



July 15th, 2022

2022 Return	April	May	June	Q2	Annual Return	Return Since Inception
Mountainworks	-4.7%	-23.5%	-19.0%	-40.9%	-50.1%	0.6%
S&P 500				-12.9%	-17.9%	124.4%

Dear Member,

In the second quarter of 2022, Mountainworks lost 40.9% of its value, versus a 12.9% loss for the S&P 500, dividends reinvested (according to [DQYDJ](#)). Since inception (February 2016), the Fund has gained 0.6% against a 124.4% clip for the S&P 500. My setbacks have unfortunately continued into the second quarter. Upon reflection, I’ve been ill-prepared to handle a rising-interest rate environment, and the consequences have been dire. Most importantly, Members should not have to endure losses and volatility greater than the prevailing market. In order to avoid such outcomes, I’m forced to rethink my approach yet again. Last quarter, I remarked that “growth over value” began to creep into my mind, and while it worked for several years leading up to 2022, the “chink in the armor” caused my downfall. Combined with 20%+ returns that practically *everyone* saw in 2021, it was a recipe for disaster. This time around, the shroud of event driven investing blinded me from what eventually became the “break-even effect”¹. Greed, as it were, has many shapes & forms.

On the other hand, adversity has a strange way of presenting opportunity – as long as you have extraordinary focus on long-term goals. That said, the work continues, and we will move forward. In some ways it is a time for reflection; a time for the portfolio to recover. Trouble is, I know time is our most valuable commodity, and patience grows thin. That’s what makes this job so difficult: there are times when I literally can’t afford to make mistakes. Unfortunately, it will take time for the portfolio to recover, and I must ask members for patience. As we move forward, know this: our performance is all on me. The lackluster year thus far is completely my doing. Do not expect me to blame “the market” for our calamity. The fault is mine.

General Stock Market Performance. The [Total Market Cap to GDP](#) ratio currently stands at 157%, whereas last quarter it was 183% and in late 2021 it stood at 206%. Considering 100% is a “normal” expectation – the last time GDP and total stock market value were in parody was 2013 – it is very possible that there are more losses to come. The market [P/E ratio](#) is 28.7; last quarter it was 34.6,

¹ A behavioral economics phenomenon in which normally risk-averse people who face losses will try to double down to get back to even. In simpler terms, Gambler’s Fallacy.



and at the end of 2021 it was 39. Again, there is still cause for concern, and two ways the market p/e ratio could drop: falling prices or shrinking earnings. Be wary of both.

Inflation has proved pesky, just as it did 40 years ago, and my sense is that it will not go away any time soon. Like a rising tide, it sinks all ships. In a rising interest rate environment, it is difficult to find the proper investment. As mentioned previously, high growth/high valuation stocks are not the answer. Cryptocurrencies like Bitcoin and Ethereum have failed to be so-called inflation hedges. There has been a global bond rout sending yields higher and prices lower. Higher mortgage rates will send housing prices lower, squeezing any opportunity from the real estate market. Even gold has fallen 5% since the start of the year. Some investors have leaned toward special situations – mergers, acquisitions, buyout offers, etc. – but even these spreads have blown wide open. Should the credit markets start to tighten, liquidity will dry up, along with any risk arbitrage strategy still hanging on. Everything could come crashing down.

Portfolio Reflections. One thing I've come to realize over the past six months is that reaching past my circle of competence is a risky proposition. That was exactly what happened with FuboTV (FUBO) and Bally's Corporation (BALY). I've made critical mistakes in each of these securities, causing me to again change the paradigm of my process. In the case of Fubo, I was investing in a high growth/over-valued business...as soon as the growth left, the stock crashed from \$35 down to \$2. While I sold to cut losses, the damage had already been done.

With Bally's I was besieged by a buyout offer the company received from its largest shareholder. It was an investment in a special situation/over-valued business. While the \$38/share offer presented an opportunity, the Bally's Board dragged their feet, turned down the deal, and shares dropped to \$20. With the damage done, it was a realization that despite hours of work building a thesis around Bally's, the net result was out of my hands. I was making a bet that management would call a square deal; they didn't, and I was left holding the bag.

Unfortunately, the next steps for the Fund will be about recovery, which will take time. I have always been grateful for the support of Members who put their valuable capital in my hands; yet, I must now ask too much of you. I ask for your most valuable commodity: time. I ask for time & patience while the Fund recovers. One day, there will be a time when Mountainworks will take off, and we will be fervent in our devotion and steadfast in the face of challenges. Until that time, we have to wait for the dust to settle.

"In the abstract, life is a mixture of chance and choice. Chance can be thought of as the cards you are dealt in life. Choice is how you play them." -Edward Thorp



Conclusion. Life is indeed a mixture of chance and choice, and I have to come to terms with the choices I've made. But even worse, Members have to deal with the calamity that I have created: that is the hardest part of my work. When it goes wrong, others suffer. That hurts, and that's what I need to prevent.

Remember two things. First, the vast majority of my own capital is in the Fund, and so I am in the hole just as much as anyone else. Second, for those who have grit, adversity has a strange way of paving the road to achievement.

I hope so, and at this point I'm willing to concede that there is no luck involved in Mountainworks. We will succeed strictly through focus and motivation. This is my life's work, and we remain on a course to find favorable bets using a loosely coupled complex system.

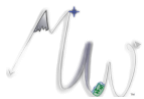
Thank you for your time & attention. If you would like to discuss anything, please don't hesitate to reach out: Justin@mountainworksllc.com.

Yours,

A handwritten signature in black ink that reads "Justin Polce". The signature is written in a cursive, flowing style.

Justin Polce

Managing Member



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