



Bumbershoot
Holdings

Bumbershoot Holdings LP
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Dear Partners,

2020 was a difficult year.

Our two largest investments struggled right out of the gate. This continued for the rest of the quarter, which dropped us along with everyone else as the impact of COVID hit. We saw minimal snapback for most of the year, until a few larger positions staged a significant recovery in late Nov-Dec. This has accelerated into the early part of 2021, as the fund is now 15%+ YTD thru early February. The speed of the rotation reminds me a bit of the famous line from *Mighty Ducks*—*a quarter of an inch this way and it would have gone in. Yeah, but quarter inch the other way and you'd have missed completely.* Remarkable difference a couple of months can make.

While I'd much prefer to stay looking forward—as I am as excited about our positioning as at any point during the past 5 years—I think it is important to speak to the year that was. When things are going well, it's all just normal. But when things are bad... it is *excruciating*. It would be a disservice not to recap the lessons learned from over the past year.

If I had to pick a theme to define the year it would be the weight of responsibility. *"A heavy lies the crown sort of thing..."*

While there was the weight of the *healthcare crisis*, a responsibility which largely fell on the doctors & front-line workers—to whom we all owe a debt of gratitude—as well as the burden of *politics/power*, which I saw as

By Month:	Bumber	S&P ¹	Russell ²	FTSE ³	Barclay ⁴
Jan-2020	-8.58%	-0.16%	-3.26%	-3.40%	-0.18%
Feb-2020	-5.91%	-8.41%	-8.53%	-9.68%	-2.84%
Mar-2020	-16.48%	-12.51%	-21.90%	-13.81%	-9.16%
Apr-2020	8.37%	12.68%	13.66%	4.04%	5.37%
May-2020	4.84%	4.53%	6.36%	2.97%	2.67%
Jun-2020	-0.07%	1.84%	3.40%	1.53%	2.17%
Jul-2020	-1.39%	5.51%	2.71%	-4.41%	2.68%
Aug-2020	-0.41%	7.01%	5.50%	1.12%	2.39%
Sep-2020	-2.52%	-3.92%	-3.47%	-1.63%	-0.70%
Oct-2020	1.06%	-2.77%	2.04%	-4.92%	-0.11%
Nov-2020	8.43%	10.75%	18.29%	12.35%	5.80%
Dec-2020	9.13%	3.71%	8.52%	3.10%	3.43%

Bumbershoot Holdings L.P.

2020 Performance

		S&P ¹	Russell ²	FTSE ³	Barclay ⁴
FY-2020	-6.61%	16.26%	18.36%	-14.34%	11.13%
Inception	55.61%	109.42%	90.46%	11.81%	39.00%



*Canst thou, O partial sleep, give thy repose
To the wet sea-boy in an hour so rude,
And in the calmest and most stillest night,
With all appliances and means to boot,
Deny it to a king? Then, happy low, lie down!
Uneasy lies the head that wears a crown.¹*

largely being evaded—*'I take no responsibility at all'*—leaving people to die on a hill of \$1200 stimulus. I am more focused on the aspect of *personal responsibility*.

One thing I said last year was that *"you have to get it right on price too."* This is still true, with price being a function and reflection of the durability/confidence in future growth and sustainability of cash earnings. This is the *vision* that allows an investor to be able to apply a multiple/yield.

My belief in our process remains steadfast. We are not looking for *"places to hide."* Nor are we hoping to find a *"greater fool"* who is willing to pay a higher price for an asset without fundamental support. We are seeking *disconnects*. Planting seeds to find *big winners*; and letting them grow/compound until ready to harvest.

We make our money when we *buy* something, not the day we eventually choose to *sell* it.

Performance

Bumbershoot Holdings L.P. generated a negative gross return of -6.61% for the full-year 2020.

The partnership has a *cumulative* total gross return of +53.51% since inception in Oct-2015.

Looking more closely at performance, while monthly returns directionally trended with market indices for most of the year, the magnitude of returns was largely impacted by our largest positions and short exposure.

From an investment perspective, **Intrepid Potash** (*IPI:NYSE*) and **Viking Therapeutics** (*VKTX:NGS*) both struggled right off the bat, down roughly -30% in Jan-Feb. Viking stayed down for the remainder of the year and was a detractor to performance to the tune ~335bps. Intrepid despite being a significant drag on returns for most of the year, recovered at the very end of December and was a non-material contributor.

Short exposure accounted for nearly our entire decline for the year. If someone had told me at the beginning of the year that there would be a *global pandemic* and that *market hedges* was going to be our downfall, I don't know that I could've believed them.

Overall, it was less about what went wrong though, and more that just nothing worked in a big way. There was a jet stream in 2020, but very few of our investments entered into it. A lot of small positive movements, but no big winners; and in effect just felt like a "lost year."

Investment activity is categorized into five segments—*Core, Micro, Value, Special Situation, Discretionary*—although as previously noted, the line between certain categories can blur, making it difficult to attribute the specific contribution for each strategy. Best estimates of P/L performance for 2020 is as follows:

<i>By Category:</i>		<i>By Market Cap:</i>	
Core	-6.2%	Large	-3.5%
Core - Long	-0.2%	Mid	0.8%
Core - Short	-5.9%	Small	-2.8%
Micro	1.0%	Micro	-1.6%
Value	-1.1%	Fx	0.4%
Special Situation	-0.6%	Misc	0.1%
Discretionary	-0.3%	FY-2020	-6.6%
Fx.	0.4%		
Misc.	0.1%		
FY-2020	-6.6%		

Core gains were led by **Barrick Gold** (*GOLD:NYSE*), **Micron** (*MU:NYSE*), **Alphabet** (*GOOGL:NYSE*), **First Solar** (*FSLR:NGS*), **Kingfisher** (*KGF:LSE*), and **Weyerhaeuser** (*WY:NYSE*) among others.

Detracting from performance was short exposure and **Viking Therapeutics** (*VKTX:NGS*), in particular, as well as investments in *Energy/Basic Materials* sectors.

Micro strategy had a solid year led by **PFB** (*PFB:TSX*), the subject of last year's case study, as well as **Charles & Colvard** (*CTHR:NCM*), among others.

Value category registered a loss primarily attributable to investments in **Adams Resources** (*AE:NYSE*) and **Patriot Transportation** (*PATI:NYSE*). Several other less significant positions largely offset one another.

The *Special Situation* portfolio had a challenging year as deal spreads widened dramatically at the beginning of the pandemic. **Zagg** (*ZAGG:NGS*) in particular also detracted from performance after its Board suspended a review of strategic alternatives in March. This impact was partially offset by a handful of small-sized, distress situations that rebounded significantly in value as the year wore on.

In general, the *Core* category ended the year nearer its targeted exposure level. The *Non-Core* categories were mixed, with *Micro* and *Discretionary* strategies being above target weightings of ~5% AUM, while *Value* and *Special Situation* categories were below that mark.

Case Study – KVH Industries

Similar to the past couple of years, I'd like to take this opportunity to provide partners with a "case study" on a couple of the fund's investments.

First is **KVH Industries** (*KVHI:NGS*), a *Core* top-10 position since 2017. This will be my first time publicly detailing the investment thesis.

KVH is a *gyroscope* business.

More specifically it is a *fiber-optic* gyroscope business; and even more than that it's an *antenna* manufacturer, *telecommunications* service provider, *military* defense contractor, and a huge swing on the *internet of things* and *autonomous driving* technology...

To understand the full extent of the description above requires a look into KVH's history. Headquartered in Rhode Island, the company has a long history related to *sailing*. It created a digital compass in the early 80s, which formed deep ties within the maritime industry. Combining sensor and autocalibration technologies—along with a core competency in fiber-optic gyroscopes—it eventually introduced the *TracVision* antenna in the mid-1990s.

These are the giant *domes* you might be familiar with if you've ever looked at a cargo ship or yacht. What's happening *inside* the dome is a bit of magic based on a "stabilized antenna." In effect, it is using super high precision (fiber-optic) gyroscopes to measure angular momentum across a specific axis. It can take this info and use it to reorient itself—in order to stay connected with a satellite while bouncing around on the water.



This product became well-known to seafarers as being associated with services for satellite TV and phone for many years. But similar to how a cell phone is rarely used now for calls, the real connection is *data*.

KVH had eventually built a huge coverage network for its products over the course of many years to become a leading *service provider*. But now the service sailors require is *internet*.

This is KVH's core business; and if I'm right about the company... it is the *Verizon* of the ocean. If I'm wrong... it's maybe more like the *T-Mobile*.

The company is *vertically integrated* on almost every step of the provider network up to the satellite. This includes the antenna, communications box & network management services, coverage network, etc. It is not a satellite operator though—which is actually a highly competitive industry. It partners with satellite owners to create a coverage network, much the same way any wireless service provider would to establish a broader terrestrial coverage area through towers.

While the global satellite communications market for the maritime industry has been growing, a new phase of growth has long been awaited as part of an upgrade cycle in *bandwidth*. Mobile devices communicate via radio frequency (RF) waves; and just like the upgrade cycle from 4G to 5G in cellphones, the satellite market has been waiting for high-throughput satellites (HTS). This is an upgrade cycle from low frequency C- and L-bands to the higher frequency Ka- and Ku-bands. This is akin to going from dial-up to cable. Or maybe more like AM to FM in radio...

This matters though because *speed* makes all sorts of new capabilities/applications become available. Data usage on the seas is historically scant—and expensive! But think about operating data, training videos, email and texting, streaming movies, etc. The amount of data generated will become more intensive; and the total number of ships/users will also increase dramatically.

Besides speed, cost was always the other major hurdle to adoption. To take the up-front cost factor out of the equation, KVH borrowed a page from Apple's playbook by offering a "subscription" model. This is *AgilePlans*, which KVH unveiled as its "connectivity-as-a-service" (CaaS) offering that launched in 2018; and it has been gaining traction with customers ever since.

While today, connectivity is viewed as a major part of crew welfare and retention, in the future it is likely to also be about synthesizing data into *intelligence*. This

is what KVH has started to address through maritime IoT solutions such as *KVH Watch* for remote monitor of onboard equipment and integrated *IoT Inside* in all VSAT terminals.

The satellite communications market for the maritime industry has a long way to go to develop into what it is ultimately likely to become. KVH is very likely to grow along with it, transforming into a much larger business in the process.

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Besides the main maritime communications business, KVH has similarly taken the core fiber-optic gyroscope technology and vertically integrated it into some other unique applications. Chief among these is a sensor known as an inertial measurement unit (IMU). It then further incorporates these into an inertial navigation system known as *TACNAV 3D*.

The navigation & positioning capabilities are used for various military applications such as unmanned aerial devices/drones, homing devices, etc. Particularly cases where GPS is unavailable/undesirable. While this has never been a huge business for the company, the Army has made *assured positioning, navigation and timing* (A-PNT) one of its [six modernization priorities](#) to try to reduce reliance on GPS. Without committing to any formal targets, it is likely to add to growth over time.

In addition, IMUs are used in conjunction with LiDAR systems, which is a *foundational* part of *autonomous driving* programs. While this is not on the immediate horizon; and perhaps more importantly is not needed to underwrite a highly positive investment outcome... nonetheless, it could be a substantial opportunity.

Microelectromechanical system (MEMS) gyros like the ones used in cell phones are questionable in terms of whether they provide a high enough level of precision. KVH has been attempting to drive down the cost of its fiber-optic solutions; and it ultimately may come down to which can improve faster—cost vs. performance.

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In either case, with the key maritime communications business set to get to scale, KVH's story is likely to get very interesting over the next couple of years. Despite its relatively small market cap, what differentiates the company as a *Core* investment is the belief that it has the ability to write its own growth story and control its own destiny, independent of broader macro trends. It

is actually pretty amazing to me how secure a position the company has carved out for as small a market-cap size as it is awarded. That might be ready to change.

It would seem KVH's time has finally arrived.

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Bumbershoot purchased our initial stake in KVHI in the summer of 2016, establishing a bookmark position of only ~5bps. We added significantly to the position in early 2017, building it to approximately ~200bps by mid-year. We took an additional ~100bps of exposure in mid-2018; and similarly added to it again in 2019. All told, it tallied to roughly ~425bps position *at cost* with an “adjusted” basis of ~\$9.45/share, less some minor realized trading profits. Allocated as part of our *Core* category, this placed it as a top-10 position within the overall fund heading into this year.

Turning to the company's financials, KVH presents a bit of a challenge. The switch to a service model rather than a hardware sale, combined with the impact from COVID-19 and sale of its *VideoTel* division has led to somewhat of a *GAAP enigma*. Despite the *AgilePlans* offering continuing to show strong growth in adoption, it hasn't registered on the income statement. Most of the benefit comes from ratably recognizing the “sale” of hardware through subscription revenue over time—and cash flow should build as a larger installed base leads to high incremental margins at scale.

The company is well capitalized to bring it to the next level. The balance sheet includes roughly ~\$40m cash and no debt, aside from ~\$7m in paycheck protection program (PPP) loans which it expects to be forgiven.

The company also owns its corporate headquarters in Middletown, RI, where it manufactures all its products related to satellite connectivity. It also owns a facility outside Chicago, IL to manufacture the specialty fiber for the gyroscopes & inertial navigation products.

Shares are heavily owned among a handful of steady institutional investors including *Needham*, *Blackrock*, *Dimensional Fund*, *Systematic Financial*, and *Vintage Capital*. Between those five firms and management it represents roughly ~50% of the float.

A slight *detractor* to last year's performance, because I'm a “deliberate” writer and this letter is a few weeks delayed, KVH has already produced meaningful gains to start 2021. I expect more to come.

Case Study – Charles & Colvard

Next up is **Charles & Colvard** (*CTHR:NCM*), which along with **PFB** (*PFB:TSX*), the subject of last year's "case study," represent the two largest positions from within our *Micro* strategy.

Charles & Colvard is a jewelry business.

More specifically it is a *moissanite* jeweler; and even more than that it is a small, direct-to-consumer (DTC) *brand* that is targeting to become the market leader in sustainable, lab created gems & fine jewelry.

The company has a neat history. The important thing to recognize about it, is that C&C was developed from within LED light manufacturer, **Cree** (*CREE:NGS*) in the mid-90s. Cree had long been associated with the use of *silicon carbide* as its substrate of choice. What it [discovered](#), however, was that clear, low impurity, silicon carbide crystals could also be cut into synthetic gemstones known as *Moissanite*—a rare, but naturally occurring crystalline discovered by French chemist, Henri Moissan.

Armed with substantial technical knowhow, as well as patent protections, Cree spun out the business in 1997 to let it survive on its own, mostly as a wholesaler of loose moissanite gemstones.

In recent years this shifted to a DTC model, as C&C's corporate history has blended with powerful trends in e-commerce & better acceptance of lab-created gems. It launched the core *Forever One* brand in 2015; and then started its *Caydia* brand for lab-grown diamonds this past year.

It now stands at the edge of a significant opportunity, with a legitimate chance to transcend into the leading brand for sustainable, lab-created jewelry; and a shot at a potential "20x bagger" in the process.

"Brand equity matters."

— Don O'Connell, CTHR CEO
FQ2'21 Conference Call

The "[upside](#)" case isn't just about hoping to sell more moissanite. It is about building into a next generation brand within the emerging area of lab-created jewelry. Not every company could become this brand. *DeBeers* can't. *Tiffany* can't. At least not in any way that could authentically resonate with consumers. This narrative

only has minimal resemblance to the current business generating ~\$40m per year in sales and few \$mil OP. Look out a few years though and it isn't difficult to see a shift in the number of people accepting/preferring a lab-created stone as an engagement piece, etc. Jewelry as fashion, but also as a statement. Not necessarily as a show of wealth, but as a sign of sustainability/value. Doesn't need a big shift to drive significant growth in the business. Even a 1% shift in the market... would be enormous. *Tidal wave*. As the [size of the total market](#) for engagement rings measures in the \$10-\$15b range.

5-years of 20% growth would see the business grow to \$100m+ of sales. At 50%+ gross margins with \$20m+ of SG&A spend and held at a 35% tax rate, this could get to ~\$20m in FCF. Apply a 25x multiple for a nicely growing business and it'd drive a \$500m market cap—20x our initial starting point of ~\$25m in size.

A rosy projection to be sure... but not unreasonable.

Extrapolate out just another couple of years and it gets sillier still. Drawing nearer to that point, it would also likely become increasingly desirable to the "old-guard" strategic brands looking to pivot & reposition around (not just) "*Millennial generation*" core values such as sustainability, etc. It could also attract interest from a more naturally aligned company looking to push in a new direction, like our past core portfolio position in **Urban Outfitters** (*URBN:NGS*). Could see it being a perfect fit to complement the [BHLDN](#) brand-within-a-brand concept of *Anthropologie*.

While this may be getting way ahead of the company, it is still important to think about because if/when that growth narrative truly takes hold, it can immediately be discounted back to today. The most difficult part of the "upside" scenario is just holding on. Ultimately, as long as the thesis remains intact, I plan to hold until it becomes *uncomfortably* large.

Of course, it may not all work out quite as envisioned. The "[downside](#)" case is if that narrative never catches on. The company is not destined to be the brand in lab grown gemstones. Moissanite isn't having a moment in the melting ice cube of a \$300b global jewelry market.

What happens then? Well in that case, it would likely just continue on its current path forward. Attempting to grow the brand. Trying to educate the market on the

benefits of moissanite and lab created stones... but never transcending; and in effect, would basically look quite similar to how it does today. Maybe \$40m-\$50m in sales with a few \$mil operating profit, which based on a reasonable multiple of earnings in a zero-rates environment would bring it fairly close to the value it is trading at currently, excluding any benefit for cash.

It is simply too early to know which narrative is going to take hold. The truth will only come in time. But just looking at the two cases... the asymmetric skew is not something easy to find. Downside is modest with solid fundamental support even to levels slightly *above* the current price. Upside is *yolo*. WSB/Reddit-style to-da-moon growth narrative; and while I'm not sure that it is acceptable to put a rocketship emoji into a year-end letter... the reality is that kind of risk-reward is special. It usually involves being early and then waiting.

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Bumbershoot initiated a bookmark position on CTHR in early 2018. This was expanded later in the year and into early 2019, before trading out of the majority of it after the stock ran up. The position was re-established in 2019 after the offering and then increased in size in 2020 after the stock dropped, first due to a slight miss on earnings and then due to COVID. The position was then significantly expanded in the late Summer-Fall following the management change. All told, we built a 250bps position *at cost* at an average of ~\$1.01/share. Along with PFB this makes up the bulk of our current *Micro* portfolio in terms of value.

While the stock has soared to start 2021, I believe the best is yet to come.

Investment Outlook

The structural configuration of the economy remains unchanged compared to the past couple of years. That may sound surprising given everything going on, but the Fed's extraordinarily accommodative monetary policy still dominates the fore of the market landscape. As I added more colorfully in [last year's letter](#):

“Well, if you had read your industry breakdown, you would see that...” the Fed is in control. Interest rates are at historic lows—there is no alternative to equities. Too much liquidity is chasing far fewer durable profits. Technology businesses operating under a different set of scalar economics. Trade disputes put at ease for sake of an election year. A confident consumer with jobless rates at a 50-year low. Momentum in stocks. HODL!⁹

This was the case to buy stocks; and *most* of it is still true, but with a couple of very important *distinctions*.

The first is the economic impact of COVID-19. While this should have only been a *transitory* non-structural change in the long-term outlook, given how botched our response became, it could lead to more permanent *structural* changes. The state of employment is vastly different today than it was just a year ago—and the distribution of that change has been polarized. Higher-wage earners have largely been unaffected, while lower-wage earners, particularly those in industries such as hospitality, have borne the full brunt of the pandemic. I've said before that there is always a lot riding on the American consumer—yet the “*what if*” question of a normal economic slowdown is being completely cast aside by the thought of even more additional stimulus. I don't necessarily think that's the wrong way to look at it, but it is certainly at least worth noting and serves as a good reminder to never risk getting too far ahead of our skis.

With that said, in a similar vein, the second distinction is that I had completely underestimated the lengths to which the Fed would go to sustain the longer-term expansion. When I spoke about that ‘equation’ seeming off in the *absence* of significantly higher inflation rates (“*Years and years of growth... itty bitty little discount rate*”) the expectation was that the Fed would need to raise interest rates. The idea that it would try to create inflation... and then welcome it... is sacrilegious. It calls into question the ideals of the entire system. One that was designed to provide us with a “safer, more flexible, and more stable monetary and financial system.”¹⁰

This dynamic was always positioned as a *balance*. The *Central Bank Superheroes* trying to defend against the evils of *Deflationary Forces* in the economy—namely demographics, globalization and technology/efficiency. And just like in the comics, in the end the superheroes always win... because even when it looks most grim... they still win (2% at a time) through inflation—growing our way out over cycles. This was traditionally the risk. Timing of the cycles. The ebbs and flows of liquidity to the reflation trade—the equivalent to potentially being forced to go to bed early without having a chance to flip to the next page to find out how the story ends.

The Central Bank's chief superpower has always been in its ability to control interest rates—but that can only do so much. It may seem at times like the Fed's gotten backed into a corner—constrained by the lower bound. (Yes, I said it, bound). Monetary policy can only push so far... now slowly backing down further into the alley with no more “bullets” left in the chamber... but ahha! Like a miracle the superhero finds a way. It discovers a newfound power that emerges—*asset purchases*. In unheard of sizes, with no political pushback. Full stop. There is no ebb anymore, it's just *flow*. The evil forces of *Deflation* have been brought to their knees. Justice has been served—at least until the next chapter...



The Fed is pressuring investors to not keep cash. It will not be suitable as a *store of value* asset going forward. Perhaps it never was. Maybe it can cling to its *reserve status*. But it is not a place to park wealth.

“If a policy of active or permissive inflation is to be a fact, then we can secure the shreds of our self-respect only by announcing the policy. We should have the decency to say to the money saver, ‘Hold still, little fish! All we intend to do is gut you.’”

—Malcolm Bryan
President (1951-1965)
Federal Reserve Bank of Atlanta

The third distinction is that up until now there had been no “spillover” into the real economy. Everything that was happening was all relatively contained on the Fed’s balance sheet. The massive buildup still needed to pass through the banking system as an intermediary. This “gatekeeper” function acted as an anchor to the real world—banks can only lend so much. There is only so much *creditworthiness* in the world before it stops making sense. It is the *principal* that really counts, not the *interest rate*.

This control valve on the system changed dramatically over past year though, as the Fed used COVID as a *tool* (*excuse?*) to encourage more direct intervention into the economy by the Federal government and private sector institutions through increased deficit spending, stimulus, PPP, etc. Even more than that, it has shifted cultural expectations of the entire debate around topics like universal basic income (“UBI”), modern monetary theory (“MMT”), etc.

This is slowly moving the buildup out of the theoretical and into the real. But it is important to note that I am willing to *suspend disbelief* that it just might work. I can keep an open mind to it being the right idea. That the *greater good* of extending the expansion to all will be worth the unintended *side effect* of producing some extraordinary wealth in others. As Jerome Powell said recently, “steady employment provides more than just a regular paycheck. It also bestows a sense of purpose, improves mental health, increases lifespan & benefits workers and their families.”¹³ And if it mints a handful of bazillionaires in the process... so be it.

I wouldn’t mind us being an *unintended consequence* of the latter two distinctions... presuming that the first one isn’t about to blow up in our face first.

Now please remember... I didn’t choose this structure! This would not be my preferred policy, as I believe it will lead to significantly greater inequality. But same as I wrote about **Viking Therapeutics** in an [article](#) from this summer, “you can’t underwrite something that *isn’t* likely occur just because you think it *should*. That type of wishful thinking is called fantasy.”

The Fed makes the game... we just need to play it to the best of our ability. *Can’t fight the Fed*. That is literally why this exists as a mantra.

But so how can we look to navigate in an environment such as this? From my perspective, an “ideal” portfolio would look something like...

Cash – “*enough*.” This is obviously going to depend on personal circumstances, preference, and lifestyle. No two people are going to be the same. But generally, I’d want to hold enough *cushion* to be able to survive any shock to the system (market correction/crash, loss of employment, medical emergency, etc.) without leading to becoming a *forced seller*.

Store of Value – “*A chunk*.” Fed doesn’t want people to hold cash—so why try to fight? If we’re going to pump the liquidity, then I want to be holding things that can *financialize*. Items that can act as gravity on cash and absorb that liquidity on a scale-free basis. Markets like gold, bitcoin, art, collectibles, etc. Gains in many of these hard-asset markets have been leading the equity markets.

Intriguingly enough, I view *bonds* (“fixed income”) as being a *store of value* asset—and not a particularly good one at that. Yields can’t get much lower on an absolute basis; and yield compression (i.e., “multiple”) is about as tight as it goes. Unless focused on distress “loan-to-own” strategies, it’s effectively just a mechanism of cash return at a much later date. What’s fun about that?

Return Producing Assets – “*The rest of it*.” Traditional return producing assets represent a sizable majority of my net worth. This is primarily *equity* investments in businesses with durable long-term cash flows that can reach beyond the present value page. Companies that are going to stick around for a while; and are trading at reasonable yields on cash earnings, within the context of super low-rates environment.

Large cap is still a reasonable ‘*place to hide*.’ Most of the non-contentious business leaders trade in the 2.5% to 4% yield range on cash earnings. Pricey in historical terms, but not so crazy in zero-rates. Occasionally one will slip through the cracks—trade down to ~5%-8.5% cash yield. We are certainly open to considering both, particularly if growth seems underappreciated.

More peculiar is all the “high-flyer” tech stocks, which seem to be resembling *store of value* assets. Trading like “*trophy assets*” makes little sense though, since storage costs for a business do not resemble anything like that of a hard asset. In general, I believe that the valuations here have run their course as the businesses

have *absorbed* all the liquidity it can handle. A *select few* will likely grow into and *well beyond* their current valuation levels, but for the vast majority... it is nearly impossible to underwrite a positive return, even with a minimal discount rate long into the future. As one of the largest beneficiaries of the reflation trade, most of the money in this area will need to find a “permanent home” lest risk giving it back. This is driving a huge rotation, which is already underway; and which I see as the *largest risk* to the overall market. I don’t expect many of these stocks to consolidate (“trade sideways”) and so if not going up, then perhaps coming down.

Small/mid-cap still has plenty of life (and landmines...) with many businesses still trading at reasonable yields for durable cash earnings streams. This is the sandbox we are generally playing in at the current moment as it provides the largest disconnect in potential returns.

Bumbershoot is my mechanism to address this portion.

The fund represents a vast majority of my personal net worth, having not taken any distributions from my LP account since launch in 2015. I have big expectations for what is to come; and I welcome partners—new and old—to come along for the ride.

Administrative

From an administrative perspective, little has changed. Our administrator raised rates. Health care premiums have gone up. Still using that upgraded *Wordpress*...

From a marketing standpoint, we still have too many people “orbiting” the fund. The process to transition *observers* into new *investors* has been frustrating; and for the time being I am more focused on growing our existing assets solely through performance. Ironically this also seems to draw people in off the sides, even though the best time to add is likely when we’re down.

Any support to intro the fund to new capital partners is still appreciated.

Taxes

Tax form-*Schedule K-1* for the 2020 calendar year are being prepared. Copies will be sent to each LP.

While not exactly the way I’d hoped to minimize our tax burden, partners can expect to recognize a taxable loss for the past year.

As a reminder, though, we successfully implemented a “master feeder” structure over the course of 2019 to be able to more efficiently pass back long-term gains of our *Core* holdings back to the original fund. Going forward, I still expect a more efficient & advantageous tax strategy in general.

Summary

Once again, I’d just remind all partners that the focus of *Bumbershoot Holdings* is on maximizing long-term returns. That objective is centered on our ‘*quality over quantity*’ philosophy to investing, which relies on deep fundamental analysis. Patience & discipline remain the foundation for our success.

The risk of *permanent capital impairment* is only the risk if you have permanent capital; otherwise, the risk is *volatility*. I am grateful to have an amazing investor base and take the responsibility of managing a portion of your money extraordinarily seriously. I’m still proud of everything we have accomplished to date (just 6.6% less so) and expect great things in the future.

Sincerely,



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¹ S&P 500 Index --

<https://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

² Russell 2000 Index --<http://www.ftserussell.com/index-series/index-tools/russell-index-performance-calculator>

³ FTSE 100 Index --

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=UKX®ion=gbr&culture=en-US>

⁴ BarclayHedge Hedge Fund Index --

http://www.barclayhedge.com/research/indices/ghs/Hedge_Fund_Index.html

⁵ A remark by Jack Nicholson's character from *The Departed* that is a misquote of the famous Shakespearean line --

https://www.youtube.com/watch?v=c8xT_afGr-c

⁶ Henry IV, Part II | Act III, Scene I --

<http://shakespeare.mit.edu/2henryiv/2henryiv.3.1.html>

⁷ Prince John --<https://www.etsy.com/ca/listing/57929...>

⁸ Yacht sketch -- <http://www.drawingskill.com/art/21492>

⁹ 'HODL' is a beloved cryptocurrency term, which originated from a misspelling of hold/holding. It has since taken on the backronym of "Hold on for dear life"—with the implication to just hold through anything.

¹⁰ Federal Reserve – About the Fed –

<https://www.federalreserve.gov/aboutthefed/fract.htm>

¹¹ The Atlantic – Central Bankers Are Superheroes –

<https://www.theatlantic.com/magazine/archive/2013/07/central-bankers-are-superheroes/309407/>

¹² Federal Reserve History – Malcolm Bryan –

<https://www.federalreservehistory.org/people/malcolm-h-bryan>

¹³ Federal Reserve – *Getting Back to Strong Labor Market* –

<https://www.federalreserve.gov/newsevents/speech/files/powell20210210a.pdf>

¹⁴ Behavioural Investment – *Is Volatility Risk?* –

<https://behaviouralinvestment.com/2018/07/03/is-volatility-risk/>

– Special thanks to Mark (@flipmodebok)

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Disclosure:

Long IPI, VKTX, GOLD, MU, GOOGL, FSLR, KGF.I, WY, PFB.ca, CTHR, AE, PATI