



October 15th, 2022

| 2022 Return | July | August | September | Q3 | Annual Return | Return Since Inception |
|---------------|------|--------|-----------|-------|---------------|------------------------|
| Mountainworks | 6.7% | -5.3% | -1.1% | 0.0% | -50.1% | 0.5% |
| S&P 500 | | | | -5.3% | -18.8% | 116.3% |

Dear Member,

In the third quarter of 2022, Mountainworks was flat, versus a 5.3% drop for the S&P 500, dividends reinvested (according to [DQYDJ](#)). Since inception (February 2016), the Fund has gained 0.5% against a 116.3% clip for the S&P 500. For about a year now, the market has experienced tumultuous moves to the downside, and unfortunately, I have been unable to deflect the blows. In an ideal world, our strategies would pay off in the form of mild performance during market downturns; that is, if the S&P was down 10%, the Fund would be down only 5 or 6%. Of course, I have discovered through raw experience that the world is not ideal. This is now the second time in the almost seven years of Mountainworks' existence that I have lost 50%. I have to perform better. But more than that, Members should not have to endure extraordinary losses & volatility that go against the very nature what I set out to do back in 2015.

I have found myself wondering about the "very nature" of human minds and why we can be so blinded by envy & greed. Suppose that I told you I have one goal: I don't want to worry about money anymore. I want enough success and profitability that money is no longer a worry. Watching & listening to so many investing greats out there, it seems to me that money is no issue for them. They live their lives in relative calm, knowing that despite any precipitous drops in the market, they'll still have enough money to live comfortably.

It seems worthwhile and not overwhelming. I don't want billions of dollars, just enough to make things easy. I want to accrue wealth in order to push money woes aside. Don't you agree?

Portfolio Reflections. Setting a long term goal is vital to the hierarchy of success.¹ Given the importance of being gritty to achieve your goal, it is a tautology that your goal must be worth achieving. Yet while we can set admirable goals like "I want to be wealthy", we have to be able to admit whether or not some sort of appalling sin lies beneath the veneer. Furthermore, I'd argue that

¹ In my own crude way, I'm referring to Angela Duckworth's *Grit*, which details the importance of goal hierarchies when it comes to success. You can set a long term goal, but the void of "how do I get there?" must be filled with intermediate and immediate goals over the medium and short term.



an intense amount of introspection is required to recognize such vices. Greed, as it were, has many shades. An honest man working in the investment business? No such thing.²

Why is it that wanting wealth implies a nasty desire for greed & gluttony? I've remarked in the past that reaching outside my circle of competence creates dangerous investing. Much of my downfall in the past year was the result of such investments. If the risk was so high and the fall so far, why make those investments in the first place? The answer would have to be greed. I was reaching for yield; reaching for returns in 2021 when the market was completely irrational. Free money, stimulus, and zero interest rates were the fuel, and greed was the spark that set the fire. I'm sure there are many investors out there who shared the same fate.

"...it turns out that a morally weak man acts under the influence of some kind of reasoning and opinion, an opinion which is not intrinsically but only incidentally opposed to right reason; for it is not opinion but appetite that is opposed to right reason." -Aristotle, Nichomachean Ethics, Book Seven

It's not necessarily the goal of being wealthy that causes a downfall, but rather the method in which the goal is implemented. The point that I am working towards is this: while the goal is "generate wealth", that goal could be achieved in many different ways, some of which include greed & gluttony. If one has too much of an appetite for yield, and watches in envy as the bitcoin & Tesla speculators get rich, then emotions take over and it's only a matter of time before defeat come knocking on the door.

The reasoning behind a desire for wealth is not intrinsically opposed to righteousness, because we all work for some relative level of success, but it is incidentally emotional and made easily pernicious.

One way to overcome the inception of deadly sin is to backtrack your goals to everyday application. It's easy to set high-level goals like "I want to be wealthy", but much harder to translate that long-term goal into short-term objectives. For example, if you want to invest money and save to generate wealth, why on earth would you spend \$6 on a latte from Starbucks? How does that help you? What else are you spending money on daily that cuts into your potential savings? It's the little things, and it's surprising how many times we let our long-term goals slip away for the sake of short-term satisfaction. That is the crux of investing in an opportunity that may seem like good growth, but in the long run has horrible value (i.e., FuboTV). That is the appetite that Aristotle tells us we should avoid.

²It may be a callous remark; however, I can recite a few examples of greed in investing without much thought. Social Capital's SPAC [craze](#), Ryan Cohen's "meme" trading in GameStop and [Bed Bath & Beyond](#), and Melvin Capital's [collapse](#)



“...And the odd thing about it is that people were kind of born deferred gratifiers or not. They’ve done recent psychological work on that subject. Lots of luck if you’re an impulsive person that has to be gratified immediately, you’re probably not going to have a very good life and we can’t fix you. But if you have a slight tendency to defer gratification, and you can feed that tendency, you’re on the way to prosperity and happiness. It’s that demand for immediate gratification that’s the way to ruin. It may also give you syphilis.” -Charlie Munger, [2020 Daily Journal Annual Meeting](#)

What has changed within Mountainworks, outside of my own mental digressions, has been the discovery process. Of course, there are tangible changes we have implemented: Members will have more details regarding our process and the portfolio.

Over time, I have discovered that most of my errors in life are the result of overwhelming emotion (which is difficult, considering I’m not very emotional to begin with), and the solutions to those problems are much more tangible than they are mental. For now, know that we are working further towards deferred gratification in order to generate wealth. It sounds like an odd thing to say, but in the end, I’m attempting to set long term goals, then find short term ways to get better each and every day.

General Stock Market Performance. The [Total Market Cap to GDP](#) ratio currently stands at 141%, whereas last quarter it was 157% 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 27.5; last quarter it was 28.7, 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.

We are definitely treading through rough waters, and to be honest, I don’t know if we are towards the end or if we are in the eye of the storm. Moreover, there aren’t many places to hide. The yield curve inversion is the typical canary in the coal mine. With short term treasuries yielding 4.5%, and the 10-year at 4%, bond traders are betting the next two years are going to be tough. With the dollar index rising, keeping cash can seem like a profitable way forward.

There will soon come a time when stock prices drop enough to load up the truck, but not yet. For my part, I’m continuing the search for good growth & good value despite the overarching economic danger. I believe that there are undervalued businesses that will succeed even in the direst of circumstances, and are worth a long-term investment. Along the way, I hope to avoid any high-growth or overvalued pitfalls. When the time comes, we will be ready to pounce.



Conclusion. My gratitude goes out to Members, who have supported me through ups and downs, especially when I am asking for their patience in a difficult time for the Fund. Always remember two things. First, the vast majority of my own capital is in the Fund, and second, we have been in this position before, and I know the way out. We will continue to improve our process with tangible outcomes, and we will succeed with grit and focus. 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".

Justin Polce

Managing Member



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