

# MONONGAHELA CAPITAL MANAGEMENT

## PERCEPTIONS

1 <sup>st</sup> Quarter, March 31, 2024		% Change	% Change
	03/31/2024	1 <sup>st</sup> Quarter	Year to Date
Dow Jones Industrial Average	39,807.37	6.14 %*	6.14 %*
S&P 500	5,254.35	10.56 %*	10.56 %*
Russell 2000	2,124.55	5.18 %*	5.18 %*
Bloomberg Aggregate Bond Index		-0.78 %	-0.78 %
10 Year Treasury Yield	4.20 %		
30 Year Treasury Yield	4.34 %		

\* Includes reinvested dividend

### The Classics

Our recently renovated research library presents an interesting dichotomy. On the one hand, floor to ceiling screens connect our firm to the pulse of Wall Street through an ephemeral array of blinking colors and information. On the other hand, inert books silently line the walls of our bookshelves. While the electronic displays are visually stunning and provide access to vast amounts of data, the essence of our research lies between the covers of the print volumes. We are often asked to recommend reading material and we have literally hundreds of page turners like *The Predators' Ball*, *The Big Short*, *Lights Out*, and *The Caesars Palace Coup*. There are also shelves devoted to biographies, the economy, psychology, monetary policy, history, and an eclectic smattering of books on all subjects. However, the ethos of our firm is found in our reference section and many of the books here are an acquired taste.

During periods of rapid change, positive or negative, we like to go back to the drawing board and challenge the assumptions underlying your investments and portfolio structure. Risk changes with the market and we recalibrate when appropriate. To stay grounded in our core principles of investing, we head back to our library reference section and assess the risk going forward.

For students of the market, we thought we would share three essential books for those with a value orientation.

*Accounting* by Walter B. Meigs and Charles E. Johnson

Security analysis begins with understanding the financial reports presented by companies. This classic introduction to accounting has instructed millions of CPAs, accountants, and business executives to the purpose, procedures, and concepts of financial reporting. The textbook opens with the rather long and winding sentence, "Accounting has often been called the 'language of business' because people in the business world – owners, managers, bankers, salesmen, attorneys, engineers, investors-use accounting terms and concepts to describe the events that make up the existence of businesses of every kind." Accounting provides the basis for business decisions and those analyzing public company reports need

expertise in interpreting the reports. While there are of course more advanced studies of accounting and advanced degrees, the fundamental explanation of accounting concepts thoroughly explained in this consummate work is timeless. Meigs and Johnson's classic keeps us tethered to clean and accurate standards.

*Security Analysis* by Benjamin Graham and David Dodd

Considered the Bible for value investors, this enduring classic was first published in 1934. While the tome was written in a different era, the basic concept of purchasing securities at a discount to their worth with a margin of safety is timeless. Graham suggested that the markets, especially in the short term, can be very inefficient in pricing securities. To take advantage of the discrepancies, an analyst establishes an intrinsic value for securities and then purchases or sells when the variance between price and value is significant. This style takes a great deal of patience and discipline; often value investors are early and lonely in their conviction.

*Managing Investment Portfolios*, edited by John L. Maginn and Donald L. Tuttle

The Chartered Financial Analyst program is one of the most prestigious and respected post graduate certifications in finance. Successful candidates receive their CFA charter, which demonstrates their acumen in investment analysis and portfolio management. In the early days of the program, candidates received printed materials including the book *Managing Investment Portfolios* referenced above. In the preface, the editors note "...this book documents the portfolio management process, blending academic theory with the experience of noted practitioners. The language of the book is that of the investment community rather than that of the scholar. It is written by and for portfolio managers and those whom they serve." The competence we have in accounting and individual security analysis provides the tools we need to manage portfolios. The interrelationships of individual positions and proper diversification has a great deal to do with controlling risk and return. Before the process of structuring your portfolio begins, we spend a great deal of time understanding your objectives and needs and then slowly build a portfolio to match your individual profile. We have been designing portfolios for the last 45 years and no two portfolios are the same; the objectives of each individual and institution are unique. The process is dynamic with constant monitoring and necessary adjustments made when appropriate. These reports you receive are part of the memorializing process of managing your portfolio and let us benchmark your progress according to your investment profile.

**The Process Applied**

Our fundamental research begins with the reference concepts described above. In our previous letter, dated mid-January 2024, we noted the spin-off W.K. Kellogg (KLG) seemed to be trading at a significant discount to its intrinsic value. The prior discussion of KLG provides insight into how we apply the strict rules outlined in the reference books. The third quarter financial statements were presented on November 8<sup>th</sup>, 2023, in a proper and clear GAAP format, a presentation that would please Meigs and Johnson. As far as we knew, there was no research coverage on the Street and the conference call was lightly attended.

As we accumulated our positions, there seemed to be no lack of sellers willing to surrender stock. As the relentless selling continued day after day, one starts to feel a bit isolated in one's analysis. The

discipline instilled by Graham and Dodd and our conviction of our own research allowed us to enjoy the solitude. Following the principles of investing outlined in Graham and Dodd, our intrinsic value target was \$18 with the stock trading at \$12.80, giving us a great deal of comfort in our margin of safety.

While KLG was added to many portfolios, portfolio management is a very customized process and considers your individual profile. As an example, KLG would not be an appropriate addition for someone overweight in Consumer Staples/Food Products or someone already fully invested. Our portfolio managers review each recommendation considering your portfolio and adjust accordingly. The discipline of portfolio management outlined in “Managing Investment Portfolios” allows us to balance risk and return to your investment profile.

With a strong year-end earnings report, W.K. Kellogg subsequently appreciated 60% over the next three months. While we were of course appreciative of the short-term increase, we were willing to be patient with our base case, margin of safety, and 5% dividend.

These classic reference books are dog-eared and worn on our shelves from years of consultation. While these recommendations are not meant as a summer beach read, many of you may enjoy them as we do, as reference books. In the meantime, we will be spending a considerable amount of time in the library, making sure we are properly risk calibrated.