MountainWorks, LLC
info@mountainworksllc.com

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2020 Return	October	November	December	Q4	Annual Return	Return Since Inception
MountainWorks	-4.2%	13.9%	-0.4%	8.6%	127.8%	129.5%
S&P 500				10.0%	18.2%	112.5%

Dear Member,

In the fourth quarter of 2020, MountainWorks gained 8.6% of its value, versus a 10% gain for the S&P 500, dividends reinvested (according to DQYDJ). Since inception (February 2016), the Fund has gained 129.5% against a 112.5% swing from the S&P 500. I am happy to present a year of unparalleled return when measured against any traditional investment standard. It is a welcome outcome, especially since we had our best returns at a time when uncertainty has become the norm. In a sense, I consider it my life's work to live in uncertainty; therefore, my great hope remains hinged upon gaining advantages over the S&P 500 in down markets. If we can strive through a period in which the S&P falls 10% but MountainWorks only loses 5% of its value, it is a tremendous success that can pay great dividends down the road. For example, in March, the S&P dropped 16%, versus at 10.9% loss for MountainWorks. That small trend launched us to our cumulative 2020 return, resulting in a massive improvement against the general market. Just one month of outperforming a downward S&P translated into an exceptional outcome.

With such a successful year, I'm personally left with the question, *"Where do I go from here?"* There are challenges that lie ahead, and my sense is that the complexity of my labor will increase along with achievement. In other words, things will get harder. At the current moment, I can tell you two certainties. First, it would be foolish for me to try and predict where the market will go next year. Second, we need to persevere no matter the circumstances. In the past year, we have seen an awful pandemic, tumultuous civil unrest, and a contested election. There is a lot of noise for want of distraction, and it should be ignored. We need to continue forward without disruption from the masses. Emerson once wrote, "The great man is he who in the midst of the crowd keeps with perfect sweetness the independence of solitude." Put simply, in order to keep going, we need to have *grit*.

> *Grit is passion and perseverance for very long-term goals. Grit is having stamina. Grit is sticking with your future, day in, day out, not just for a week, not just for a month, but for years, and working really hard to make that future a reality. Grit is living life like it's a marathon, not a sprint. -Angela Duckworth*

Our investing future is unpredictable, yet I encourage you to have faith in MountainWorks. Moreover, while I can't promise future results, I can promise a common destiny. The great majority of my (and my family's) personal fortune lies with the Company. Your future is our future. Though it may be uncertain, it remains worthwhile to continue our discussion of a relatively overvalued general market, along with the importance of a road not taken.

General Stock Market Performance. Over the past year-and-a-half, I've kept my eye on two market variables: the Shiller P/E Ratio cyclically adjusted over ten years, and total market capitalization of the stock market relative to Gross Domestic Product (Market Cap/GDP). At the beginning of 2020, the Shiller P/E Ratio was 31.5. By the end of March, the ratio bottomed around 19. Interestingly, by the end of 2020, the valuation of the market reached over 34. Prices have skyrocketed since March, as if the pandemic created some sort of positive consequence. Is it possible that economic shutdowns, lost jobs, and incredulous federal spending are lofty reasons to pay high prices for stocks?

Similarly, the so-called "Buffett Indicator", or total stock market capitalization to GDP, is also flagging the market for overvaluation. At the beginning of 2020, the market/GDP ratio was 150%. It now stands at 190%. For some added color, it's worth remarking that the total stock market capitalization is about $40 trillion, while United States GDP is about $20 trillion. Since 1980, the stock market has been valued above U.S. GDP only twice: 2000 and 2007. In 2000, the market/GDP ratio was 143%, while in 2007 it was 106%. Both periods were followed by severe market declines. However, the current period of high valuation, low GDP has sustained itself since 2013, with seemingly no end in sight. For anyone who has been part of the ride, enjoy it while it lasts. For others, the rationale appears irrational; therefore, I will offer a few (probably moot) points about what could cause a market decline this year. But first, I will reiterate a quote from Warren Buffett, circa 1963. His words concerning inflated markets bear repeating:

> *"Conscious, perhaps overly conscious, of inflation, many people now feel that they are behaving in a conservative manner by buying blue chip securities almost regardless of price-earnings ratios, dividend yields, etc. […] I feel this course of action is fraught with danger. There is nothing at all conservative, in my opinion, about speculating as to just how high a multiplier a greedy and capricious public will put on earnings." - Warren Buffett, 1963.*

Accordingly, I will extract a few ideas regarding the economy that might put a damper on stock prices. The first is inflation. I find it curious that the national federal debt increased from $23 trillion to $27 trillion in 2020, yet, the U.S. dollar has stayed relatively strong. At the same time, the money supply has risen 23% since March, to $19 trillion. You might think that both (1) the U.S. Treasury borrowing $4 trillion for stimulus and (2) the Federal Reserve injecting $3.6 trillion into the money supply would have the effect of lowering the buying power of your dollar, but we haven't seen that unintended result - yet.

Furthermore, rising inflation - or at least the perception of it on the part of investors - can result in exorbitant equity prices. One example might be the price of Tesla shares, which have shown no signs of backing down after making Elon Musk the richest person in the world. What kind of returns are investors expecting when they purchase TSLA at such levels? More on that later. For now, it seems like greedy investors are embracing the "course of action fraught with danger" Buffett was describing over 60 years ago.

The second idea that might curb your enthusiasm is a rising interest rate. In response to higher inflation, prices should correspondingly increase - we can see that already occurring in commodities. In the past year, soybeans are up 53%, wheat is up 15%, palm oil is up 39%, orange juice is up 20%, lumber is up 47%, cotton is up 19%, corn is up 19%, beef is up 14%, the list goes on (milk, sugar, coffee, and pork are about the same, so feel free to grab a latte with a side of spare ribs). While some of the commodity prices may be lower along a 5-or-10-year time frame, the associative property with federal spending & printed money remains concerning. Should inflation take hold, banks will begin to adjust interest rates to account for the real loss in dollars due to price hikes. Higher interest rates can most definitely send equity investors to the exits.

From the stock picker's perspective, the short end of the story is that inflation sends equity prices even higher, because there's no where else to put hard-earned dollars. The curse of inflation even makes hiding money under the mattress a losing proposition. At the same time, the long-term narrative could end with higher interest rates, even if the Federal Reserve leaves the target rate (currently 0.9%) the way it is. The recent upward move in the 10-Year Treasury Note seems to corroborate. Higher inflation, and in turn higher interest rates, at a time when companies across the country were hit with shutdowns and lost revenues, could put equity markets in a pinch.

The Road Not Taken. The best part of the above discussion is that I get to tell you our primary research focuses on individual companies, not speculative macroeconomic prognosticating. No doubt that some readers are fond of general market perceptions, while others prefer the nuts and bolts behind individual security analysis. This section pertains to the latter.

In my last letter, I presented the foolishness that follows from ignoring Amazon, and why I continue to run away from AMZN shares - it will probably still be a fool's errand. In that vein, I offer Tesla Motors, a company whose share price appreciation quickly made Elon Musk the richest man in the world. TSLA's stock rose 700% last year, much better than the measly 128% of MountainWorks, LLC. Once again, I'm left with no other recompense than to wear the dunce cap. I could've bought TSLA when I first examined the company two years ago.

Tesla's growth in earnings before interest, taxes, depreciation & amortization ("EBITDA") has been remarkable. Since 2016, it has ballooned from $400 million to an estimated $3.9 billion in 2020. It's been compounding at over 75% per year: unimaginable returns that can't be ignored. But you'd have to ask yourself, "*If I buy Tesla now, will it continue to grow at 75% per year for the next five years?* Well, if it did, then Tesla would be generating $64 billion dollars in EBITDA per year. For comparison,

that would put them on par with Apple, a company that turned in about $78 billion last year. At the same time, one of our top positions - Netflix - has grown at about 32% per year. So it sounds pretty simple right? Put the best technology company in history together with one of the fastest growing companies on the planet, and you get Tesla. Sounds like a plan.

If only it were so easy…

There are a couple of caveats. Consider first that Tesla trades around $800/share. If I take the $64 billion in EBITDA I'm expecting down the road, discount it back to the present day, and tack on a 15x Enterprise Value/EBITDA ("EV/EBITDA") multiple, growing at 75% for the next five years, I get a price of $3,500 per share. But that's a bit outrageous, considering TSLA would be worth $16 trillion, almost as much as the entire United States. Instead, if I backtrack away from 75% growth, you might ask, *"what growth rate would TSLA need to be worth $800 today?"* The answer: about 50%. Considering that the best growth story in the past decade (Netflix) has grown at 32%, I don't like my chances with Tesla. For the time being, I'll pass. But who knows, by this time next year I'll likely be stuck with the dunce cap yet again.

The second caveat presents an extraordinary set of circumstances that only a true Tesla believer would build a valuation on. Tesla derives a certain amount of its profits from "Zero Emission Vehicle" credits. In California (among other states) car companies must obtain a certain amount of regulatory credits in order to comply with state environmental laws. If BMW, for example, sells too many gas-powered cars that pollute California's air, then in order to obtain regulatory clearance, they purchase ZEV credits from another company. That's where Tesla comes in. Furthermore, through three quarters of 2020, Tesla sold over $1.1 billion in regulatory credits. Being a relatively inexpensive process, the credits flow straight to the bottom line, to Tesla's $566 million in year-to-date profits. Put another way, without the $1.1 billion in regulatory credits, Tesla wouldn't be a profitable company.

But wait, the story gets better. Tesla made headlines at the end of 2020, because the company joined the S&P 500. It is the fifth largest component at 1.7% of the index. But if it weren't for the regulatory credits, TSLA would have never gotten the S&P pomp & circumstance. That is, in order for a company to join the S&P, it must report four consecutive quarters of profit; the only way Tesla managed a profit was from selling California environmental credits. In conclusion, one of the largest companies on earth made its way into the S&P via environmental protection regulations - go figure.

On the opposite end of the spectrum, if you would like the best bull case for Tesla I've ever read, consider Worm Capital's 2019 fourth quarter letter. Even though I have shied away from TSLA, others have not, and they are reaping the benefits.

"Hit 'em where they ain't!" -Willie Keeler, Baseball Hall of Famer

Our Current Philosophy. But I digress. The discussion above represents a small look into how I sometimes puzzle over obstacles that lie in wait. In the mean time, you might wonder why I devote so

much of an annual letter toward a company that we have absolutely no investment in. It is for a simple reason: sometimes the best move means not moving at all. We're trying to hit 'em where they ain't, which keeps me away from high fliers like Tesla & Amazon, and leaning more toward Camping World, Netflix, Ulta Beauty, DXC Technology, and BGC Partners.

I would be remiss if I didn't mention the amazing job that Marcus Lemonis (Camping World), Reed Hastings (Netflix), Mike Salvino (DXC Technology), Mary Dillon (Ulta Beauty), & Howard Lutnick (BGC Partners) continue to do for their companies, and in turn for MountainWorks. We are but a small fish in a big pond, yet I view these companies as *our* businesses too. We look for strong & effective management (and being unconventional is a plus) that matches the eccentricity behind MountainWorks LLC. Our future lies in their hands.

Conclusion. If I were to tie up this letter in a bow, I will once again emphasize that we are different. We are not a typical mutual fund, ETF, or hedge fund of any sort. We're eccentric business owners, with concentrated investments, a loosely coupled complex system, and conservative thinking. I will also mention that our achievements thus far would not be possible without the Members who have faithfully devoted their hard-earned dollars to the cause that is MountainWorks. I thank you for your continued support; you have my gratitude and appreciation. To all readers: I hope that my discourse helps you as much as it enlightens me. If you would like to discuss anything, please don't hesitate to reach out: Justin@mountainworksllc.com.

Yours,

Justin Polce
Managing Member

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