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Dear Member,

2021 Return	July	August	September	Q3	Annual Return	Return Since Inception
MountainWorks	-2.9%	5.7%	-7.0%	-4.5%	5.7%	142.7%
S&P 500				5.2%	18.2%	158.9%

In the third quarter of 2021, MountainWorks lost 4.5%, versus a 5.2% gain for the S&P 500, dividends reinvested (according to DQYDJ). Since inception (February 2016), the Fund has gained 142.7% against 158.9% for the S&P 500. Both the first quarter and third quarter of the year have been underwhelming…partly because of a bad September for the general market, and partly because we are invested in volatile (dare I say risky) securities. As always, I encourage readers to take quarterly percent changes with a grain of salt. Over the long term, we're on the right track.

Yet in the course of unusual digressions, it's all too easy for someone to say, "I know what I'm doing", when the future hasn't happened yet. And by saying we're on the right track despite losing ground in our investments, I have thrown caution to the wind. I just told you that MountainWorks is invested in volatile *and risky* companies. As a reader, be especially skeptical. Risk is a concept easily understood, yet hard to define. For example, when you make a $25 bet in blackjack, your risk is the money on the table. That's easy to see; one bet, win $25, or lose $25. But what if you lose the bet, and decide to put another $25 down to try and break even? Is your risk the $25 on the table in front of you, or the $50 you've got in the pot? How many more bets will you make? You see, in just a small casino example, I've managed to convolute the situation: the risk varies. It could be a single wager, or it could be the total amount of money in your bank account. People can act very irrationally when given the opportunity to break even.[1]

General Stock Market Performance. From an investment perspective, I tell people I only invest the amount I'm willing to lose. Of course, we know that historically the stock market has returned on average 10% per year for the past hundred years. So really, if you invest in stocks, you don't *expect* to lose 100% of your money. And that allows you to rationalize putting more on the table. Buy more stock, even when the market is at all-time highs (the total Market Cap to GDP ratio is over 200%). It's

[1] The *break-even effect* has so much impact on our thinking that the concept is part of behavioral economics. See Richard Thaler's work *Misbehaving* for a deeper look.

tempting to buy stock when it seems like everyone else is making money except for you. Television pundits even have a term for such behavior: when the Dow, S&P, and Nasdaq go green, they quip that investors are "risk-on". When the market sells off, people are "risk-off". As the market trades at a P/E Ratio of 37 – the highest since the dot-com bubble – ask yourself, "are you risk-on or risk-off"?

In my mind, the very idea that risk changes with the market seems dangerous. Is it possible for an investor's risk appetite to change because the Dow is up 500 points? What about the company you're invested in has actually changed? In the casino metaphor, you've only got one bet on the table. Does your risk shift based on the cards you get? To me, risk is easily understood, but rarely defined. In fact, it has taken me nearly two decades of investing to figure out two ideas: first, people are more risk-averse for gains, yet risk-seeking for losses[2]. Amazingly, our psyche tells us to sell when the getting's good and double down when we should be heading for the exit. Second, life tends to snap you at your weakest link.[3] On top of the bad decisions we make, we also suffer from overconfidence when making poor choices.

> *"[So] it isn't the strongest link you're looking for among individuals in the room. It isn't even the average strength in the chain. It's the weakest link that causes the problem […] When I look at our managers, I'm not trying to look at the guy who wakes up at night and says 'E=MC²' or something. I am looking for the people that function very, very well. And that means not having any weak links."* -*Warren Buffett, 1991*

We are invested in volatile stocks. To a certain extent, I am drawn to them on purpose. There is a specific dichotomy between securities risk and business risk that I am looking for. Camping World Holdings, to take past history as an example, represents a security that has oscillated rather wildly. Last year, the stock traded at a low of $6.00/share to a high of $36.00/share. Although the moves occurred during the pandemic, was there any reason to suspect that CWH should be valued six times higher in the course of 12 months? The core business really didn't change.[4] Strictly based off CWH prices, it is clear that the market mismatched Camping World Holdings with its proper share value, and did so for several years.

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[2] Dr. Richard Thaler describes this phenomenon as *loss aversion* in his book *Misbehaving*. It is a key predicament that one should always be on the lookout for. In general, losses hurt about twice as much as gains. Logically, people want to break even if they lose money, so they double down. It makes perfect sense that when the stock market is rolling on highs, it feels like everyone is buying in, whereas in a market downturn, everyone heads for the exit at the same time. The old saying holds true: the stock market takes the stairs up, and the elevator down.

[3] It's a small, yet powerful quote from Warren Buffett. Interestingly, it comes from a 1991 appearance at Notre Dame, in which he was referring to Donald Trump's impending Taj Mahal bankruptcy. Many people have failed, he states, because of two things: liquor and leverage…leverage being borrowed money. In the case of Trump, he was far too leveraged with borrowed money.

[4] For a more thorough look into Camping World, see the 2021 Q2 letter.

To say it plainly, company risk differs from market risk. That said, I consider it my job to find such mismatches. There was securities risk in CWH shares, but not necessarily business risk. Sure, there was a period of uncertainty in which management made bad investments (purchasing defunct-Gander Mountain, for example), and the share price reflected that uncertainty. Yet over the long-term, I believed the company would succeed. Being right in the stock market is always a function of time, but so far Camping World has performed well. How, then, does one find stocks that carry securities risk, but not business risk?

FuboTV. Let's motivate with an example. Consider FuboTV. FUBO went public back in October 2020, and is a streaming service with a focus on sports. Because of the youth, there are several issues with this company. (1) There's no historical data, (2) the company generates a comparatively small $500 million in revenues given its $4 billion market cap, and (3) the business operates at a loss. Indeed, there is company risk for such a fledgling business. Moreover, consider the fact that less than 50% of private businesses survive the first five years in existence (46.9% to be exact), and Fubo is currently in its second year (the company was founded in 2015, yet only went public recently). It is a start-up company, with big competitors, small revenues, and increasing losses.

Financials for Fubo only date back to 2020. Prior to that, the annual reports show a mashing of media companies, including a technology business claiming to generate "digital humans" for augmented reality & entertainment. That said, in 2020 Fubo generated $217 million in revenues. This year, they are on track for $565 million: a 160% growth rate. It's a good sign, but being in the growth stage means management needs to spend a lot of money. Just in the past quarter they chalked up $211.9 million in expenses, leaving them with -$81 million in operating income. That's a negative 62% margin. While -62% is an improvement from -160% the year prior, FUBO is still losing money. Eventually, the company must continue to improve margins until they become profitable; for now, the company appears risky despite fantastic revenue growth.

The so-called "path to profitability" is a popular phrase when companies are losing money. To alleviate some of the company risk, one would have to project profitability for the future. But forecasting Fubo's subscribers, margins, and revenues 10 years down the road is no easy task. I concede that the financial analysis will have to be reserved for another time. As far as explaining the company risks, I'm left with the qualitative argument for Fubo as a viable investment.

This I must say candidly: CEO David Gandler and the rest of management have done an extraordinary job guiding Fubo toward growth & profitability. In nearly two decades of investing, I have never seen an executive team follow through on different parts of the business while achieving selfmotivated goals & timelines. Believe me, I have seen my share of failed growth start-ups (and lost money along the way). But Fubo may very well be a different story. We have a company that is attempting to capture streaming TV and combine it with online wagering & advertising. This is a cord-cutting Comcast, a DraftKings synced to your TV, and an advertising Interpublic Group rolled into one. The prospects make for an interesting discussion.

First, the streaming opportunity presents a way for consumers to "cut the cord" from cable, but still enjoy a linear lineup of television. Right now, nearly every content company is looking to create its own streaming service – from Peacock to Paramount+ to Disney+ and Discovery+ – with the goal of meeting the consumer online. The problem with businesses separating streaming to piecemeal is that the customer is left to choose which streaming service will be added to the monthly bill (in addition to the Netflix payment, which let's be honest, never goes away). Eventually, it gets confusing and demanding on the consumer. Fubo presents a solution to a la carte streaming, and provides all-in-one programming tailored to the consumer's individual preferences. Sure, Roku is a competitor, but the Roku stick only goes so far, and mainly serves as a gateway to other streaming services (like Fubo).

Second, Fubo is making its way into the sportsbook business. In fact, management has already announced betting capabilities in Iowa, with Arizona, New Jersey, and Pennsylvania coming soon. The Fubo Sportsbook App can be downloaded to your phone or device, and then synced with your television that is streaming Fubo sports. For example, suppose that while watching television, you decide to change the channel to the football game. If you have the Fubo Sportsbook App open on your device, then your App will automatically sync to the live odds & bets of the football game. You can watch play by play on TV, and see live odds second by second. Indeed, Fubo's sportsbook app is a novel technology that makes watching the game more interactive.

Third, with the company's push into sports & gaming comes favorable advertising sales. Recently, management has signed partnerships to be the official sportsbook for the New York Jets, Cleveland Cavaliers, and NASCAR. Furthermore, Fubo is the exclusive streaming provider for CONMEBOL, the South American World Cup qualifying matches – keep in mind that the World Cup is next year in Qatar. The FuboTV app will also be installed directly on LG televisions, so that consumers don't need a third-party connection like Amazon Fire stick or Roku stick to stream. All of this branding is helpful, and adds to the company's advertising revenue stream. With a growing subscriber base, businesses will choose to advertise with Fubo to reach consumers more directly.

Understand that each of these factors – advertising, sportsbook betting, and cutting the cord – are all qualitative elements that in theory would translate to more subscribers, higher margins on the business, and more streaming market share. However, with Fubo being such a young company, one can expect near-term losses, lumpy quarters, and a volatile stock price. Similarly, management may have to tap into capital markets to raise more money through corporate debt sales or stock offerings, each of which would dilute an investor's current position. The question remains: is there market risk with Fubo, or is the business itself on thin ice? Is there a mismatch in risk that can be exploited?

These answers take time, and admittedly, require more analysis than one quarterly letter. But nevertheless, I write to you with the goal of sharing ideas and sparking the conversational fire, as FUBO is currently our second largest position. This company has yet to fully blossom, and so far, CEO David Gandler et. al. have done an amazing job fostering growth, developing the brand, and building the business prospects. It's worth mentioning again…I've seen my share of ups & downs in investing. I've seen managers boast of grand revenues and future profits, only to fail and capitulate in less than a year. Curiously enough, I haven't quite seen a management team execute as efficiently, working as a brand new company, on so many facets of the business at once – until now.

Conclusion. I would be remiss if I didn't compliment the other managers behind our investments. I am thankful to Marcus Lemonis (Camping World), Reed Hastings (Netflix), Howard Lutnick (BGC Partners), and David Kimbell (Ulta Beauty) for their hard work. There is no question that along with the meteoric rise of the stock market, we are operating in an unusual time, where inflation knocks at our door and American debt is exploding. There are supply chain challenges that can reverberate across the economy. The future is as unpredictable as ever, yet the managers behind our investments have done very well navigating the murky waters. Our achievements are only possible through their successes.

To faithful readers: I thank you for your time & attention. There are many risks to take in life, and I consider it my own life's work to see that MountainWorks *isn't* one of them. Good luck as the year comes to a close. 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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