Mountainworks, LLC
info@mountainworksllc.com

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2023 Return	January	February	March	Q1	Annual Return	Return Since Inception
Mountainworks	8.5%	-3.2%	-7.5%	-5.5%	-5.5%	25.9%
S&P 500				0.2%	0.2%	132.8%

Dear Member,

In the first quarter of 2023, Mountainworks lost 5.5% of its value, versus a 0.2% gain for the S&P 500 dividends reinvested (according to DQYDJ). Since inception (February 2016), the Fund has returned 25.9% against a 132.8% clip for the S&P 500. Stocks continue to bounce back from last year's October low, and many of the talking heads seem to think the market is extremely resilient. There's plenty of macroeconomic indicators that would make you think we're headed for disaster: inflation is pesky, the Fed forecasting rate increases, some of the banks are collapsing before our eyes, geopolitical tensions are on the rise…you name it. There's always something to worry about.

On the other hand, many smart folks know that the market is always forward-looking, and so any read on declining inflation would be an enormous positive. To a certain extent that has happened over the past few weeks. Pick whatever side you want, and you'll probably be right. The ability of human beings to rationalize is so strong that even the most ill-conceived conclusions could be made wholly trusted and correct. For better or worse, I'm stuck in a behavioral limbo in which the macro situation seems pernicious, but I am still underperforming the general market by a wide margin. Much of this quarter's underperformance is the result of Sportsman's Warehouse, which I will discuss in short order.

General Market Performance. For the time being, when faced with issues of cognitive dissonance I find it helpful to retrace my steps. One way to do that would be through viewing the Total Market Cap to GDP ratio and market P/E ratio. The former stands at 157%, almost exactly where it was a year ago (and the S&P is down about 5% over the past 12 months), while the latter stands at 29. Both are flagging an overvalued market, and the most uncomplicated decision I could make is to wait and assume some better entry points are coming. Perhaps this is a moment for self-control.

The willpower I am talking about is predicated on being not just smart, but also disciplined. Someone must have the foresight to calculate what a dollar will be worth 3-5 years down the road; in addition, one needs the mental fortitude to not spend that dollar away on a latte, as much as it might produce near-term joy. Charlie Munger said it best: deferred gratification is the name of the game.[1]

That game of intertemporal choice becomes a bit more complex when it comes to stocks. It's so easy to think that you're right when you first buy a stock, but the reality is that you'll be hard pressed to beat the S&P 500 over a long period of time.[2] Even still, some of the best investments have come not in the beginning, but after years and years of holding onto a good business.

Sportsman's Warehouse. In particular to our situation, Sportsman's Warehouse might be the perfect exemplar of the predicament between intertemporal choice and temptation. What a nice retail business management is building & growing, with no signs of stopping. The outdoor adventure seems to me to be a secular growth trend that exploded circa 2020. While the initial splash has since abated, the water circles continue to reverberate.

However, the most recent financials reported by management included a downtrodden forecast in which the business will operate at a loss in the first quarter. The stock responded with a 25% drop.

I might be tempted to throw in the towel on my investment thesis,[3] but it's a trick of the human spirit to assume the market is telling you concrete truth. Does one think it reasonable that a single financial report can crash 25% of the company's valuation? Has there been that much value destruction over a 3-6 month timeframe, on a business that has grown for the past 37 years?

As many of us have since experienced, the market price of a publicly traded business swings wildly, almost at the whims of algorithmic decision makers. I've always found it curious that many market participants believe so strongly in the concept of "efficient markets", yet one small piece of information could send a stock up or down by double digit percentage points.

In this case, I have to defer to Occam's Razor. The easiest explanation is that most people – or computers for that matter – aren't looking past this year when it comes to Sportsman's Warehouse

[1] At the 2020 Daily Journal Annual Meeting, Charlie Munger provided the following inspiration: "Well, it's obvious that deferred gratifiers do better over the long pull than these impulsive children that have to spend money on Rolex watches and other folly […] 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."

[2] I'm referring to Edward Thorp's take on index investing. His point is that passive index investing is much easier than active management, and with less transaction cost. Approximately 43% of all investing is passive. Sharpe's principle implies the remaining 57% who are active must also represent a "passive" fund in its own right. It follows that about half of the active investors beat the market, while the other half loses. So, if you're an active investor who has beaten the S&P, you're in the top 25% of all investors (not easy to do)!

[3] A more thorough discussion can be found here. It was a broken merger-arb with forced selling, the outdoor trend has continued beyond the pandemic, and it trades at a very attractive EV/EBITDA multiple. If you manage to extrapolate out approximately $180 million in 2025 EBITDA, a 5x multiple is going to translate to at least $20 per share (about 25% return per year under conservative assumptions).

guidance. It's almost as if "Mr. Market" is too busy worrying about macroeconomic devilry to look at a lowly outdoor retailer operating in a minute oligopoly.

Not giving into any temptations outside of my control, my own personal struggle is relegated to mental accounting and the intertemporal choice of owning SPWH. The recent price drop hurts my position, which means quite simply that as of now, I could've done a better job. $6.50 is a stellar entry point that, if I exercised some more patience and humility, I could've been in a better position to take advantage. Rather than giving in to pride, envy, and desire, it is always more favorable to exhibit humility, gratitude, and self-control.

> *"In like manner our moral nature is vitiated by any interference of our will. People represent virtue as a struggle, and take to themselves great airs upon their attainments, and the question is everywhere vexed when a noble nature is commended, whether the man is not better who strives with temptation." -Ralph Waldo Emerson, Spiritual Laws*

Indeed, the past is the past. In the present, my holding pattern continues. But it requires a bit more focus on self-control. If I need to lean in on words of wisdom from the greats, so be it. Even though SPWH prices have dropped, those shares are still more valuable to me in the next 1-3 years than owning another business. It's true that I've missed out on other opportunities (more recently, owning an "AI" stock), but exercising self-control is a multipronged task that includes *not* going with the crowd. I may have a strong desire to beat the S&P 500, which is why that remains the main goal of Mountainworks, but there are times when it takes willpower to maintain my investing discipline.

Conclusion. Giving in to a desire to beat the market can lead to unintended consequences, like frequent trading, over-betting, and irrational decisions without proper knowledge. In order to exercise self-control, there should be a firm understanding of intertemporal choice. Why is SPWH worth more three years from now? Is it worthwhile to sell now and allocate that capital to another company? Have I invested too much capital? Do I know enough about the situation? These are questions that should be answered, in order to avoid pitfalls in desire, envy, and pride. I hope to explore solutions in the coming months, and I hope you will follow along with me.

Yours,

Justin Polce
Managing Member

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