Banyan Capital Management

January 22, 2024

Dear Client,

Banyan's equity composite gained 19.4% in 2023 versus the S&P 500's total return of 26.3%. Over the trailing three- and five-year periods, our equity composite compounded at 8.5% and 14.2% per year, respectively, while the S&P 500 compounded at 10.0% and 15.7% per year, respectively. For more details about our equity composite, please click here.

Reflections & Lessons Learned

It has been five years since yours truly took the helm at Banyan. And what an odd five years it has been. Stocks roared higher in 2019. A pandemic shook the world in 2020, and governments reacted with historic money printing and bailouts. This fueled a speculative mania in 2021 and inflation in 2022. In 2023, not even elevated interest rates and a banking crisis could keep stocks down.

Nevertheless, five years, even five odd years, is enough time to judge a money manager; anything less is too heavily influenced by luck. So, how did we do? Over the last five years, as noted above, our equity composite compounded at 14.2% per year. Thus, each dollar invested at the start of 2019 became $1.95 by the end of 2023, gross of fees. We are proud of this result.

Moreover, our equity composite truly represents how our clients did. Of the $190 million Banyan managed at yearend 2023, over 95% of managed assets were included in our equity composite versus 91% at the start of 2019. For context, our equity composite includes stocks, of course, as well as cash and Treasury Bills. Only bonds and mutual funds are excluded from our composite.

Speaking of bonds, which compounded at only 1.29% over the period, we avoided them entirely.[1] A poor result for bond investors was inevitable. Yet, many money managers, if not most, stuck with bonds. Why? Straying from the herd can be riskier to a career than being wrong. Or, as Keynes said, "[I]t is better for reputation to fail conventionally than to succeed unconventionally."[2]

On a relative basis, our results were mixed. We modestly lagged the tech-heavy S&P 500 over the period. This is unsurprising in hindsight. As "value investors," we are price-conscious, and that was a headwind. By some measures, expensive "growth" stocks beat inexpensive "value" stocks over the period by a margin *exceeding* the Tech bubble.[3] We are pleased to have largely kept up.

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[1] S&P U.S. Aggregate Bond Index, *available at*: https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-aggregate-bond-index/#overview.

[2] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* 103 (ed. 2008).

[3] *See*, *e.g.*, Dan Weil, *The Case for Investing in Value Stocks*, THE WALL STREET JOURNAL (June 2, 2023), *available at*: https://www.wsj.com/articles/investing-value-stocks-2be29ad9; *see also*, *Value: Why Now? Capturing the Comeback in Its Early Innings*, AQR CAPITAL MANAGEMENT (First Quarter 2023), *available at*: https://www.aqr.com/Insights/Research/White-Papers/Value-Why-Now-Capturing-the-Comeback-in-Its-Early-Innings.

We also made mistakes over the period. Our mistakes were ones of both commission and omission. The former appear on reports for all to see; only we see the latter, and they are usually more costly. For that reason, it is important that we share both. Some of our more noteworthy mistakes were:

1. **Mistakes of Commission** | We paid $17.23 per share for Altice (ATUS) in late 2021 and sold for $4.55 per share one year later, for a loss of 74%, after concluding it was likely to go bankrupt. We also bought more Charter Communications (CHTR) in late 2021 for as much as $665 per share, which, in hindsight, was too high a price. Lastly, we made a lot of money on Discovery Communications (DISCK), but our profits were due to luck.

2. **Mistakes of Omission** | Thumb sucking hurt us even more over the last five years. We did the work on ESAB Corp. (ESAB), a great business, but did not buy it in late 2022 at $33 per share. We did not want to pay more than $30. ESAB ended 2023 at a fair price of $86.62 per share. Likewise, we knew well Facebook's parent, Meta Platforms (META), but passed on the stock at $91 per share in late 2022. It ended 2023 at $353.96 per share.

In short, we are pleased with our track record over the last five years, all things considered. Better yet, we are more optimistic than ever about the future. Many lessons were learned or relearned, and we are better for it. We are grateful for our mistakes in that sense. The lessons learned were:

1. **Quality Trumps Price** | As Buffett taught and Gary preached, it is better to pay a fair price for a great business than a great price for a fair business. Or, as the wise banker counsels, beware usurious rates of interest. ATUS painfully retaught us these lessons.

2. **Evolving Opinions** | Business conditions evolve; one's opinion of a business must evolve as fast. CHTR taught us this. We were slow to update our opinion as CHTR's core internet business grew more competitive. We overpaid for the stock in 2021 as a result.

3. **Close Is Good Enough** | If a great business is a bargain at $30 per share, it is a bargain at $33 per share. ESAB made this clear. Holding out for a few dollars is foolish. Just accept a slightly higher price. Otherwise, you may miss out, and the cost can be huge.

Our relationship with you, our client, is one of trust, and your trust in us is precious. It takes years, if not decades, to earn but can be lost in a moment. For that reason, we will always be honest and transparent. This includes our mistakes. It is simply good business. Moreover, honestly assessing the past helps us improve upon the future, and that is key to ***building permanent wealth***.

Sincerely,

Drew Estes, CFA, JD
Portfolio Manager