BANYAN CAPITAL MANAGEMENT

April 19, 2021

Banyan's equity composite gained 11.2% in the first quarter compared to the S&P 500's total return of 6.2%. Although pleasing, we urge you not to put much weight in a single quarter, good or bad. Our aim is to produce satisfactory results over the long-haul. We focus our attention accordingly, and we ask that you do the same.

Taking a longer view, Banyan's equity composite gained 63.4% over the last twelve months compared to the S&P 500's total return of 56.4%. Over the last three years, our equity composite compounded at an annual rate of 18.8% compared to the S&P 500's annualized total return of 16.8%. Performance back to inception along with disclosures can be found here.

Although we maintain a long-term focus at Banyan, we can be agile when needed. Markets present opportunities in a lumpy fashion. This can result in long spells of idleness interrupted by spurts of activity. For us, the first quarter brought about a spurt of activity. We bought more Markel and Vontier, we sold Discovery, and we acquired shares of Altria, which we did not previously own.

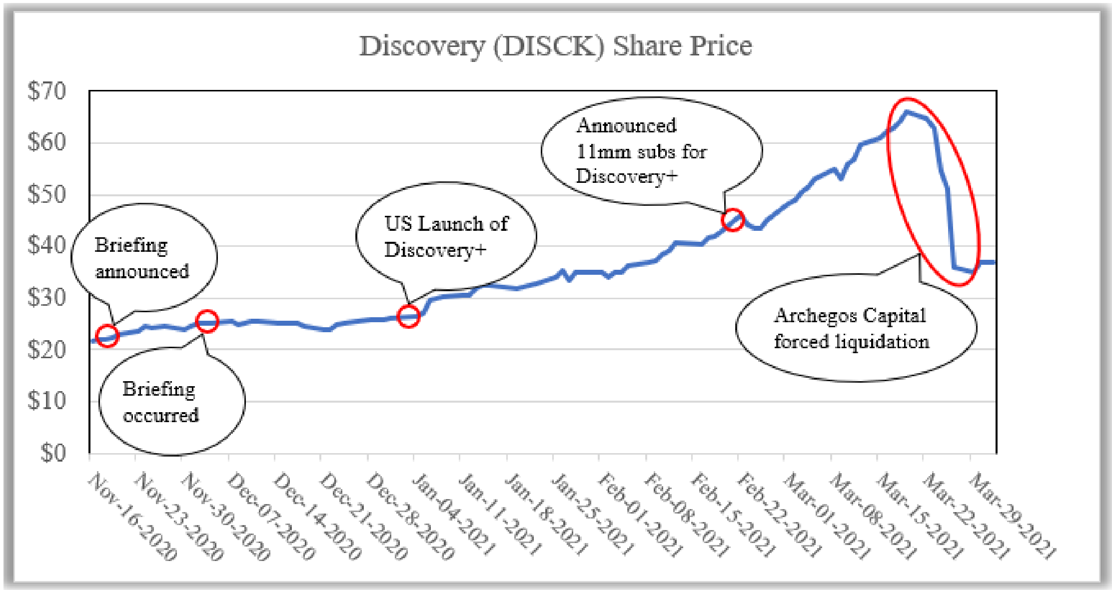
We discussed our reasons for buying Discovery in our second quarter 2020 letter (available here). Because of this, we feel an obligation to discuss our reasons for selling so soon. It is unusual for us to own a stock for such a short period unless we are engaging in a merger arbitrage. Yet, we owned Discovery for less than a year in some portfolios. Why the unusual behavior?

On November 19, 2020, Discovery scheduled an "Investor Briefing" regarding the launch of its streaming service, Discovery+. The briefing occurred on December 2nd, and the product launched in the U.S. on January 4, 2021. Discovery+ resonated with consumers and boasted 11 million paying subscribers by February 22nd, which was well ahead of most observers' expectations.

The launch and success of Discovery+ was good news. It illustrated management's desire and ability to adapt the firm to a new video environment, and Discovery's stock reacted accordingly. The day before the announcement of the "Investor Briefing," Discovery's series C stock closed at $22.03. It closed at $25.24 on the day of the briefing. The stock rose to $35.03 by the end of January 2021. It leapt to $46 on February 22nd. The stock peaked at $66.70 on March 22nd.

Although positive news, we did not think these prices were justified. We began selling at $35.07 in retirement accounts on February 1st. Our selling in individual accounts was delayed in an effort to reach the one-year holding period necessary to receive long-term tax treatment. This was a blessing. We sold at some very "special prices," to quote a friend of the firm, due to arbitrary tax rules rather than superior intelligence. For once, you can *thank* the Tax Man.

We later learned one of the reasons behind the fast and furious rise of Discovery's stock. An obscure hedge fund, Archegos Capital, borrowed tens of billions of dollars from investment banks like Credit Suisse to buy stock in various companies, including Discovery. The hedge fund was over leveraged and received "margin calls" in late March. It defaulted, and its lenders sold the collateral (e.g., Discovery's stock) to repay the loans. The effected stocks cratered. Discovery fell 40% in mid-day trading on March 26th alone. A Bloomberg article on the saga is available here.




"An investor needs the leeway to sell an asset if its price untethers from its fundamentals," we argued in our fourth quarter 2020 letter (available here). Little did we know how soon this debate would move from the theoretical to the practical. Remaining focused on business fundamentals as opposed to market sentiment is critical to sound investing. Keeping this firmly in mind is key to ***building permanent wealth***, especially in heady markets like we are experiencing today.

Sincerely,

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Partner & Portfolio Manager

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