CANNELL
& SPEARS

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*You are the sum total of your choices.*

*-Seneca*

As investors look ahead, they have begun to dismiss their myriad of concerns one by one. The last five months have seen a seemingly continuous rise in the markets as investors moved from husbanding their cash to considering riskier asset classes. The anxiety driven by the uncertainty around the future of interest rates and inflation has dissipated. The fears of a crash in earnings due to a slowing economy has been replaced with the expectation of a soft landing for most companies. Optimism around the potential of Artificial Intelligence (AI) to improve economic productivity has provided a tailwind to markets and investors to let their optimism drive their investment decisions.

In an environment such as this one, we have also seen the Fear Of Missing Out (FOMO). Currently, this has been particularly true with respect to AI stocks. The chatter about owning these stocks is ever present. When the stock market has this type of momentum behind it, investing can look particularly easy – just buy the stocks everyone is talking about. In our opinion, FOMO as an investment strategy is fraught with unacceptable risks.

In market environments such as we are currently experiencing, clients sometimes ask why we don't own a particular stock? Usually, the stock in question is a highflyer that has been in the news and just made an enormous move in price. Or they might ask if we are considering the purchase of a fallen angel, a renowned company that the market believes has lost its way.

To answer, it is important to note that a "good company" does not always make for a "good stock" just as a "bad stock" does not always make for a "bad company." Instead, we like to look at price vs value.

The PRICE of a stock can fluctuate wildly in a given year based on a multitude of factors, with little or no change in the underlying VALUE of the business. For example, in 2023 the S&P 500 Index advanced 26% while the average stock fluctuated 69% in price that year - a truly amazing statistic[1]. Often, investors mistakenly focus on price alone (ignoring value) when making investment decisions, drawn in by momentum and FOMO.

To quote Warren Buffett, "If you don't know how to value a business, you don't know how to value a stock. To properly evaluate an investment, one must have a handle on what a company is worth and then compare that to the current share price. That's what investing is. And I don't know any other kind of investing to do."

As analysts, we are constantly comparing price to value. Our assessment of value is what drives the investment process. Figuring out what a company is worth (and what it could be worth in the future) is a complicated process. There are many variables to consider (or, as importantly, ignore) when assigning value to a business. It is not a precise science that some would have you believe. The discovery of an undervalued company is like solving a puzzle before others, then watching as the ascribed value becomes reflected in the share price. It is the disconnect between PRICE and VALUE that creates investment opportunity.

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[1] Source: Bloomberg

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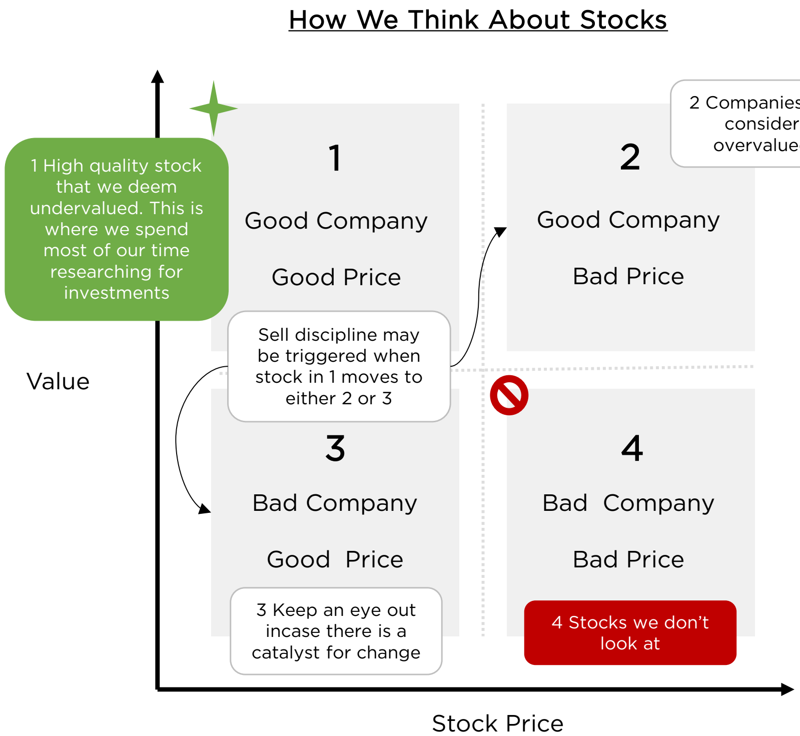
We are value-oriented investors searching for high quality companies that are undervalued. As such, much of our time is spent searching for investments in Quadrant 1.




Quadrant 2 represents high quality companies that trade at full valuations (or are overvalued). We spend time searching here, but there is less opportunity given that these companies, for the most part, have been discovered as reflected in their high valuations. It is our expectation that Quadrant 1 companies would over time migrate into Quadrant 2, thus achieving a higher valuation that better rewards their underlying value.

Occasionally, we are drawn to Quadrant 3 companies when there is a catalyst for change. It could be as simple as a change in management, the introduction of a breakthrough product, an accretive acquisition, or even activist involvement seeking to upset the status quo. These factors have the potential to improve the business and move the stock into Quadrant 1, making for a very interesting investment.

It goes without saying that we try to avoid Quadrant 4 companies at all costs.

As a rule, we want to invest in businesses that build value over time. We seek high quality, growth-oriented companies, and hope to hold them for many years. We are drawn to free cash flow generative businesses with low leverage, high returns on invested capital, and strong management teams who allocate capital responsibly. Finally, we want to see a sustainable competitive advantage in the business and strong pricing power. These attributes (among others) are what define a high-quality company from our perspective.

As Seneca wisely observed, we are all the sum total of our choices. In making investment decisions, at Cannell & Spears, we take this statement seriously. Being disciplined about our choices has earned us the trust of our clients and has allowed us to endure for over 50 years.

We continue to stay focused on you, our clients, to ensure that your financial security is our utmost priority. Whether that is in the realm of selecting securities, allocation of assets, or providing financial advice, we know that our choices, ultimately, drive your success.

We thank you for your continued confidence and trust.

Sincerely,

Cannell & Spears

*Important Note About Cannell & Spears (C&S) Investor Commentaries*

*This letter should not be relied upon as investment advice. Any mention of particular stocks or companies does not constitute and should not be considered an investment recommendation by C&S. Any forward-looking statement is inherently uncertain. If you would like to learn more about C&S and its investment program, please contact us at www.cannellspears.com. Please contact C&S if your financial situation or investment objectives have changed in any way or if you wish to impose new restrictions or modify existing restrictions on your accounts. You should be receiving, at least quarterly, a statement from your custodian showing transactions in your accounts. C&S urges you to compare your custodial statements to any statements that you receive from C&S.*