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Bolstered by the combination of a solid economy, better than expected corporate earnings, and an anticipated end to the Federal Reserve's rate hikes, stocks rallied in the final quarter to finish the year up over 25%. Technology and growth stocks more broadly jumped thanks to expectations of rate cuts in 2024 and enthusiasm over an emerging boom in Artificial Intelligence technologies. Bond investors, meanwhile, avoided an unprecedented third straight year of losses as yields on 10-year treasury bonds started the year around 3.8%, rose to a 17-year high of 5%, and closed the year very near where they began. A year ago, a record number of CEO's said they expected a U.S. recession by the second half of the year, and Fed Chair Jerome Powell indicated rate hikes would continue "until the job is done". Today, inflation has since more than halved across the developed world, Fed officials recently signaled they will likely lower rates in 2024, and most prognosticators believe we will avoid the anticipated recession.

Our Kirwan Capital Strategy portfolios gained 11.63% for the quarter\*\*, versus the market as measured by the S&P 500 ETF\*, which finished with a nearly identical gain of 11.64%. For the full year, our portfolios were up 26.02% vs. 26.18% for the ETF. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 11.39%, which would have turned a \$10,000 investment into \$36,525 in 11 years. Among our holdings, Equifax, Chewy, Amazon, Microsoft, and Costco were our biggest winners during the quarter. Our biggest detractors were Casey's, Berkshire Hathaway (which each still gained over 1%), and Sleep Number. We did have more activity than our recent norms, selling stakes in Kellogg, Kellanova (acquired via spinoff from Kellogg), Anheuser-Busch, Starbucks, and Molson Coors. We used the funds to add new holdings Chewy, Nvidia, and Snowflake, and added slightly to stakes in Casey's and Sleep Number. In addition, we purchased a new stake in Truist Financial, a regional bank that had dropped significantly as difficulties integrating a recent merger and fear of contagion from the collapse of Silicon Valley Bank weighed on regional bank stocks. In addition, Truist owned an insurance brokerage unit that is one of the largest in the U.S, which I felt was worth twice as much on a Price/Earnings basis as the bank's valuation. Within days of our purchase, however, Truist announced they were selling the brokerage unit to generate cash. This move, in my opinion, was a negative development which will likely reduce long-term growth prospects and may indicate the bank's near-term situation is worse than anticipated. The bank's stock fortuitously rose over the next several weeks with gains in the broader market, so we sold our stake with a profit of over 10%.

On November 28, the world lost investing icon Charlie Munger, who died just 34 days before his 100<sup>th</sup> birthday. Often referred to as Warren Buffet's right-hand man at Berkshire Hathaway, Warren's children have referred to their dad as the "second smartest person" they have ever known, inferring that Charlie is #1. Known for his terse comments and answers to questions during Berkshire's annual meetings, his ability to get to the core of any matter was widely regarded. His speeches, writings, and interviews are all part of my regular reading (and re-reading) routine, and his quotes and pithy comments have become so widely followed they are now known as "Mungerisms". A few of my favorites:

- "People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts."
- "In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time – none, zero."



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- “The more hard lessons you can learn vicariously rather than through your own hard experience, the better.”
- “There is nothing more counterproductive than envy. Someone in the world will always be better than you. Of all the sins, envy is easily the worst, because you can’t even have any fun with it. It’s a total net loss.”
- “People calculate too much and think too little.”
- “Recognize reality even when you don’t like it – especially when you don’t like it.”
- “Those who will not face improvements because they are changes, will face changes that are not improvements.”
- On cryptocurrency: “It’s like somebody else is trading turds and you decide ‘I can’t be left out’.”
- “Whenever you think something or some person is ruining your life, it’s you. A victimization mentality is so debilitating.”
- “Above all, never fool yourself, and remember that you are the easiest person to fool.”
- “I believe in the discipline of mastering the best that other people have ever figured out. I don’t believe in just sitting down and trying to dream it all up yourself. Nobody’s that smart...”

Heading into 2024, the most pertinent questions appear to be: (1) Will the economy avoid recession?, (2) Will inflation continue to moderate?, and (3) Will the Fed cut rates as aggressively as the market now anticipates? How the answers to these questions unfold will likely determine much of what occurs in the markets.

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). Its 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.