Mountainworks, LLC
info@mountainworksllc.com

April 15th, 2024

2024 Return	January	February	March	Q1	Annual Return	Return Since Inception
Mountainworks	-25.6%	-8.4%	8.5%	-26.1%	-25.9%	42.9%
S&P 500				11.7%	11.7%	214.1%

Dear Member,

In the first quarter of 2024, Mountainworks lost 25.9% of its value, versus an 11.7% gain for the S&P 500, dividends reinvested (according to DQYDJ). Since inception, the Fund has returned 42.9%, against a 214.1% clip for the S&P 500. As we traverse through 2024, it is easy to see there are some economic challenges coming our way. For one thing, inflation has proven to be pesky – that may have been surprising to some, while others know that inflation is driven purely by money supply. Second, the yield curve remains inverted. Come summer, it will have been the longest yield curve inversion in our history. Third, government spending continues unabated, with our nation's interest expense reaching unprecedented levels. There is indeed more national and geopolitical uncertainty than in the past; at the same time, the markets reach new record highs. Is it a cognitive dissonance across the market environment, or just par for the course?

Treasury. Part of my job involves keeping an eye on market functionality, while also traversing the macroeconomic landscape. Granted, we still focus on single companies and concentrate our risk[1]; even still, as an investor you sometimes can't help but think about the macroeconomic picture. Over time, I've come to realize that large slow-moving trends are easy to spot (i.e., a rising interest rate environment, inflation, etc.). But seeing the forest for the trees is another story, and how we might be able to take advantage of macro trends presents a different quandary.

And so, one goal for me is to place you in an economic conundrum, in order to think critically about our situation, and come to a conclusion. To start, I'd like to focus on the Treasury Department. Consider this: each year, the United States Treasury issues T-Bills, Notes, and Bonds to cover its expenses (in addition to tax revenue and other sources of funding).[2] This is nothing new, and T-Bills have generally been issued in outsized fashion compared to Notes and Bonds. From 2013 to 2019,

[1] Which puts both single stock risk and market risk squarely on my shoulders
[2] T-Bills vary in duration from 4 to 52 weeks, Notes vary from 2-Year to 2-Year, and Bonds include 20 & 30 year durations. For simplicity, we'll avoid TIPS and other minor debt obligations offered by Treasury.

Treasury has issued on average $6.4 trillion in T-Bills, $2.1 trillion in Notes, and $202 billion in Bonds, annually.[3] It is this data that will spark the discussion.

Things were operating as usual…Then came the year 2020. In an effort to fund government-enforced closures due to the pandemic (the validity of those decisions is a story for a different day), Treasury issued a staggering amount of debt: $17 trillion in T-Bills, $3.4 trillion in Notes, and $510 billion in Bonds. Specifically, the focus was on T-Bill issuance, with a purpose of using short-term funding to pay for the economic shutdown. We can certainly debate the consequences of those decisions by Treasury, under President Trump and Secretary Mnuchin, but on the whole, it was an extraordinary amount of T-Bill debt issued at very low interest rates, less than 0.36%.[4] It was "interest free" debt raised by the federal government.

Many people took advantage of the low interest rates – this would be a rational expectation on the part of a consumer. If you're going to buy a house, do it while rates are low. Or, refinance your mortgage and lock in a sub-4% rate. The experience was a common one for responsible citizens across the country.

However, governments do not necessarily partake in rational behavior. Here is where the conundrum kicks in. You would think that post-pandemic, the amount of government borrowing would decrease, if for no other reason than the pandemic is over. But that's not what has happened. Under the leadership of President Biden and Secretary Yellen, the United States government issued *a record amount of debt in 2023: More than during the pandemic!* Treasury issued $19 trillion in T-Bills, $3 trillion in Notes, and $453 billion in Bonds. It's an unprecedented amount of borrowing, for reasons unbeknownst to most (if not all) Americans. Stop and think: where is the money going? If this doesn't give you pause, I don't know what will.

Unbelievable as that may be, when you consider the prevailing interest rate that Treasury is paying to fund the debt, the situation becomes even more pernicious.

With T-Bill rates around 5%, we are in a far different situation than in 2020 and ZIRP policy. Furthermore, the enormous amount of T-Bill issuance isn't a one-time event. Through the year so far (~April 2024), Treasury has issued $6.2 trillion dollars, *compared to $3.9 trillion through April 2023*.

---

[3] Data on Treasury issuance sourced from SIFMA (site: https://www.sifma.org)

[4] Understandably, the market interest rate on T-bills varies based on Federal Reserve policy and prevailing rates. For the sake of brevity, I am quoting 6-month T-Bill rates. As of January 1st, 2020, the rate was 0.36%. On January 1st, 2021, the rate was 0.06% (Source: FRED – 6-month Treasury Bill Secondary Market Rate, Discount Basis https://fred.stlouisfed.org/series/RIFSGFSM06NA)

At this point, we have come to a predicament worthy of investigation. First off, why does Treasury seek to raise more debt than 2020, the (previously) highest amount on record? Second, why does Treasury insist on paying the highest interest rate possible along the yield curve in order to raise funding? *Cui bono*? What are the politicians buying with their outsized T-Bill bet? I invite you to think critically about these questions over the course of the next year.[5]

Two Mistakes. In the meantime, if it is true that both people and governments can behave irrationally, then there must some counter-behavior that could take advantage of said situation. It is my goal to find some way to profit from the prevailing market vision. Last year we were able to do that, returning some 40%. However, the first quarter has proved troublesome, as I gave back much of that success. I will always be forthright an own up to my mistakes. What follows are two clear cut errors that could have been avoided.

The first was investing in iRobot, thinking the deal with Amazon would go through. Robot vacuums are such a small market compared to Amazon's breadth of products; moreover, there are many competitors, and it's easy to find a cheap knockoff. Even still, the European Commission and the FTC – showing general dismay with any big tech business – blocked the merger. With a deal price of ~$50/share, IRBT now trades at a measely $8.50/share. It was a mistake for me to think that the merger would go through given the current M&A environment.

The second mistake was with DocuSign, in a pre-arbitrage play. There was news that two private equity firms were in the running to take DOCU private. Consider the following two headlines from mid-January:

"DocuSign jumps on report two PE firms competing to acquire"
"DocuSign likely to see less than $95 a share in PE takeover – analyst"

With DOCU shares trading around $60/share, it seemed like a bargain, and one way to take advantage was to get in before the deal was officially announced. But with us being a limited-resources firm, our edge isn't necessarily with information. That said, the mistake with DocuSign is on me, and it's avoidable. By early February, there was another headline: *"DocuSign sinks on report banks in talks to finance $13B potential buyout"*. I should heed my own words from a previous letter: these headlines

[5] For a more detailed discussion of the Treasury Department and its irrational behavior, see my article on Seeking Alpha, "The Maddening Treasury Tribulation"

are a day-to-day rationale, with minimal critical thinking. I closed our position in DOCU shortly thereafter.

Both iRobot and DocuSign represent failures on an informational level. Previously, I have alluded to the need for an edge in our endeavors. To date, I can think of approximately four "edges" to utilize when it comes to investing: information, technology, statistics, and behavior. This is a necessary but not sufficient list, and could change, but for the time being it suits our needs. Given that we are low-information, I must narrow down our possibilities for an edge, and do a better job of decision-making when it comes to event driven investments. We are not quite in the statistical arbitrage category, nor do we possess some sort of technological prowess. That leaves only one open door: behavior.

Humility, gratitude, and self-control. If I am to focus more on behavior, then it might be a good time to outline values that I think about in earnest. In no particular order, here are some terms that represent a quest for knowledge – a search for wisdom – that I think should permeate the life of a virtuous citizen: humility, bravery, charity, patience, morality, honesty, gratitude, integrity, self-control, temperance, justice, diligence, and fortitude. Some words overlap and are synonymous, but nevertheless, they are each significant and have consequences.

It might seem strange that in the middle of an investing discussion, I turn to virtue. Indeed, readers could be turned off by the redirection, if for no other reason than my purchase of IRBT shares has little to do with humility.

To those readers, I respectfully disagree, and I present two reasons why. First, I have discovered over the years that investing is very much an exercise in abstract thinking, as is a search for virtue. It takes a certain personality type to engage in financial theory, and to try and find a profit where no one else is looking. This in and of itself is a contrarian approach to life: a byproduct of successful investing is by nature doing what others cannot or will not. Similarly, the great thinkers throughout our American history sought something different: an enlightened approach, in order to *assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them…*[6]

Second, many of the bad decisions I have made in investing are a direct result of some sort of emotional sin – be it greed, envy, pride, desire, or otherwise. So, the process I have embarked upon over several years has been to work towards *preventing bad decisions*, rather than trying to make good ones. This is a bit difficult to understand upon first glance. But think for a moment about the choices

---

[6] Source: The Declaration of Independence, July 4th, 1776

you make every day, versus the choices you make once or twice in a lifetime. For example, every day you wake up in the morning and (hopefully) brush your teeth. It is a responsible decision to make, and what's more, you get really good at brushing teeth – you practice it every day. On the other hand, think about how many times people will go to college, purchase a home, or get married. Generally speaking, people get zero chance to prepare for such big decisions, and they only happen once or twice in a lifetime. You'll only go to college once, buy a home maybe two or three times, and (God willing) only get married once. These are really big decisions, and the stakes are high. How often do you think and reflect on these choices? The task requires a bit of "inversion" in your life to consider the really important choices, rather than letting the day-to-day melancholy pass you by.

Below is an exchange from the 2020 Daily Journal Annual Meeting, in which Charlie Munger responds to a question regarding rational behavior. His response is long, but I think it necessary to get to the root of the issue:

> *Question: "You talk frequently about having the moral imperative to be rational. And yet as humans, we're constantly carrying this evolutionary baggage which gets in the way of us thinking rationally. Are there any tools or behaviors you embrace to facilitate your rational thinking?*
>
> *CM: "The answer is, of course. I hardly do anything else. One of my favorite tricks is the inversion process. I'll give you an example. When I was a meteorologist in World War II. They told me how to draw weather maps and predict the weather. But what I was actually doing is clearing pilots to take flights.*
>
> *"I just reverse the problem. I inverted. I said, 'Suppose I wanted to kill a lot of pilots, what would be the easy way to do it?' And I soon concluded that the only easy way to do it, would be to get the planes into icing the planes couldn't handle. Or to get the pilot to a place where he'd run out of fuel before he could safely land. So, I made up my mind that I was going to stay miles away from killing pilots. By either icing or getting him into conditions when they couldn't land. I think that helped me be a better meteorologist in World War II. I just reversed the problem.*
>
> *[…]*
>
> *"Algebra works the same way. Every great algebraist inverts all the time because the problems are solved easier. Human beings should do the same thing in ordinary walks of life. Just constantly invert. You don't think of what you want. You think what you want to avoid. Or when you're thinking what you want to avoid, you also think about what you want. And you just go back and forth all the time."*[7]

[7] Source: 2020 Daily Journal Annual Meeting, transcribed by Latticework Investing. http://latticeworkinvesting.com/2020/02/28/charlie-munger-full-transcript-of-daily-journal-annual-meeting-2020/

Circling back to my mistakes in the past few months, things would have been much better had I inverted the problem with IRBT, and said, "*what happens if AMZN/IRBT gets blocked?"* It might not have gotten me away from investing in it, but the ebb and flow of the decision might have at least forced me to reduce the size of the bet – and simply stated – that would have made a difference.

What virtues are involved in such thinking? Some humility, temperance, and diligence would have certainly helped. It is relatively easy for me to see the required humility necessary to avoid a merger mistake, though hind sight is always 20-20. Given the technological nature of the merger, it was just a miscalculation to think that I could foresee the outcome. There was a lot I didn't know. Temperance – synonymous with self-control – would have allowed me to see that I was trying to parlay the success I had from 2023, and as a result made an over-bet. Similarly, the need for diligence is a constant push & pull with my daily life. Finding the time for another step of research, and more time for reflection, will always help in situations with less-than-perfect information.

Good Outcomes. Many times, these letters lean toward fixing mistakes, rather than reinforcing success. But that is a consequence of value theory, in which people get hurt by losses approximately twice as much as they are helped by gains. Therefore, it is in the nature of people to focus on the bad times…but in my case, my focus comes with the goal of avoiding them.

But the question of how to handle success is also part of this equation. There are times in life where people make mistakes over and over again, without learning from them, and those are times (as well as people) that also need to be avoided. To a certain extent I fall into this category, because since inception, I have failed to outpace my set benchmark, the S&P 500.[8]

Nevertheless, it is important to emphasize our successes along the way, as these are building blocks toward a better future. For lack of better words, the fund has been "incubating" in a live demonstration for the past 8 years. We are a very small fund, and I have deliberately kept it that way, until we achieve excellent returns using our 'edge'. I have a great appreciation for those of you who have stuck it out with me so far, and who will continue to ride my wave – as tumultuous as it may be – for years to come. Thank you for being a part of Mountainworks.

The success is there. While it doesn't show up in the cumulative returns, it is a hidden entropy that needs to come to the fore. Camping World, Netflix, Activision, and Generac have been four of my biggest winners over the past few years, and have led the Fund to gains over 40% (at times more than 100%). Yet, what is interesting about these facts are that if you were to look at a multi-year chart for

[8] I always enjoy a bit of fated irony. Given my devotion to behavioral analysis, juxtaposed to my untimely failures, why would you even bother listening to me?

each company, you wouldn't be that impressed. What did I do right? Our success has been dependent upon what I would call a "behavioral edge" that is built upon values like patience, diligence, and wisdom.

For example, while I lay claim to Camping World as a rousing success, there was a time in which I was down greater than 75% on the position (just imagine what our achievements would look like if I had good timing). To keep the Fund in CWH in the face of overwhelming losses required patience to wait out the bad times, which lasted over a year. But more than that, you can get stuck in a stock that drops 50% plus, and say to yourself, *"I'm hanging in there"*, yet without realizing it you're caught in a value trap, and the stock turns out to be a perpetual dud. I had the good fortune to see that Camping World wasn't a trap, and I chalk that up to having performed a fair amount of due diligence on the company. Looking back on it, there was a combination of both patience and diligence, with a certain amount of wisdom to boot. What is wisdom? Wisdom is the realization that you are not that intelligent. Therefore, it becomes much easier to gain a level of respect for the outside world, and resist temptation. In this particular example, the temptation was two-fold: either double down on Camping World and risk over-leveraging the Fund toward insolvency, or sell Camping World and lose virtually everything. Ironically, while the two choices are opposites, both would have been wrong. This is my way of saying that at times the best move is to not move at all. You can't always get what you want; but if you try sometimes, you get what you need.

Conclusion. The achievements are there, and success is within our grasp. The mathematical way to state my conclusion is to say that we are on an n=1 path. The more experiences we have by way of investing, the more I realize that our path is unique. If you choose to accept this line of thinking, then it follows that opportunities cannot be recreated and strategies cannot be repeated in any way. It is a harrowing thought, because it means we're on our own. Who among us is willing to say that Camping World will rise 400% again next year, or that Sportsman's Warehouse will lose 75% again the year after? Is it reasonable to assume anything in our past will recur with any certainty? Probably not, and so the process is worth a second mention: we will sift through as much information as possible with relative efficiency, in order to make better decisions. In doing so, I hope to gain a behavioral advantage that leans on humility, temperance, diligence, patience, and wisdom.

These letters are less about financial metrics, and more about resolution and conduct. Admittedly, such ideas are off the beaten path. That said, I am grateful for Members who want to come along with me, and thankful to readers who withstand my unusual digressions. As always, if you would like to discuss anything, please don't hesitate to reach out: Justin@mountainworksllc.com.

Yours,

Justin Polce
Managing Member

The information contained in this message is not and should not be construed as investment advice, and does not purport to be and does not express any opinion as to the price at which the securities of any company may trade at any time. The information and opinions provided herein should not be taken as specific advice on the merits of any investment decision. Investors should make their own decisions regarding the prospects of any company discussed herein based on such investors' own review of publicly available information and should not rely on the information contained herein.

The information contained in this message has been prepared based on publicly available information and proprietary research. Mountainworks, LLC nor any of its affiliates does not guarantee the accuracy or completeness of the information provided in this document. All statements and expressions herein are the sole opinion of the author and are subject to change without notice.

Any projections, market outlooks or estimates herein are forward-looking statements and are based upon certain assumptions and should not be construed to be indicative of the actual events that will occur. Other events that were not taken into account may occur and may significantly affect the returns or performance of the securities discussed herein. Except where otherwise indicated, the information provided herein is based on matters as they exist as of the date of preparation and not as of any future date, and the author undertakes no obligation to correct, update or revise the information in this document or to otherwise provide any additional materials.

Mountainworks, LLC, its affiliates, the author, the author's affiliates, and clients of the author's affiliates may currently have long or short positions in the securities of certain of the companies mentioned herein, or may have such a position in the future (and therefore may profit from fluctuations in the trading price of the securities). To the extent such persons do have such positions, there is no guarantee that such persons will maintain such positions. This post may contain affiliate links, consistent with the disclosure in such links.

Neither Mountainworks, LLC nor any of its affiliates accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of the information contained herein. Nothing presented herein shall constitute an offer to sell or the solicitation of any offer to buy any security.