Bolingbroke Capital

To the Partners of Bolingbroke Capital,

Over the course of 2023, the value of our portfolio increased by 13%. As ever, this number alone means little. We aim to outperform the market. Therefore, some of our best, and proudest years may have the smallest returns. Moreover, 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 gains. This year, the FTSE100 (including dividends) increased by 5%.

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.

If you have any questions, please contact me directly any time of day, or night, 365 days a year.

Bloopers

Shakespeare noted[1]*, the nature of bad news infects the teller.*

Rest assured; the following was written by ~~someone else~~ ***me!***

Our mistakes: mistakes made this year and mistakes made in previous years that have only recently come to light. We describe our mistakes as: (a) not owning companies we knew enough about to own; or (b) owning companies we should have 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.

I should have added the following: "missing out on stocks which skyrocket is not a mistake, unless we missed something crucial". If an investment doubles, quadruples, or quintuples – for an **unforeseen** reason – why should we punish ourselves for not knowing the unknowable? This year we sold two stocks which we expected to highly disrupt their industry. So we invested. Then, the reasons we invested no longer remained true. So, we changed our minds; and it wasn't easy. However, we must not become attached to them simply because we invested. Since selling, one stock is up 259% and the other is down 88%. Which is the mistake? The answer is: we don't know. The one that is up 259% may be a bubble and the one that is down 88% may be the next Amazon [which was down 99% in 2002]. That said, had we held on, we would have made exactly 0% given our position sizes.

For us, the mistake would be staying invested in these companies with no true belief of their worth. Simply 'hoping they will be worth more one day' doesn't cut the mustard. At Bolingbroke, we don't play the lottery with our hard-earned money. We make investments where we have enough information to increase our chances of seeing our numbers come up. Nothing more, nothing less. Just because the lady down the road won the lottery last week, doesn't mean we should use her numbers

[1] Antony and Cleopatra: Act 1 Scene 2

next week. We sleep easier knowing that we have solid reasons for why a company is worth more than it is currently selling for. Should anything change, we exit.

Mistake #2. We sold a company which, retrospectively, we could have stood our ground a little longer before allowing the cloud of uncertainty to guide our decision to sell. In late 2022, we bought a stock we believed was worth 4x more than it was selling for. A few months later, we had doubled our money. We were then faced with the decision to: (a) stay invested and expect to 2 – 3x our money; or (b) sell and invest in another opportunity with the expectation of making 2.5 – 4.0x our money. This may sound obvious [2.5 – 4.0x is better than 2 – 3x], but when you add in tax implications, general uncertainty, and time it becomes more nuanced. We favoured the 2.5 – 4.0x as we were more comfortable with our thesis: more stable, less downside, and sooner catalysts (so we thought). In hindsight, we should have dived *into* the uncertainty. Doing so may have provided further insight into the subsequent catalyst which caused the stock to triple after we had sold it. Only time will tell if and how much of a mistake this was.

Successes

Our successes will speak for themselves.

MMXXIII

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 2023, we had concerns over China, a stock market drawback, inflation, *more* futile war, recession fears, the final nail in the crypto-scam coffin, Chat-GPT4, and more…

No, I have not just copied last year's concerns; it seems the life expectancy of bad news exceeds that of good news. When we look back on 2023, we're drawn to: fearmongers debating inflation; 'gurus' declaring that AI has us all doomed; OceanGate; crypto scams; tech layoffs; and the impending recession (that is, until Taylor Swift started touring). Yet, we seem to have glossed over the fact that:

- ✓ Putin's chokehold <u>isn't</u> working.
- ✓ 1 in 10 new cars sold on planet Earth are now electric: 1 in 3 in China.
- ✓ 80% of the world's endangered species are now making their way <u>off</u> the endangered list.
- ✓ **Red** states in America are set to introduce a wave of anti-abortion bills correcting the inhumane and arcane rules surrounding women's rights.
- ✓ The EU's highest court outlawed three pesticides which are lethal to our best friends (and undoubtedly, the hardest workers in the room): honeybees.
- ✓ Air pollution has fallen dramatically in the US and Europe saving over 1 million lives a year; and China has almost halved air pollution in the last 10 years by planting forests larger than *Belgium!*

This highlights the need for us mere mortals to work twice as hard to ensure we do not give in to the temptation of being absorbed by the bad. Instead, reminding ourselves of the good in the world. That said, at Bolingbroke, we often keep the bad up-front, and hope the good speaks SO loudly, it diminishes the bad. Now, by bad, we do not mean when the price wiggles a little more than we're comfortable with. Paradoxically, when the price wiggles **up** more than we expect, this is often more anxiety-inducing than when it drops! This, however, does not make losing ~20% of our money easy. It also does not stop us second-guessing ourselves both when down (and up) a lot. The only thing we control is our psychology. This isn't a game of brains, but rather stomach. We therefore manage our psychology by doing two things: when our investments fall – we close our eyes; and when they rise – we cover our ears. **More importantly**, in both situations, we double check our reasoning, to ensure it is by reasoning alone we reach our conclusions, not psychological bias. To guard against this, we remind ourselves of Bertrand Russel's advice:

1. *Feel certain of nothing;*
2. *Do not conceal evidence, for it is sure to come to light;*
3. *Do not fear to be eccentric in opinion, for every opinion now accepted was once eccentric;*
4. *Always tell the truth, even if inconvenient. It is more inconvenient to conceal the truth; and*
5. *Do not envy those who live in a fool's paradise for only a fool will think that it is happiness.*

I'm almost certain Russel's 11th commandment would be: "buy stocks exposed to the travel sector whilst everyone seems to think that humans will never travel again and reap the benefits when the cloud disperses". Earlier this year, we did just that. The company's share price fell from over $100 to sub-$25 due to COVID – and rightly so. Yet, three years later, the stock was still 2.5x cheaper than 2019. Despite the travel market going gangbusters; it's industry back to pre-pandemic levels; easing of supply chain stress; and one of its customers emerging from bankruptcy. What's more, we've already received 28% of our investment, in cash, this year. Next year, this will reach 50%. Yet, we still own the assets! By 2026, the stock price could fall 75% and we wouldn't have lost **any** money in this investment.

If men had postponed the search for knowledge and beauty until they were secure, the search would never have begun.

- C S Lewis

It is this constant search for 'beauty' (high returns on our investments) that is more fruitful during times of heightened uncertainty. That is, when knowledge gravitates toward herding and 'beauty' is merely something we talk of in past tense. We strive to keep our head about us when this scenario presents itself. We are human, after all. What's more, we know that the stock market falls sometimes, and rises other times. It is never simply a straight line. Thus, we remind ourselves that – irrespective of what we do, how much we pray, or how smart we are – the stock market will fall roughly 20% every five years; 30% every ten years; and over 40% every twenty-five to fifty years.

Warren Buffett and Charlie Munger – the greatest investors of our time – have seen their stock decline over 50%, three times. I can neither defy mathematical laws nor do I believe I will achieve better results than these two. As we cannot predict these events, we simply bolster our psychological prowess. Thus, we must ensure we do not get too distracted with yesterday and neither worry, nor rely, too much on tomorrow. Rather, we simply plug away day in, day out and take each opportunity as it arises. Douglas Malloch surmises our approach with the following poem:

Sure, this world is full of trouble
I ain't said it ain't.
Lord, I've had enough and double
Reason for complaint;
Rain and storm have come to fret me,
Skies are often gray;
Thorns and brambles have beset me
On the road — but say,

Ain't it fine today?

What's the use of always weepin',
Making trouble last?
What's the use of always keepin'
Thinkin' of the past?
Each must have his tribulation —
Water with his wine;
Life, it ain't no celebration,
Trouble? I've had mine.

But today, is fine!

It's today that I am livin',
Not a month ago.
Havin'; losin'; takin'; givin';
As time wills it so.
Yesterday a cloud of sorrow
Fell across the way,
It may rain again tomorrow,
It may rain — but say,

Ain't it fine today?

In last year's letter, we alluded to a fighter jet scenario. It's safe to say, it seems to have refuelled and is testing our tolerance for G-force. In the last 12 months, the share price fell 40%, shot up 60%, fell 40%, almost doubled, and it has recently halved again. This may sound like we've spent this year invested in diamonds that turn out to be ice cubes. On the contrary, this company's revenues are up 40%, they have 41% more cash, and we could liquidate the company for 5% more. If this volatility in price (and lethargy in value) shows us anything it is that human psychology can be dangerous… The value of the business has hardly changed, yet investors change their mind on its worth every 2.5 months!

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. That said, the term 'markets' typically consists 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. Not **too** bold in the good; and not too timid in the bad. Now, we often 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 would still see a significant return on our investment). Regardless, at Bolingbroke, we think in two ways: (1) we have little respect for what happens in a single year – it is the long-term that counts; and (2) we **always** think like business owners; not gamblers.

[2] Maxims and Reflections. Note 970. Page 126.

Current Portfolio

As of writing, we own 12 businesses, with our top 5 equating to 64% of our overall portfolio. We currently have 4% in cash waiting to be deployed.

Final Remarks

Almost 45 years ago, Isaac Asimov was interviewed by David Letterman having recently finished writing his **221st book** (that's not a typo). When asked how he did it, Asimov replied: *"I get up in the morning, sit down, and write. Once I've finished writing, I go back to bed".* See, everyone wants the credit for writing 100 books, making 100% returns, and earning £100k a year. Yet, no one wants to re-write 100 drafts a year, analyse 100 companies a month, or work 100hrs a week.

It is this daily commitment and mental discipline that helps drive monumental feats over a lifetime. Asimov went on to write / edit over 500 books. Now, success leaves a trail. Therefore, like Asimov, I get up and think. Once I'm done thinking, I go back to bed. I hope that this lifestyle causes you to react to my retirement someday the same way others reacted when finding out Ozzy Osbourne retired **this year**… Many thinking: *"that was him working?!"*

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

// 10.12.23 //

Reading

Below is a list of reading 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. Valuation. McKinsey.
2. Zen and the Art of Motorcycle Maintenance. Pirsig.
3. Hebrew Bible
4. Games People Play. Berne.
5. The Importance of Being Earnest. Wilde.
6. Status Anxiety. De Botton.
7. My name is why. Sissay.
8. A Moveable Feast. Hemingway.
9. 100 Baggers. Mayer.
10. Base Rate Book. Mauboussin.
11. The Millionaire Next Door. Stanley & Danko.
12. The Early History of Rome. Livy
13. Lives. Plutarch.
14. Selected Poems. Baudelaire.
15. letters from a stoic. Seneca
16. letters to a young poet. Rilke.
17. Men without women. Hemmingway.
18. The making of an American capitalist. Lowenstein.
19. Lips too chilled. Basho.
20. I hate and I love. Catullus.
21. Anthem for Doomed Youth. Owen.
22. Remember, Body... Cavafy

23. Woman much missed. Hardy.

24. Aphorisms on Love and Hate. Nietzsche.

25. Three Tang Dynasty Poets.

26. On the Beach at Night. Whitman.

27. Sketchy, Doubtful, Incomplete Jottings. von Goethe.

28. The Dolphins, the Whales and the Gudgeon. Aesop.

29. Goblin Market. Rossetti.

30. The nightingales are drunk. Hafez.

31. The Night is Darkening Round Me. Bronte.

32. Mrs Rosie and the Priest. Boccaccio.

33. As kingfishers catch fire. Hopkins.

34. The Saga of Gunnlaug Serpent-tongue.

35. On Murder Considered as One of the Fine Arts. De Quincey.

36. Atomic Habits. Clear.

37. Trillion Dollar Coach. Schmidt et al.

38. The Eve of St Agnes. Keats.

39. Speaking of Siva.

40. Concentrate. Taylor.

41. Wailing Ghosts. Songling.

42. The basic laws of human stupidity. Cipolla.

43. On the Soul. Aristotle.

44. Enneads. Plotinus.

45. Proslogion. Anselm.

46. Midsummer Night's Dream. Shakespeare.

47. Art of War. Sun Tsu.

48. Traffic. Ruskin.

49. How to get rich. Dennis.

50. Manual for Living. Epictetus.

51. The richest man in Babylon. Clason.
52. Why I'm no longer talking to white people about race. Eddo-Lodge.
53. Expectations Investing. Rappaport & Mauboussin.
54. Strategy Beyond the Hockey Stick. McKinsey & Co.
55. Goodbye Bafana. Gregory.
56. Discourses. Epictetus.
57. Letter to my Father. Kafka
58. Legacy. Kerr.
59. Essays and Aphorisms. Schopenhauer.
60. Sophie's World. Gaardner.
61. 100 Inspirational Quotes. CS Lewis.
62. Fooled by Randomness. Taleb.
63. Mothman Apologia. Lynn.
64. As you like it. Shakespeare.
65. Gold from the Stone. Sissay.
66. Notes from the Eminent Dead. Patterson. [cheeky, I know]
67. The Alchemist. Paulo Coelho.
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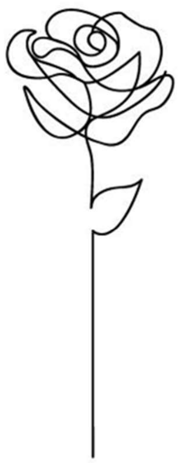
As you can see, I missed my goal… *again!*

In loving memory of

Charles T. Munger

1924 – 2023



A right heart exceeds all. **– Benjamin Franklin**