

Dear All,

In January 2025, Rod Capital said farewell to our COO, Bardia Maghami. He did so much in the eight years with us to efficiently automate our processes that even though he has been gone for nearly a year, it's like he never left. We would not have survived this long without him and certainly would have closed shop when he exited if his work wasn't as excellent and long-lasting. We wish him and his new super short commute well!

Our administrators at Essential Fund Services have helped pick up the remaining slack of his absence. Still, one victim of his absence has been our update letters. Bardia would help prepare these for me.

So here goes. A new letter, finally, done all by myself...

### **2025 Investment Environment – September 7<sup>th</sup>, 2025**

I used to say that everyone should be a long-term stock market investor and not panic when things get rough. I never truly understood what that would look like!

Today, the stock market – along with the cryptocurrency market – is making a lot of people feel very confident about their skills. They are convinced that their investments will always recover and back them up. And maybe it will. Maybe that's the new abundance environment.

Or maybe not. When I look at the top traded stocks as I write this – Tesla [TSLA], Nvidia [NVDA], and Palantir [PLTR] – I see stocks that do not have a sound basis for their valuations based on how we historically value companies. When I look further and see Microstrategy [MSTR] in the top 20 most traded stocks, I'm alarmed. This is a Ponzi scheme type of company whose sole purpose is buying Bitcoin, being reliant on trading at a significant premium to the value of its Bitcoin, while the company sells its shares to buy more Bitcoin. It's really, really... stupid.

But AI is real at least and it's going to provide explosive growth because another \$500 billion is going into this amazing technology in 2026, right?

Well, companies are furiously SPENDING money on an AI arms race. It benefits Nvidia and a few others, but who says any of this is sustainable for the big spenders? Investors are rewarding continued growing earnings (adjusted EBITDA earnings) and ignoring significantly higher CAPEX and lower free cash flow. These big companies are thus slowing down buybacks which may have helped prop them up so high in the first place.

In addition, momentum investors have crowded into the market, still buying ridiculously valued hyped up stocks despite poor company performance. All in a country that clearly has a collective gambling problem.

I see all of this as a result of a still decent jobs market fueled by cheap energy and supported – most significantly – by the increasing debt burden of the United States government. That's the real secret. So how is this government supposed to fund itself and continue to pay its obligations without significantly raising taxes?

Oh that's right. A performance artist president who pretends to be a businessman is supposed to fix all of this. The man has a brilliant idea to fix this revenue problem – tariffs – tax the imports (and in effect consumers), all just to avoid increasing taxes on the rich. And here we are. Trump – the face that makes the world question American exceptionalism – promising a growing economy while squeezing the consumer and killing the dollar. It's not even all his fault. This is all decades in the making.

Investors are at a dangerous crossroads and have been positioning themselves to profit before the 'shit hits the fan'. I see signs that the shit is hitting the fan despite what the market is doing.

We're in an economy that is high on its own supply of paper wealth. The market is leading the economy and not the other way around. Beneath the surface is less cash flow, more debt, and a weakening consumer.

Since I started this fund in 2016 – which was a relatively average economic year as I define it – The S&P has nearly doubled the performance of the Russell 2000. And that's during a time when the Russell is at a more than healthy 9.75% annual growth rate. Stocks in general tend to historically do a 9% annual growth rate on the high side. So are small caps underperforming the S&P or – does the S&P 500 have 50% downside risk (and the Nasdaq 65% downside)?

Fortunately, my cautious outlook won't stop me from identifying short-term opportunities as well as defensive and undervalued companies. My goal is to continue to take advantage of defensive investments and position us positively for a stagnant or down market that finally suffers the effects of inflation.

### **2025 Investment Positioning and Focus**

We have four buckets with the following general kind of defensive exposure today:

- 1) 40% exposure in special situations and speculating on near-term acquisitions.
- 2) 30% net exposure in long and short stocks. The longs are tilted toward value (growing, low multiple companies) and the shorts tilted toward risky growth (high multiple, not growing companies).
- 3) 15% exposure in cash rich companies and companies with a NAV near or well above the trading price.
- 4) 0%-40% in short-term exposure in short-term investments with a catalyst (earnings and other news-related events)

A recent example of a stock we are long that uniquely sort of fits all 4 buckets is Nextdoor (NXDR). This is a sub \$1 billion company that we held a small position in (1) speculating that it may be acquired, (2) believing that it presents a good value play because, (3) it was trading very close to its relatively giant cash position. We loaded up mid-year for a (4) short-term position as the exiting former executives signaled that they were selling off their stock and the new CEO launched a rebrand of the company. We gained on this position and are again trimming it as the company buys back its shares and reapproaches a more reasonable valuation.

Our largest current position (13%) is a special situation we established this year in a company that was already acquired, Endeavor Group (EDR). We optioned not to accept the cash offered by Silver Lake, the buyer and majority holder of the shares. Instead, we join the majority of minority investors who will take Silver Lake to court in what's known as a dissenting shareholder appraisal right case. The case is exceptionally strong as Silver Lake may owe more than a 50% premium to what we were to receive not including significant interest which, by statute, is accumulating as long as Silver Lake – who is extremely well capitalized – chooses not to pay us. A recent development also made the legal expenses involved in this case surprisingly low. There's almost no risk in this position but also no assurance that a settlement or case conclusion will come shortly. Our investment is marked only at the buyout price until we, hopefully and suddenly, receive a healthy windfall. This should be a great value to our long-term partners.

That's all the writing I've got for now. I'll do a more comprehensive review and update at RCM's 10 year anniversary in April 2026! Please reach out if you have any questions. I hope you and your families are well.

Best Regards,  
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