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2020 Return	July	August	September	Q3	Annual Return	Return Since Inception
MountainWorks	5.6%	0.9%	4.3%	11.0%	109.7%	111.3%
S&P 500				8.4%	7.0%	92.4%

Dear Member,

In the third quarter of 2020, MountainWorks gained 11% of its value, versus an 8.4% gain for the S&P 500, dividends reinvested (according to DQYDJ). Since inception (February 2016), the Fund has gained 111.3% against a 92.4% return from the S&P 500. Our loosely coupled complex system has continued to flourish in a market that seems constantly uncertain. The performance we have achieved is the result of processes built within the system that is MountainWorks LLC. Since losing over half of the Fund only two years ago, I am pleased that members have good outcomes to enjoy. Nowadays, it feels like the only certainty in the markets is a perpetual uncertainty, and it makes sticking to hard research a little bit tougher. Conservatism, then, has been our ally when it comes to valuation, even though it makes me shy away from ever-popular technology stocks. More on that later. For now, we continue our discussion of the general stock market, and then move on to some philosophy on conservatism.

> *"You will not be right simply because a large number of people momentarily agree with you. You will not be right simply because important people agree with you. In many quarters the simultaneous occurrence of the two above factors is enough to make a course of action meet the test of conservatism." - Warren Buffett, 1963.*

General Stock Market Performance. Since our last annual letter, I've been on a "valuation kick" that includes two 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. Just before the Coronavirus pandemic hit, it was at 26. After coming back full force, it now stands at 31.5 - exactly the same level as in January, as if the virus never struck.

The Market Capitalization/GDP ratio has reached new heights. At the beginning of the year it was 150%. Just before the pandemic hit, it was 127%. Right now, stocks trade at an astounding 184.5% of Gross Domestic Product. Let us step back for a moment and put things into perspective. Consider for a moment your family, friends, and community. Are there any readers out there who can look around at their situation and think, "*we're better off now than we were a year ago*"? I know that I can't. On a personal note, the Bonefish Grill I have worked at for a year and a half (in addition to investment research and my normal teaching duties) closed down just last month, out of the blue. The landowners refused to budge on the rent, and so with no lease agreement in sight corporate Bonefish closed the restaurant with a snap of the fingers. They didn't tell management until the day before, they didn't breathe a word to the public, and in one fell swoop laid off 30 workers. Even after seven months of shutdown, the pandemic still rears its ugly head, and it cost me my job. That is how the pandemic has affected me, and yet somehow the stock market is telling us things are better than ever. It's strange to think about, and ominous for the future.

The Road Not Taken. No doubt that I have a contrarian view of the markets - I do believe it's overvalued. Yet, whenever some talking head (I impulsively lump myself in with that crowd) claims to have a contrarian view, the first question you'd have to ask is, "What if your view is the new normal?" In other words, even though the market is historically overvalued, what if it perpetually stays like that? Then I'd be perpetually wrong in my analysis, and I'd miss out on some tremendous stock market gains. Anyone who stayed on the sidelines throughout the pandemic is singing that exact sad tune right now ("we lost 5%, but the S&P is even, so we feel good"). It's important to take any macro-economic perspective with a grain of salt. But the story goes on, and the buying continues; stock market valuations are flying high.

> *"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.*

That brings me to the road I haven't taken, specifically related to Amazon. Those of you who follow my work closely know that not much has changed in the portfolio (Camping World & Netflix are still our two largest positions/winners), and so I thought it might be prudent to explain why I *haven't* invested in one of the greatest companies of our time. Let me be clear: I've been a fool not to. AMZN shares are up almost 500% since I started the Fund. Collectively, we are up a measly 111%. In hindsight, I would've been better off plowing my money into Jeff Bezos & Co. and letting it sit there. Where did I go wrong?

I'm going to get a bit technical here, but bear with me. Since 2011 (when I started collecting data on Amazon), AMZN's earnings before interest, taxes, depreciation & amortization ("EBITDA") has grown at 43.5% per year, and is currently $37 billion per year. The growth is astounding, but you'd have to ask yourself, *if I buy AMZN now, will it continue to grow at 43% per year for the next nine years?* Well if it did, then AMZN's EBITDA would be $1.38 *trillion* dollars per year. If you tack on a high Enterprise Value/EBITDA ("EV/EBITDA") multiple of 15x, then AMZN at today's prices should be trading at about $10,000 per share. That sounds like a great deal, considering it trades at $3,363 per share. If I buy it now, I expect it to rise to $10,000 per share in approximately ten years, and the company should for all intents and purposes be earning over $1 trillion. That's a 12.9% return on investment per year…not too bad, considering the S&P historically earns about 10%. When you see financial analysts announce AMZN price targets in the news, generally that's what they are counting on.

But what happens if they *don't grow at 43.5% per year*? Luckily, I've got some flexibility built into the process, and I can crunch a few numbers at a fast pace. Let's change the growth in EBITDA from 43.5% to 30% & 20% per year, respectively. If AMZN grows at 30% for the next 10 years, then in my eyes it'd be worth $3,800/share (only a 1.3% return on investment per year). If it grows at a 20% clip, then AMZN should be trading at $1,727/share…a near 50% loss on investment! In other words, I see a possibility in which Amazon grows by 20% annually, but the stock price declines over time.

Naturally, how quickly Amazon grows its EBITDA is a key factor here. What's more, you'd have to take into account just how much their revenues and income have grown, not just EBITDA. That could change the growth rates very quickly, and it's one of the big reasons why Charlie Munger refers to EBITDA as "bullshit earnings". Spoiler alert: He's never owned Amazon shares. The bottom line is, can you have faith that Amazon will grow at over 40% per year? I'm with Charlie, so I guess that answers the question.

> *"You will be right, over the course of many transactions, if your hypotheses are correct, your facts are correct, and your reasoning is correct. True conservatism is only possible through knowledge and reason."*
> *- Warren Buffett, 1963.*

Our Current Philosophy. Our current philosophy is based on the idea of conservatism, and built around a loosely coupled, complex system. The discussion above represents a small glimpse into that system, and I think it very worthwhile to consider stocks that I don't own, in addition to the ones we do.

Speaking of ownership, our faith and assets lie in the hands of tremendous owners & managers. I thank them for their continued devotion and hard work. Marcus Lemonis (Camping World), Reed Hastings (Netflix), Mike Salvino (DXC Technology), Mary Dillon (Ulta Beauty), & Howard Lutnick (BGC Partners) are all valuable partners to us, even if we don't converse with them on a regular basis. These companies are *our* businesses too, and we look for strong, effective management (if not unconventional) that matches the eccentricity behind MountainWorks LLC.

While this letter doesn't go into much depth regarding our positions, please know that we are moving full steam ahead. We've got another quarter of earnings coming for all of our businesses, and pretty soon I'll be rolling up my sleeves and diving into research, conference calls, and business correspondence. So if I were to tie this letter up in a bow, I want to again emphasize that we are different. We're not a typical mutual fund, ETF, or hedge fund of any sort. We're eccentric business owners, with concentrated investments, and conservative thinking.

Conclusion. Finally, I want to mention that our achievements would not be possible without the Members who have faithfully devoted their hard-earned dollars to the cause that is MountainWorks. I give you my utmost gratitude and appreciation. To those Members: the Fund is still open for investment, and you may contribute at any time. To future Members: The Fund is open for membership, please contact me at any time if you are interested. To all readers: I hope that my discourse helps you as much as it enlightens me. We like to keep it interesting - so please don't hesitate to visit our "under construction" website, www.mountainworksllc.com, or contact me at Justin@mountainworksllc.com. I hope everyone is doing well, and I look forward to hearing from you.

Yours,

Justin Polce
Managing Member

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