MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

4th Quarter, December 31, 2023	12/31/2023	% Change 4th Quarter	% Change Year to date
Dow Jones Industrials	37,689.54	13.09 %*	16.18 %*
S & P 500	4,769.83	11.69 %*	26.29 %*
Russell 2000	2,027.07	14.03 %*	16.93 %*
BC Aggregate BD Index		6.82 %	5.53 %
10 YR. Treasury Yield	3.88 %		
30 YR. Treasury Yield	4.03 %		

** Includes reinvested dividend*

Charlie Munger: The Abominable No-Man

On November 28th, 2023, Charlie Munger, Warren Buffett's investment partner at Berkshire Hathaway for more than 45 years, passed away at the age of 99. After Munger's passing, Buffett noted "Berkshire Hathaway could not have been built to its present-day status without Charlie's inspiration, wisdom, and participation." Charlie's investment philosophy was multi-disciplined, emphasizing that a broad base of knowledge across many fields of study could lead to better investment results. Conducting both his business and personal life with integrity, diligence, and a rigorous schedule, there are lessons for all of us in the way Charlie lived his life and invested.

While Warren Buffett is one of the most successful and recognizable financiers in the world, Charlie Munger was his "silent partner." Both were born in Omaha, Nebraska; Charlie on January 1st, 1924, and Warren on August 30th, 1930. In his youth, Charlie worked at Buffett & Sons, a grocery store run by Warren's grandfather, although the two did not connect until years later. After serving in the Army Air Corps as a meteorologist, Charlie attended Harvard Law School and graduated in 1948. He moved to Southern California and began a successful legal career. In 1959, while visiting Omaha to help with his father's estate, Charlie was invited to a dinner hosted by his father's neighbor, Dr. Ed Davis. Most of the attendees were relatives or close neighbors — one of which was a young friend of Dr. Davis's named Warren Buffett. Charlie and Warren instantly bonded over discussions of business, finance, and history. After sharing ideas and informally working together for many years, Charlie formally joined Warren at Berkshire Hathaway in 1978 as vice-chairman, and the rest is history. In 1978, Berkshire Hathaway Class A shares were selling at $157/share. As of year-end 2023, those shares closed at $542,625/share.

The recently released fourth abridged edition of *Poor Charlie's Almanack* is a collection of Charlie's speeches over the years and a wonderful reflection of the values and principles he lived with both personally and professionally. Interestingly, over the same period that Charlie formally worked with Buffett, we have developed our own principles over our first 45 years. When comparing our fundamental values, our principles are closely aligned with those of the late Charlie Munger, and our respective Venn Diagram would have a great deal of overlap.

Risk

One particular area of overlap is risk. Charlie was first and foremost concerned about risk, and like most value investors, he insisted on a margin of safety. Buffett would refer to Charlie as his "Abominable No-Man", often curbing Warren's enthusiasm when he perceived too much risk. When we enter a position, we are humble enough to recognize that no one has all the information. Therefore, we want a cushion in the form of buying at a discount to what we believe to be a position's intrinsic value. Rare is the trade that is purchased at the absolute bottom or sold at the absolute top. When we purchase at a discount to our calculated intrinsic value, we are leaving room for human error and irrational behavior. Equally important to selecting which positions to invest in are the investment ideas that we pass on. As alluring as concepts and potential are, we must let the research process dictate the risk we will accept, passing on investments where the risk to capital is significant, no matter the upside potential. Over the last few years, we have been able to avoid the losses and bankruptcies that resulted from the excitement around SPACs, Meme stocks, and dubious EV investments. While we will miss some shooting stars, our objectives are to protect and carefully grow your portfolio.

Once we have defined and accepted our risk parameters, we begin the process of pricing a business. Our offices in the village of Harmony, PA, are the perfect environment for our objective and independent research. Uncluttered by the herd mentality and biases that are inherently present in Wall Street research, we strive to identify value through exhaustive fundamental research. Research is an orphaned department for most large firms, an expense item that is always under cost pressure. In the smaller capitalization arena, there is very little research. Research is the essence of what we do and devote almost all our energies to the search for value. Charlie Munger had his own process for identifying the value of a business apart from the stock price, and he stayed far away from crowded opinions. He eschewed the conventional wisdom on the Street and the mispricing of securities that results from herd activity. He noted "Mimicking the herd invites regression to the mean." When the crowd sells any security and particularly an overpriced security, the declines can be exaggerated and sometimes devastating.

Orphaned Spin-Off, WK Kellogg

On October 2nd, 2023, the Kellogg Company separated into two legal entities. Kellogg shareholders received one share of WK Kellogg for every four shares of the original parent company, Kellogg (this is known in Wall Street parlance as a spin-off). WK Kellogg (KLG), the spin-off, represents the North American cereal business, and Kellanova (K), the parent, is now a global snacking business. KLG brands include Corn Flakes, Frosted Flakes, Raisin Bran, Special K, Frosted Mini-Wheats, Kashi, All-Bran, and Smart Start. K has retained the international branding for cereal and is more focused on the global snack food business. Brands for K include Pringles, Club Crackers, Pop Tarts, Cheez-It, Eggo, and Town House crackers. K has a market capitalization of $18.6 billion and KLG, much smaller, has a market capitalization of $1.1 billion. While we like both companies, in our opinion, the better value for total return is in WK Kellogg. The stock currently trades at approximately $12.80 a share and pays a dividend approaching 5%. As noted above, there is virtually no research coverage on small cap stocks, especially new spin-offs, and the Street tends to sell smaller spin-offs.

We would posit the smaller WK Kellogg, with the crowd selling, has been mispriced. We think Charlie would have agreed that the value we perceive is well above the market price and we do not have to worry about mimicking the crowd, there is none.

Munger, Charles T. (2005) 2023. *Poor Charlie's Almanack: The Essential Wit and Wisdom of Charles T. Munger*. Edited by Peter D. Kaufman. 4th ed. San Francisco, California: Stripe Press.