KIRWAN
CAPITAL

13000 CR 348
St. Joseph, MO 64505
Missouri 816-385-5266
Nebraska 402-212-0519
Toll Free 888-666-8117
pk@kirwancapital.com
www.kirwancapital.com

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For a time during the summer, it looked like the bull market was in trouble. By the end of the 3rd quarter, however, stocks were again making new highs. Bonds also chalked up gains, thanks to ebbing inflation and the Fed finally cutting rates by 50 basis points. Investors went into the 3rd quarter looking for data confirming falling inflation, which would allow the Fed to reduce rates. Soft readings on inflation and employment followed, and while unemployment data sparked recession fears, the overall trends appear to indicate a moderating economy with healthy growth. While the broad stock market heads into the 4th quarter having resumed its rally, a significant rotation out of big tech and into corners that previously lagged has changed the look of individual returns, benefiting small companies and value stocks among others. Most recently, the Chinese government sparked an enormous rally in all stocks connected to China by announcing plans for multiple stimulus programs.

Our Kirwan Capital Strategy portfolios gained 7.15% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 5.75%. Riding the changing tides, our worst performers from the past couple of years caught wind and sailed to big gains. Sleep Number rose over 91% and Hanesbrands gained near 50%. Starbucks rose over 25% on the appointment of a new CEO, Equifax rose over 20%, and Capri climbed over 28% on hope regarding the Tapestry deal. Our losers included Microsoft, Amazon, Nvidia, and Snowflake, all of which were among the biggest gainers of the previous couple of years. While we made no big moves during the quarter, we did free up some cash by selling small positions in Apple, Costco, Nvidia, and Chewy on valuation concerns. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 13.38%, which would have turned a $10,000 investment into $43,740 in 11.75 years.

As the market continues to march forward, it is hard not to see valuations as stretched. Warren Buffet's Berkshire Hathaway has been a net seller of stocks for several quarters now and has built a sizeable cash pile. Optimism has proliferated with only an occasional short burst of pessimism thrown in over the last several years. While we have sold a little stock and built some cash due to high prices, we are far from entirely on the sidelines, as I have found no one able to predict with any consistent success when a correction will come, and the profits missed by not being in the market would likely dwarf the losses endured from the next correction over time. The M2 money supply in the U.S. is now on pace to roughly double every 10 years, and that pace is accelerating, with no indication that any politician would consider slowing that rate down. Unless this environment changes significantly, the greater long-term risk is inflation.

Sincerely,

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.

** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.