January 10, 2021

Dear Investor,

For full year 2020 the S&P 500 rose 18.4% and the Barclays Aggregate Bond Index rose 7.5%. Client accounts, on average, finished ahead of both the S&P 500 and a risk weighted index of stocks and bonds, assuming 70% exposure to stock. Individual returns are provided on your personalized letter. The outperformance versus broader indexes was due in large part to our investments in smaller businesses. I discuss two of these holdings below.

Earlier in the year I reduced your exposure to fixed income securities and gradually reinvested the funds in stocks, which at the time offered better returns. That change, in combination with price appreciation, has increased the concentration of stocks in your portfolio to 75%, higher than in the past. That means that in the near term your account will fluctuate with moves in the broader stock market. Historically I have tried to moderate market swings with investments in bonds and preferred stocks (fixed income securities). However, at present it is difficult to find fixed income securities that offer attractive yields with a low risk of default.

Occasionally I do find such opportunities. A good example was last year's purchase of bonds issued by Travel Centers of America at yields above eight percent. Travel Centers owns and operates gas stations and restaurants along major highways, which is a profitable, predictable business. The company's bonds briefly traded at attractive prices as investors worried that Covid would depress highway travel. That concern did not account for TravelCenters' most important customer, truckers, who continued to use the highways actively. The company also benefitted from falling oil prices, which reduced its cost of product, a savings only partially shared with customers. While these bonds have recovered in value, I believe the market continues to underestimate their safety.

With the introduction of vaccines I'm optimistic we will see a strong economic rebound later in the year, as consumers dine out and travel more freely. That likely improvement is already partly reflected in stock prices, although I suspect there is more recovery ahead for the most impacted businesses such as restaurants, theme parks and hotels. Most of our holdings will be less direct beneficiaries of the recovery. For example, Google, one of our largest holdings, will likely benefit from increased advertising by travel companies. I continue to evaluate the prospects for our investments in an environment where there is less need for social distancing.

<u>Notes on Holdings</u>

Our strong performance in the back half of last year was due partly to our investments in smaller companies. Notable among these has been XPEL technologies whose stock price more than doubled in

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value last year. XPEL manufactures a plastic film used to protect luxury cars from scratches, chips, and minor abrasions. The film is applied by service centers at a cost of several thousand dollars. Film sales are growing rapidly as more luxury cars are sold and as new car owners learn about the product. There are several firms who produce competing products, including 3M. XPEL has a significant advantage over these competitors because it provides industry leading software for the automated cutting of film to exactly fit the dimensions of thousands of car makes and models. These precuts save installers significant time on preparation and they reduce application mistakes. XPEL's large and growing library of cutting software should allow it to continue to dominate this market.

Shares of Par Technologies, another smaller firm, also gained substantially this year. Par makes the point-of-sale systems used by many fast-food restaurants. If you order a meal at McDonalds, Taco Bell, or another fast-food restaurant, there's a good chance the cashier will enter your order on a screen made by Par. The company has invested heavily in recent years designing software that complements its point-of-sale device. The software helps restaurants manage inventory, prepare food, reward loyal customers, and pay employees. Unlike a point-of-sale device, which is infrequently replaced, Par's software is frequently updated and is billed on an annual subscription basis. As its software sales grow Par's overall business is becoming larger and more profitable.

As much as I like the outlook for Par and XPEL, the rise of their stock prices has far outpaced the expansion of their businesses. My preference is always to hold onto investments in well run, growing businesses, but in some cases the share prices may simply be too high. Should Par and XPEL's share prices rise substantially more this year I will likely sell some of our investment.

A final note is that over the last year I have found more attractively valued investment opportunities in international markets. Our holdings in businesses based in Canada, Europe, and Asia have increased and I continue to look for investment opportunities outside of the US.

As always, please contact me with any questions.

Sincerely,

Doug