



Human Nature Drives the Cycle

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“What we learn from history is that people don’t learn from history” – Warren Buffett

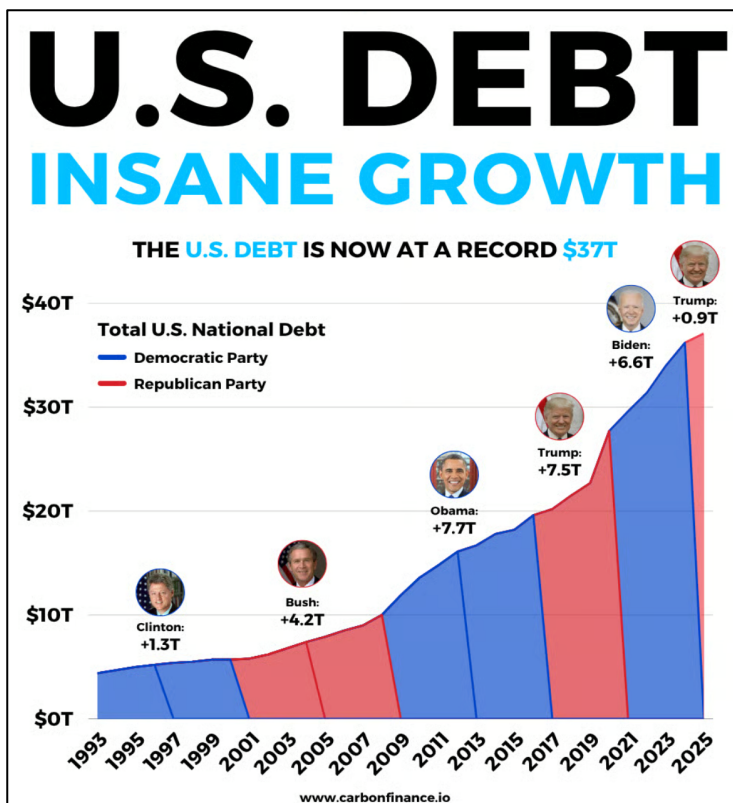
When it comes to the stock market, investors will do whatever mental gymnastics to convince themselves that this time it's different. Jesse Livermore, who made and lost fortunes and inspired *Reminiscences of a Stock Operator*, put it best: “There’s nothing new in Wall Street. There can’t be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again.” He said that almost a century ago, and it’s still true today.

Right now, the S&P 500 sits in the 99th percentile of the longest rallies without a 5% pullback. However, many old market patterns have been broken in recent years, so I’m not convinced we’re “due” for a selloff. The only thing I’m sure of is that one will come eventually.

History has shown the market tends to correct by about 10% every 30 months, 15% every 5 years, 20% or more every 6 years, and around 30% once a decade. Of course, those are just averages, and actual declines can be much larger or smaller. All you really need to know is the market will fall from time to time. If you’re not ready for that or need your money in the next few years, you probably shouldn’t own stocks. And when it does fall, that’s good news if you have cash. If you liked a business at \$15, you should love it at \$7.

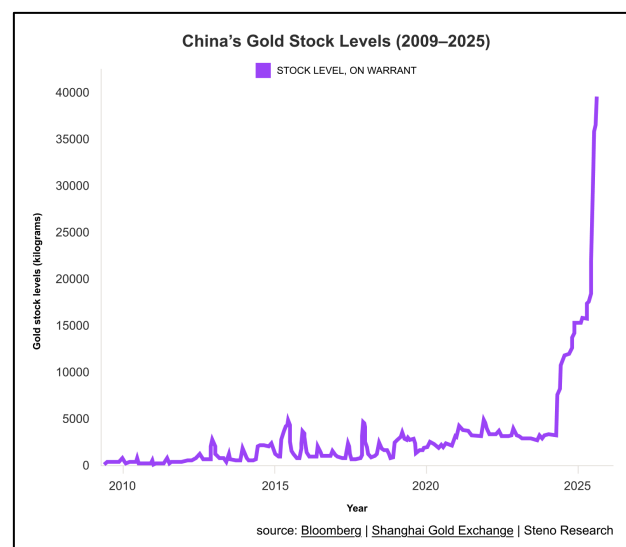
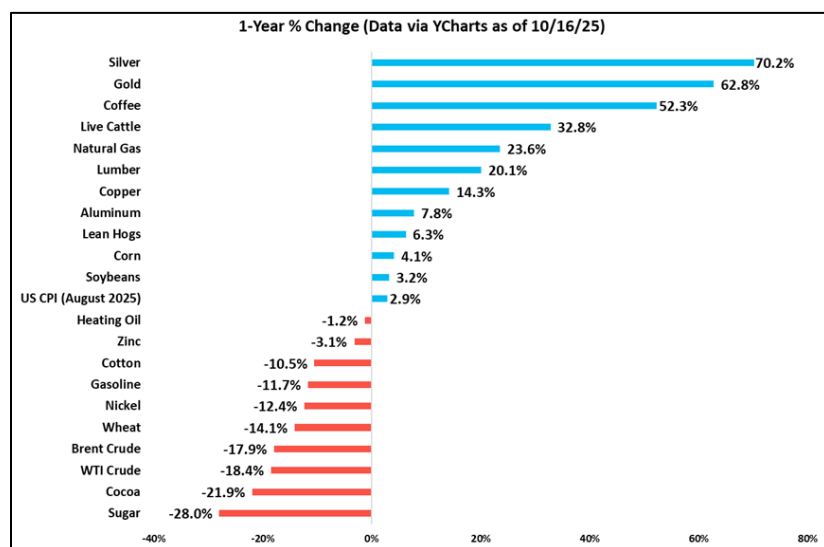
This isn’t to say we spend our days trying to predict where the market is headed next. As Peter Lynch once quipped, “If you spent 14 minutes on macroeconomics, then you’ve wasted 12 minutes.” Between elections, interest rates, debt ceilings, and recessions, the economy will always give us something to worry about. But over time, none of those headlines matter nearly as much as owning great businesses and letting them compound.

That said, no one can invest in complete isolation from the world around them. Setting aside the government shutdown and the looming trade tensions with China, one issue is becoming impossible to ignore: our growing national debt. The “Big, Beautiful Bill” passed in April will likely push that debt even higher, though by how much is still uncertain. The Congressional Budget Office now admits Trump’s budget may not add the \$3 trillion once projected, but whether that holds true or whether tariffs bring in the revenue Republicans expect is anyone’s guess. What does seem certain is that Washington has never met a spending limit it couldn’t outrun (see illustration below).



Takeaways

When considering this, one key question arises: what happens if the national debt becomes truly unsustainable? In such a scenario, we expect both investors and central banks to increasingly turn to alternative assets for protection. Gold has emerged as a leading choice, ranking as the second best performing commodity over the past year, trailing only silver (see chart on the left). China appears to recognize the same problem, as evidenced by its steady accumulation of gold reserves (see chart on the right).



The other asset class we also believe its prudent to allocate some of the portfolio to is Bitcoin. Notice we didn't say cryptocurrency because we don't believe there's a good argument to be made for any other cryptocurrency (aside from maybe Ethereum and the use of smart contracts). This is because Bitcoin is the only truly decentralized cryptocurrency that has proven to hold its value over a long time horizon. Its now been 16 years so we believe its past the proof of concept phase. It has proven its resiliency.

Slowly, we're also starting to notice institutional adoption. Several of the world's most respected investors, including Paul Tudor Jones, Bill Miller, and Ray Dalio, have all expressed support for Bitcoin, each for slightly different reasons:

- Paul Tudor Jones views Bitcoin as a powerful inflation hedge and a way to protect wealth from the effects of loose monetary policy, famously calling it "the fastest horse in the race."
- Bill Miller sees it as digital gold and a long term store of value that remains significantly undervalued given its scarcity, portability, and independence from government control.
- Ray Dalio, once a skeptic, now owns Bitcoin and views it as a diversification tool and alternative store of wealth in a world of high debt and negative real interest rates.

On top of that, the current administration, which has more than three years remaining, is extremely pro-crypto, putting in place policies like a strategic Bitcoin reserve, a US digital asset stockpile, pro innovation regulatory frameworks, and appointing crypto friendly leadership in agencies to bolster the industry. Together, this highlights a growing recognition that Bitcoin represents more than speculation. It is a new monetary technology designed to preserve purchasing power and operate outside the traditional financial system.

I realize that this flies in the face of traditional value investors like Charlie Munger and Warren Buffett who have long rejected Bitcoin's premise. Munger famously called it "rat poison," while Buffett often compares it to gold, arguing that since it does not produce cash flow, it cannot be valued in the traditional sense.

However, what they may be overlooking is something they often acknowledge themselves - markets are frequently irrational. So when investors believe an asset is safer, particularly one that is scarce, money flows toward it because perception often matters more than reality. This dynamic helps explain why Bitcoin and gold, despite lacking traditional cash flows, can attract significant capital as a store of value and a hedge against uncertainty.

Update on Portfolio

I like to say that a portfolio is like an album. You don't want a bad song on it. The whole process of putting together a portfolio and an album is similar: you're distilling down an overwhelming amount of information into something cohesive and lasting. You start with thousands of sounds, notes, and lyrics, just like you start with thousands of stocks, and through that process of refinement you end up with something that resonates, something that performs.

I've also heard an analogy that compares it to coaching a sports team. The best teams win not because of one star player, but because of balance and chemistry. A mix of scorers and defenders, veterans and rookies, each with a defined role that strengthens the whole. In investing, the same principle applies. A portfolio must have offense and defense, growth and stability, and a manager who knows when to lean into one or the other. The challenge, as in music and sports, is finding harmony among moving parts, creating something that works together over time, not just in the moment. On that point, our average **year-to-date return (after fees) as of yesterday's close is 14.29%, compared to 14.52% for the S&P 500**. We've also maintained a cash position of 15–20%, so our risk-adjusted return is meaningfully higher than the market's. Again, our approach of owning a smaller number of high-quality businesses will result in higher volatility and periods of underperformance, but we are confident that we will outperform the market over a long time horizon. Here are our top 3 year to date winners and losers:

Biggest Gainers –

SoFi Technologies Inc (Ticker: SOFI) – SoFi has shifted successfully from being a digital lender to becoming a full-scale financial platform, with fee-based and non-lending business lines now representing the majority of its revenue. Among the key levers: rapidly growing deposits, scalable technology infrastructure (via its Galileo & Technisys platforms), and high-margin third-party loan origination through its Loan Platform Business. While valuation remains elevated (with forward P/E multiples in the 80x+ range), it is justified if SoFi executes on its growth and margin targets and if the Fed continues to lower interest rates.

Coupage Inc (Ticker: CPNG) – Coupage has reached an important milestone, achieving consistent profitability while maintaining a long runway for growth in its core South Korean market. At the same time, the company is expanding aggressively into new regions to sustain its broader growth trajectory. Taiwan, in particular, represents a compelling opportunity given its attractive e-commerce dynamics and rising digital adoption. Although Coupage will face established competitors there, its differentiated customer experience and logistics capabilities position it well to capture market share and build a leading presence. From a valuation standpoint, despite the recent rally in the stock, we believe the market still underappreciates the true economic potential of Coupage's developing offerings segment, making the shares attractive at current levels.

Brookfield Corp (Ticker: BN) – Brookfield stands out as a compelling long-term investment for several reasons. First, it has the potential to continue compounding value for shareholders through disciplined capital allocation and exposure to enduring secular trends. Second, its diversified portfolio of real assets provides both dependable cash flow and meaningful growth potential across multiple industries. Finally, Brookfield offers a natural form of diversification, giving investors exposure to a broad range of sectors rather than being tied to the performance of any single industry, which helps mitigate risk while maintaining upside participation.

Biggest Losers –

If you invest for long enough, you will always have both winners and losers in your portfolio, which is why having a margin of safety is so important. We are no exception to this rule. And while our portfolio has slightly underperformed this year, we are very excited for our potential returns over the next 5-10 years.

Burford Capital Limited (Ticker: BUR) – We believe Burford Capital is well positioned to extend its leadership in litigation finance, supported by a large addressable market and a proprietary data advantage built over 15 years. Its unique access to case outcomes allows it to underwrite complex, high-value disputes that competitors cannot. While adoption remains a growth bottleneck, Burford's strong track record suggests a long runway ahead. The recent selloff reflects market skepticism over the timing and size of the YPF payout, but we believe this underestimates the durability of Burford's core business. Management's 10% ownership and long-term incentive structure align closely with shareholders, supporting disciplined growth. Based on conservative assumptions of \$4.8 billion deployed by 2030 at a 23% IRR, excluding any YPF upside, we believe Burford remains materially undervalued relative to its long-term potential

Occidental Petroleum Corp (Ticker: OXY) – Occidental Petroleum has faced market backlash following its \$9.7 billion sale of OxyChem to Berkshire Hathaway. The transaction drew criticism because the company did not use the proceeds to repurchase Berkshire's preferred equity, which continues to cost Occidental roughly \$800 million per year. Instead, management chose to focus on debt reduction and tax obligations. Despite the controversy, Occidental maintains a strong portfolio of assets and continues to

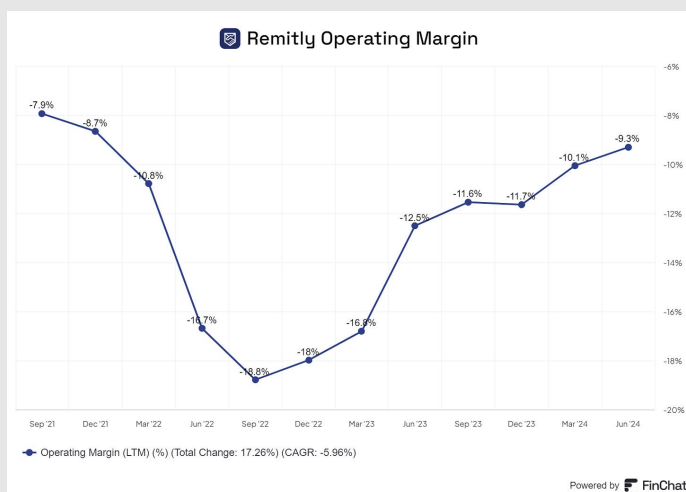
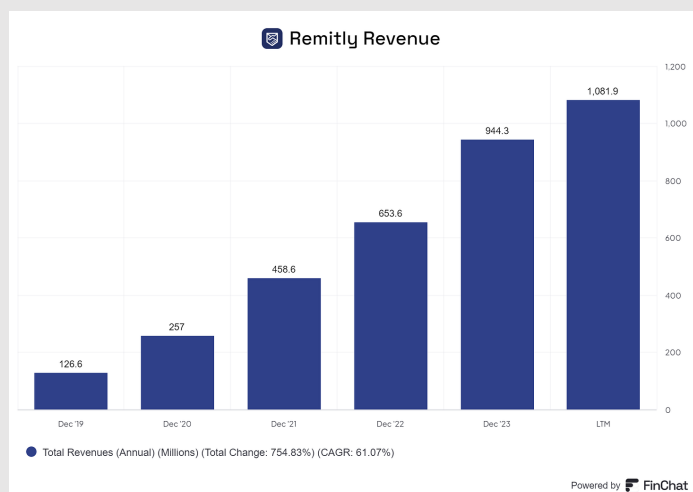
Update on Portfolio

lower its breakeven costs while expanding free cash flow. With a healthier balance sheet, the company is now positioned to direct more capital toward share repurchases and its growing dividend, making it an attractive long-term investment opportunity.

Sable Offshore Corp (Ticker: SOC) – Sable Offshore has been one of the more interesting but frustrating investments we've followed. On paper, the company looks deeply undervalued given the size of its offshore California assets and the potential upside if operations can resume. However, the stock has been hit hard by a combination of setbacks — ongoing litigation over its key pipeline, regulatory uncertainty, and recent losses that raised questions about the path to profitability. The situation worsened after a court ruling blocked the company's ability to restart production, which effectively paused its most important near-term catalyst. That decision, along with dilution from a recent equity raise, led me to exit the position. While we still think the assets have long-term value, the timeline and risk profile have changed materially, and I'd rather step aside until the legal overhang clears.

Recently Added –

Remitly Global Inc. (Ticker: RELY) – We view Remitly Global, Inc. as a potential leader in digital remittances, similar to what Booking.com became in online travel. Its core advantages in digital native flows, scale, and product simplicity set it apart from legacy competitors like Western Union. While elevated valuation expectations and regulatory or fraud risks merit caution, the rewards appear compelling. From a valuation standpoint, we regard the current share price as failing to fully reflect the long term potential for margin expansion along with growth (see revenue and operating margin below)



In the long term, if marketing expenses normalize and both technology and overhead costs stay around 20% combined, its fairly likely that Remitly could have operating margins of around 20%. And with only 2.5% market share, it has a long way to run. So we view Remitly as a multiyear investment opportunity where the upside may meaningfully exceed the downside if the management continues to execute. We will be holding this position for the next few years unless something materially changes with its underlying fundamentals.



ABOUT

A West Point graduate and Notre Dame MBA, William held senior positions at EY and Deutsche Bank before founding Sirmium Capital over a decade ago. He is a Series 65-licensed investment adviser representative specializing in value investing for families impacted by September 11th.

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