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Although the stock indexes rose to all-time highs in September, they quickly sold off on concerns about the Delta variant, looming Federal debt default, and China issues, including an enormous housing sector business failure and a regulatory crackdown against the most successful companies by the Communist government. Inflation worries from the first two quarters continued, as the CPI change rose above five percent year-over-year.

Our Kirwan Capital Strategy portfolios lost 1.31% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 0.58%. The quarter's performance leaves our average compound annual return after fees since Jan 1, 2013 at 14.71%, which would have turned a $10,000 investment into $33,224 in 8 3/4 years. Among our holdings, Alphabet, Inc. gained almost 9.5%, along with Microsoft, Kroger, Discover, and Apple who all turned in mid-single digit gains for the quarter, while brewers led the decline by losing nearly 22% (Anheuser-Busch) and 13% (Molson Coors), while Amazon also gave back 4.5% of its pandemic gains.

We made two major moves this quarter, selling a chunk of Hanesbrands and buying Sleep Number Corporation. Sleep Number has been around for a while, quietly churning out handsome profits for years. Then the pandemic came along and gave them a big shot in the arm as people focused more on living at home, boosting sales significantly. This company owns nearly the entire vertical chain for their products, from production to the final point of sale at branded stores. This provides greater control of product quality, pricing, and introduction and rollout of new products, and the company collects economic rents at each link in the chain, versus most of their competitors who forgo this control and profit for each step sourced to outsiders. Impressively, the company has bought back nearly half of their shares in the past 10 years, proving shareholders are a high priority for management. Even post pandemic, the company's focus on healthy sleep should continue to ride the coattails of the general trend toward healthier lifestyles.

While inflation remains a concern for many market participants, I don't feel there are current investment alternatives that stack up well against a portfolio of financially sound, growing companies. With the 10-year Treasury note sitting at around 1.5% and top savings account interest rates below 0.5%, the odds of a bank savings account outperforming ownership in a wide moat firm growing at 5% and paying a 3% dividend yield over the long term appear slim. In addition, with inflation currently running at around 5%, you are losing purchasing power fast on any money maintained in interest bearing bank accounts. There is just no way of keeping up with inflation by keeping your money at the bank in today's political and monetary environment.

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.