



To the Partners of BlackBird Financial LP:

2019 was a year that reminds me of the famous quote by American author Gail Sheehy; “If we don’t change, we don’t grow. If we don’t grow, we aren’t really living.” Within the year, we entirely revamped many aspects of our fund.

For one, we undertook a new name: BlackBird Financial. BlackBird was a spy plane used by the U.S. Army from 1964 until 1989, when the beautiful aircraft was retired. During the twenty-five years she served our country, BlackBird set both speed and altitude records, 3.3 Mach and 85,000 feet, respectively. Many have set world records, but the ones held by BlackBird have a unique longevity, as they both stand to this day. As I see it, and I think you’ll agree, this defines excellence. Though BlackBird will not be building the world’s fastest aircraft, our mission is to set incredible records that will stand long after we’re gone. The late Sam Walton, history’s most skillful retailer, advised, “High expectations are the key to everything.” We have certainly taken him seriously.

Additionally in 2019, we have changed the format of operations. Now, all investment dollars (including my own, of course) are held in a single pooled account. This ensures that before the management fee and the performance allocation are taken into account, we all share identical results. Special deals are not reserved for management, we simply do our best to achieve favorable returns on behalf of all our partners. Ever since I was a little boy in New Jersey I’ve disliked how many financial advisory firms keep each client in separate accounts. This adds an extra element of risk to the investor, as not only do they need to choose the right firm but also the right advisor, and then hope that their account gets the deserved attention. This also obscures the true skill of the firm because there isn’t a single record they stand behind. While there are those who may argue, I strongly believe that our new setup is the ideal way in which to manage money, and I’m thrilled we have finally adopted it.

On a similar note, BlackBird will never be a family of funds. From my experience in this field (more than one decade), I have found that typically, very few attractive opportunities are available to the investor, and over time they will fall in different industries, sizes, styles etc.; therefore, limiting ourselves to any one sector or style is bound to result in mediocre returns.

As for those who will argue that one man cannot possibly understand all industries, they are partially correct. There will indeed be several sectors beyond our expertise, and unless we have the ability to gain such know-how, we will have to avoid them. As an example, we are not likely to buy companies operating in fashion. Between 2010 and 2014 I invested in Abercrombie & Fitch, American Eagle, and other related businesses. While just a few short years previously their brands were sought after, consumers quickly began to see their logos as no more than a

nuisance. By little more than sheer luck, I sold each at a satisfactory profit during brief moments of optimism for their respective enterprises. More importantly, however, I learned how difficult that sector can be to predict. Even the brands that have been consumer favorites for decades can quickly lose their luster (think Gap).

On the other hand, it is underestimated how much carryover there is when investing in different sectors of the economy. With a thorough understanding of business generally, it becomes fairly easy to understand the mechanics of many distinct areas of the economy, thereby enabling you to find opportunities in many seemingly unrelated sectors. We will leave the so-called “industry specialists” to our competitors. Judging from the last ten years, their ideas haven’t fared so well.

Starting on January 1 of this year, all our trades will be executed by Interactive Brokers. You will find the following points noteworthy:

First, because we don’t collect commission on any trades, we have no incentive to buy and sell without purpose.

Second, many have inquired as to why we haven’t partnered with a more “prestigious” firm (i.e. Goldman Sachs) to execute our trades. The answer is simple; although they charge more money, they do not provide us with commensurate value. We will not spend an extra dollar unless we receive at least a dollar in value. Not. A. Single. Dollar. Ben Franklin once said “Beware of little expenses; a small leak will sink a great ship.” Is there anyone more quotable than Franklin?

This brings me to a third and most important point. Industry standard is to charge the limited partners for many of the fund’s operating expenses. These charges to the investors’ accounts is in addition to standard fees (in most cases 2% management fee plus 20% performance allocation on *all* profits). This practice can be likened to a grocery store clerk who adds a charge for the store’s rent, gas and electricity when the customer checks out. To call this practice absurd would be an understatement. Consequently, the fund will often spend lavishly to the detriment of the investor. After all, it’s not coming from their pockets. This will never happen at BlackBird. Every dollar of operating expenses is paid by the general partner. This will result in a leaner operation that will ultimately benefit you. A Biblical verse sums it up: “Do unto others as you would have them do unto you.” It’s really that simple.

I am also happy to report that as of the beginning of this year, we proudly use a new administrator, NAV Consulting, and a new auditor, Berkower LLC. NAV serves 960 clients with combined assets under administration of about \$92 billion, and yet they’ve paid us all the attention I could ask for; from that, we have all benefited. Maurice Berkower, Principal of Berkower LLC, has built the accounting firm into an industry leader through decades of hard and honest work. He has developed a sterling reputation, and I am thrilled to work together with Maurice.

Last, but certainly not least, I now have a partner in operating BlackBird. Mark Reich, CPA is the co-founder of RiverEdge Advisors, a successful hedge fund advisory firm in New York. He now serves as our Chief Operating Officer, and that should make you smile (it certainly has that effect on me). In the six months since we've begun working together, Mark has saved BlackBird significant money on operations and has been instrumental in helping organize our partnership. Mark has also educated me on matters relating to the various regulations applicable to our business, an absolute necessity. Unquestionably, BlackBird is a much stronger entity with far greater prospects with Mark on board.

As the old time proverb goes, "If you want to go fast, go alone. If you want to go far, go together."

Investments

So far this year, there are a few overpriced assets that I've identified. These stocks are so severely overpriced, that even under the rosiest of circumstances, these companies would not be able to justify their price. We have therefore opened a few short positions, and without any prediction as to timeframe, I think they'll do us very well. This brings me to an interesting (and informative) story. When Ben Graham, the father of value investing and Warren Buffett's teacher at Columbia University, was asked for the most important rule of investing, he replied with three words: "Margin of Safety." Warren Buffet, in a letter to Berkshire Hathaway's shareholders agreed, and I have no reason to argue with either of these masters. When I search for opportunities, I'm seeking obvious ideas (or "no-brainers" as the great corporate raider, Carl Icahn, would say). If you need a PhD to figure out that it's mispriced, I'll leave it to those who [think they] are geniuses.

As you know, I maintain a strict policy of keeping our specific investment activities private. I know that this is not the policy that many of you would choose, and so I'd like to explain myself. Until a few years ago, a few of my clients invested only a small amount of money with me, and as soon as I made an investment on their behalf (and report to them) they would make the identical investment, usually many times the size in their own brokerage account. They did this so as to avoid paying the fees they'd owe if they kept all the money with me. This is unfair in several ways. For one, it wasn't right to the honest partner that paid in full for the work on their behalf while others rode their coattails; and two, in cases where the investee was a small issue they would drive up the price in a meaningful manner, making it less advantageous to increase our position and making the company's share buybacks less effective. It is for this reason that our trades will remain private (unless dictated otherwise by law). I believe the benefits will far outweigh the sacrifice.

At present, I see the domestic securities as fully valued, with great deals especially difficult to come by. If it were up to me, I'd have the market drop dramatically. How things will

look this time next year is far beyond my knowledge. However, there are two things you can be certain of:

1. We will never lower our standards due to lack of available opportunities, and
2. We will not partake in many transactions.

As to the first, the reason is obvious; many geniuses have committed foolish acts in moments of desperation, and we will guard against it. As for the second, I believe in a very concentrated portfolio. Why would we invest our hard earned money in our twentieth best idea when we can increase the size of our most promising investment instead? How can you possibly believe that there are a hundred great opportunities available on any given day? How can one team possibly possess the thorough understanding necessary for investment in five dozen unique enterprises?

While business school professors teach the value of broad diversification, they evidently do not view stocks as pieces of operating businesses. How do I know, you ask? Because if they met a man who owned the leading car dealership, office complex, and supermarket in their city or town, they would consider him a well diversified businessperson. Why, then, would they view a portfolio holding the stocks of those same companies any differently? Stocks are not little pieces of paper that oscillate randomly in value. They are part ownership in underlying businesses. The idea that an investor needs to be involved in one hundred (or even twenty) enterprises to be safe is nothing short of ludicrous. I understand that most of our competition will think we're stupid hillbillies for having this belief, but I'd be very happy to compare BlackBirds returns to theirs. Indeed, I believe this philosophy to be one of our two core advantages (see our Information Packet for a detailed review). Unless I notify you otherwise, you can always assume this to be my investment philosophy.

As for my long-term (think long, long-term) general market outlook, I will reiterate my prediction that the market as a whole will provide much lower returns over the coming fifty-year period than it has in the last. In the years since 1970, equity prices have increased at a faster rate than GDP. This is due in large part to two forces. (1) An increase in corporate profits as a percentage of GDP, and (2) a significant reduction in interest rates. In 1970, corporate profits equated to roughly 5% of GDP, while labor accounted for more than 51%. Today, corporate profits account for more than 9% of GDP, and labor roughly 43%. Obviously, with profits growing faster than GDP, stock prices were bound to outpace the overall economy as well. As for interest rates, consider that a mature, stable company earning one billion dollars of profit per annum may be valued at only \$5 billion when interest rates are 14%, as they were in the early 1980s (and for a brief moment in 1981, 10-year treasuries yielded more than 15% and the S&P 500 sold for less than seven times earnings!). In contrast, the same exact company (earning identical profits) might be bought and sold for \$20 billion dollars today, with current interest rates well below 3% (and the S&P 500 sporting a P/E in the mid-twenties). That means that the change in interest rates alone provided a 300% return, without increasing the company's earnings at all. Obviously, as for the future, when interest rates are very low, there is only one direction for it to go (think of an elevator in the Empire State Building that finds itself on floor 1 at present).

Essentially, we have been experiencing strong gusts of wind at our backs for many years now. In all likelihood, the winds will subside, or even reverse course, thereby acting as a headwind to investment performance. While this does not mean that opportunities will be absent, we ought to keep our expectations in check. Before you become too concerned, however, allow me to remind you that the vast majority of macroeconomic prediction turn out to be wrong. This is one of the few times I'll be happy if I am wrong, too.

On a more positive note, we will surely see continued growth over time. The United States has both a culture and a system that incentivizes productivity. Tomorrow morning, like every other, there are millions of Americans waking up (very early in many cases) with a burning desire to improve the way things are done in this country. It is nearly impossible to imagine that this drive shared by so many capable people from sea to shining sea will fail to materialize in continued prosperity for our nation. Keeping a positive attitude will enable us to partake in these improvements in a meaningful way. As Winston Churchill once wrote "Attitude is a little thing that makes a big difference."

The following point is at present irrelevant, but on several occasions in the future will carry extreme importance. I'm referring to a recession/bear market. These will be the time periods that offer wonderful businesses at cheap prices. In thirty years, each of our net worths will largely depend on how we respond to these situations. What I'm saying is rather obvious, and may seem verbose, but it's not so simple. The very moments when it is most advantageous to invest every last dollar is also when it will be most challenging emotionally. When your account statements show red ink, the innate reaction is to sell all your investments (in an effort to stem the losses) and hide the cash under the mattress. What I'm suggesting is that you keep this thought in your mind, and whenever a crash does happen (next week or in a decade) you will be mentally prepared to pounce. You can trust that I will let you know when the opportunity arrives, and I'll trust that you will be farsighted and strong enough to go all out when bargains are for the taking. To quote Warren Buffet, the greatest investor known to mankind, "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

Once, there were two money managers, Steve and Warren, who went camping together one weekend. As they were setting up their tent, they noticed a large black bear standing just a few yards away. Immediately, Warren began tying his shoes, preparing to run. "Do you think you can outrun the animal?" Asked Steve. They say bears can move at speed in excess of 30 miles per hour in pursuit of their prey. Warren replied, "I don't need to outrun the bear, Steve, I only need to outrun you."

To at least some extent, the story with Steve and Warren does indeed reflect BlackBird's aim. As you are already aware, our stated mission is to offer long-term returns, net of fees, that are above the general market, using the S&P 500 index as our barometer. We expect to be judged not by our absolute returns, but rather on our success in meeting this goal. We use the S&P 500 as our benchmark because it is broad (500 large companies) and its performance can be easily had via one of many popular Exchange Traded Funds, all available at minimal cost to the

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investor. Each one of you can, without much hardship, have your money grow in line with that index. We are an alternative to that idea. That being said, for many of you, the alternative investment may be real estate, commodities, or a variety of other assets. Therefore you ought to compare our results with what those alternate opportunities can achieve, not the S&P. Regardless of what we are compared to, I believe BlackBird will continue providing a strong showing.

As a final and more personal note, I'd like to encourage relationships (platonic, of course) between you, my partners. We haven't joined together in this venture out of love or friendship, but rather because we seek attractive returns on our capital. This is by no means a problem, but rather is very logical. That being said, gaining an understanding of one another's personalities and priorities, and perhaps growing a friendship, is sure to benefit our lives, if not financially, at least personally. Knowing the people we are in partnership with is sure to provide us better sleep at night. I know it does for me.

Your fiduciary,

Judah Spinner
Chief Investment Officer