the average investor had increased their cash position from 5% to 5.3%. Now, if the world looked less prosperous and you believed stock prices would fall dramatically, would you increase cash by just 0.3%? To quote Buffett: *"You're going to invest your money in something over time. The one thing you could be quite sure of is if we went into some very major war, the value of money would go down. I mean, that has happened in virtually every war that I am aware of, so the last thing you would want to do is hold cash during a war."* We only now realise how Buffett's quote foreshadowed what was to come...

There are increased risks associated with emerging economies. We therefore pre-empt this risk before venturing outside what we call home. Today, our single largest 'home' (UK/US) investment exceeds all our 'non-home' investments. Concerning our cash holdings, in the last annual letter, I drew your attention to a Chinese position which we held at £0, given that we could not add to, see, or sell. Ultimately, our decision to write it off proved unnecessary as we were forced to sell and received a 'net redemption payment', which resulted in a 1.23% **increase** in our performance. Today, approximately 0.62% of our portfolio is being written off due to ongoing sanctions in Russia.

The primary concern when negotiating turbulent markets is firepower: Is this darkness we currently face that which precedes dawn, or pitch black? Market fear may cause stock prices to become dislodged from their true value and provide an opportunity to buy. Or, more pessimistically, it could be the start of something worse. Regardless, we give significant weight to the downside as, psychologically, losing \$1 is only remediated by gaining \$2. As we focus more on the downside risk,

we would happily forego gains for protection despite, at times, being the mathematically incorrect thing to do. When the war broke out *on* Ukraine, we had exposure of approximately 3%. I wrote the following in February as the war was unfolding: *We reduced our overall exposure for three reasons: (a) we are unsure of how far and extreme the invasion may become; (b) changing conditions will affect business input costs; and (c) understanding the market reaction to the annexation of Crimea, the downside significantly outweighs the upside potential.* Whilst most of our losses may have recovered since we were grateful for more restful sleep as this turmoil unfolded.

Most investors like to brag about how much they expect to make. We like to brag about how little we could lose. Compounding money is asymmetrical; if you make little and often for a long time, you can grow astronomically rich. However, if you have one significant loss, you face a Sisyphus-like climb back to level ground. Unlike Sisyphus, however, not once can we cheat death. If we lose big, we no longer get to play the game. Since 1871 there have been multiple ‘bear’ markets where the market drops by more than 25%... This is not news to us – we expect our portfolio to drop by more than 25% multiple times over the life of Bolingbroke. As experienced by Buffett and Munger many times, we even expect to be down over 50% one day. You may never see it as it may have recovered by the time we report, but it is certainly possible. This does not take away from such a drop being difficult. We have all experienced the discomfort when something we have bought gets discounted 25% a week later. If instead, it is your savings hard-earned with the sweat of your brow over a lifetime, the psychological impact can be colossal. Therefore, we need to decipher between short-term movements and long-term value. The stock price wiggles around every second, minute, and hour but our businesses’ value changes **slowly** over time.

The slow-moving progress story is missed by mainstream media chasing the minute-by-minute story of crisis and decline...

- Peter Leydon

If you buy a house to rent out for £500k in a nice area with friendly renters, you will not pay much attention to the neighbour who walks past a week or two later shouting: “*your house is only worth £300k!*” You most certainly would not sell the next day! You would sit there collecting your rent. In the stock market, this rowdy neighbour comes around every week without fail, and he’s forever changing his mind. However, the stock market differs in one way; people listen to this guy! So, when the neighbour says a house is worth double, people quickly sell and upsize. When he’s miserable, they worry and downsize. Ultimately, we want to buy from the pessimists and sell to the optimists. To those who neither want to buy nor sell their house every week, we recommend ignoring the crazy neighbour and collecting lots of rent whilst making sure your renters are happy. This means you can just sit tight and ignore the neighbour even when he declares nuclear war, apocalypse, great depression, recession, inflation, a market crash, and whatever else he can conjure that day. Even when he brings his megaphone and has a crowd of very smart people behind him declaring an emergency. If such a day arrives, we will enjoy bargain hunting without the ~~herd~~ crowd.

We have had our fair share of early Christmas sales this year. We saw two of our top five holdings go down over 25% before I finished my cornflakes... We believe we found two underpriced ugly ‘sweaters’ that quickly went out of fashion. Although we can understand the justification, these reactions are due to psychology and expectations more than business function. The largest of the two – and the first to experience this stomach-churning drop – had notified its investors that the price of protein had increased significantly (because of Ukraine, Putin, Avarian Flu, Christmas holidays, inflation, etc.), yet they decided to take the hit rather than instantly pass these costs on to customers. This is precisely the kind of management we like: they are not afraid to stop the money-making machine temporarily for maintenance. Input costs are an ongoing month-on-month issue (and not always unexpected) and are unlikely to impair our business significantly. In fact, we are in a fortunate position to be able to absorb the costs in the short term! Our competitors, however, are not. Pushing up prices and alienating customers for a quick buck is long-term damage for short-term reward and something we will not tolerate. This is not to say prices will remain low forever but nor are they a lever to yank upon haphazardly.

Our second nail-biter is one where an impending recession could have an impact. This is not news to us, whilst it seems to be for market participants. Moreover, our position is artificially leveraged through a sub-\$100m holding, making the rollercoaster swings feel more like a sharp manoeuvre in an F-35 fighter jet. However, when we entered this position, we completely missed an unusual factor that we believe will help the stock remain at a specific value until our primary catalyst comes along. The silver lining is that – with a drop of over 25% – we are back to square one with this knowledge should we decide to put more capital to work.

The markets continually keep us absorbed in the present. It, therefore, becomes challenging to delay gratification when one is unsure how long it will be delayed. However, the term markets typically consist of topics that win the popularity contest at any given time. Thus, we must heed the advice provided by Johann Wolfgang von Goethe:

If you haven't been reading newspapers for a few months and then read them all together, you realise how much time is wasted on these sheets of paper [...] and whenever there is a situation of uncertainty, the journalist baits either one party or the other, either more or less, and boosts our inner preference or dislike from one day to the next until, in the end, there is a decision and then, what has happened is an object of wonder, as though it were an act of God.²

Overall, our performance depends on how we position ourselves during market fluctuations. We frequently find ourselves in a diverse set of companies, including great compounders (where we focus on long-term future growth) to liquidation plays (where – if the clock were to stop – we expect to see a significant return on our investment still). Regardless, at Bolingbroke, we think in two ways: (1) we have little respect for what happens in any given year – it is the long-term that counts; and (2) we **always** think like business owners.

² Maxims and Reflections. Note 970. Page 126.

Current Portfolio

As of writing, we own 10 businesses, with our top 5 equating to 64% of our overall portfolio.

We currently have 6% in cash waiting to be deployed.

Final Remarks

When composing these letters, I often believe that at some point, you may echo the words of Karl Marx whilst writing *Das Kapital* in 1858, who quipped: “*I don’t suppose anyone has ever written so much about money when so **short** of the stuff.*” As long as I can bore you with these letters, I hope you will look at me as a ‘poor boy from a poor family.’ In reply – and to continue the famous rhapsody – I must state I need no sympathy. In return, I hope you heed the words of Pablo Picasso, who said he wanted to live in peace without material worries: “*like a pauper... but with lots of money!*”

I am soon to cross over into “Life’s Q2.” I must swap my now infamous *Colin the Caterpillar* birthday cake for a *Mamie the Millipede* to make way for the additional candles I will be accumulating over the next phase of life. What is interesting is that, at the age of 25, someday, we will have been in partnership together for longer than the author of this sentence. Here’s to giving it a shot together!

As for my requests to St. Nick, please provide me with book, article, interview, podcast, video, or any other helpful recommendations. Books I have read this year are detailed below for you to scrutinise and improve; financial literature is certainly not necessary. Expanding upon my list will only increase my ability to think, and it is in all our interests that my time be spent **thinking** and not trading. See you between the lines.

Merry Christmas,

Aiden C. Patterson

// 11.12.22 //

Readings

Below is a list of readings from this year, excluding periodicals, snippets, annual letters, financial statements, reports, podcasts, videos, transcripts, interviews, journals, blogs, tweets etc. Each aims to enhance my mental latticework, thus improving upon the ideas I can draw from when investing. If you believe something is missing, please make a recommendation.

1. Beautiful World, where are you? Rooney.
2. The Daily Stoic. Holiday & Hanselman.
3. Learn to Earn. Lynch & Rothchild.
4. The Iliad. Homer.
5. Consider The Oyster. Fisher.
6. Richer, Wiser, Happier. Green.
7. Who moved my cheese. Johnson.
8. The most important thing. Marks.
9. How to spend a trillion dollars. Hooper.
10. Maxims and reflections. Goethe.
11. The Education of a Value Investor. Spier.
12. Margin of Safety. Klarman.
13. The Odyssey. Homer.
14. Charlie Munger The Complete Investor. Griffin.
15. Meno. Plato.
16. Agamemnon. Aeschylus.
17. The Oresteia. Aeschylus.
18. Libation Bearers. Aeschylus.
19. Eumenides. Aeschylus.
20. The Persians. Aeschylus.
21. 28 Big Ideas on Investing, Business, Life, Behaviour, and Thinking. Niveshak
22. The Interpretation of Financial Statements. Graham & Meredith.

23. Gorgias. Plato.
24. Lycurgus. Plutarch.
25. Solon. Plutarch.
26. Histories. Herodotus.
27. Republic. Plato.
28. Clouds. Aristophanes.
29. Apology. Plato.
30. Crito. Plato.
31. Phaedo. Plato.
32. Peloponnesian War. Thucydides.
33. Daily Rituals. Currey.
34. Yellow Hats. Trigueiro.
35. The Outsider. Camus.
36. Birds. Aristophanes.
37. Do Humankind's best days lie ahead? Pinker et al.
38. The Psychology of Money. Housel.
39. Damn Right! Lowe.
40. Candide. Voltaire.
41. Symposium. Plato.
42. Soul in the Game. Katsenelson.
43. Poor Richard's Almanack. Franklin.
44. The Little Prince. Saint-Exupery
45. The Fall. Camus.
46. Parmenides. Plato.
47. Seven Brief Lessons on Physics. Rovelli.
48. The Complete Fables. Aesop.
49. The Last Lecture. Pausch.
50. Sophist. Plato.

51. Theaetetus. Plato.
52. Worth Magazine Articles. Lynch.
53. The Millionaire Next Door. Stanley & Danko.
54. Beating the Street. Lynch.
55. The Rebel Allocator. Taylor.
56. Nicomachean Ethics. Aristotle.
57. The Old Man and the Sea. Hemingway.
58. Goodbye Bafana. Gregory.
59. Politics. Aristotle.
60. Oedipus Tyrannus (rex). Sophocles.
61. Women of Trachis. Sophocles.
62. Oedipus at Colonus. Sophocles.
63. Electra. Sophocles.
64. Antigone. Sophocles.
65. Philoctetes. Sophocles.
66. Physics. Aristotle.
67. Metaphysics. Aristotle.
68. Medea. Euripides.
69. Hippolytus. Euripides.
70. Alcestis. Euripides.
71. The Bacchae. Euripides.
72. Trojan Women. Euripides.
73. Electra. Euripides.
74. Poetics. Aristotle.
75. On the Soul. Aristotle.
76. Timaeus. Plato.
77. Phaedrus. Plato.
78. Conic Sections. Apollonius of Perga.

79. On the Revolutions. Copernicus.
80. Letter to Herodotus. Epicurus.
81. Letter to Menoecus. Epicurus.
82. On the Natural Faculties. Galen.
83. Introduction to Arithmetic. Nicomachus of Gerasa.
84. Olympians. Pindar.
85. Idylls. Theocritus.
86. Odes. Horace.
87. On the Nature of Things. Lucretius.
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As you can see, I missed my goal... *again!*