LVS ADVISORY

Investment Results	Full Year 2019	Full Year 2020	Full Year 2021	Year-To-Date 2022	Since Inception[1]
LVS Defensive Portfolio (net of fees)	**7.0%**	**13.2%**	**9.1%**	**1.2%**	**33.7%**
Benchmark: Barclays High-Yield Bond Index	*13.4%*	*5.0%*	*4.0%*	*(4.9%)*	*17.8%*
LVS Growth Portfolio (net of fees)	**-**	**61.8%**	**16.1%**	**(18.2%)**	**53.7%**
Benchmark: S&P 500 Total Return Index	-	*18.4%*	*28.7%*	*(4.6%)*	*45.4%*

Note: investment performance is presented net of all fees and expenses. Investment results are as of March 31, 2022.
(1) LVS Defensive was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

April 5, 2022

Dear Investors,

I will start with a quick update on our investment performance and then discuss how we think about managing risks and making sell decisions in our investment process.

The Defensive Portfolio is up slightly despite most major stock and bond indices being in the red. The strategy's focus is on capital preservation and one could say that it is "doing its job" in this rocky market. The portfolio holds short-duration assets and is therefore also shielded from the impacts of rising interest rates. The implied yield of the Defensive Portfolio today exceeds 10% and I am positive on the outlook for the remainder of the year.

The Growth Portfolio has taken a hit due to the continued sell-off in small cap and growth-oriented stocks. At a time when investors are shortening their investment time horizons, it feels like a good time to differentiate and focus on the long term. The Growth Portfolio underwrites businesses on 5+ year timeframes. This can lead to volatile performance in the short-term, but we aim to use this short term volatility to our advantage.

Navigating the current investment climate

In the last investment commentary published on January 30th, I wrote that it was a good time to opportunistically buy stocks. I pointed out that after historic market declines in small cap and growth-oriented stocks in the preceding 6 months, valuations for many high-quality businesses appeared attractive. I stand by this call, and we have made a handful of opportunistic purchases so far in 2022 that I believe will yield attractive returns.

I also noted that stocks could decline further if a recession materializes. Since publishing that note, the world has witnessed the Russian invasion of Ukraine which created geopolitical turmoil and a further spike in commodities prices. The sharp increase in the price of raw materials including wheat, oil, and steel, is a tax on the economy. This added inflation compounded by lingering supply chain issues has increased the likelihood of a near-term recession.

I believe that investors should attempt to balance two slightly contradictory ideas about the market at the same time. On one hand, many great businesses with solid long-term prospects have stocks trading at attractive levels. On the other hand, investors should also be wary of the negative impact that the economic cycle can have on business fundamentals.

There is an interesting area in the market's Venn diagram where non-cyclical/structurally growing businesses are trading at attractive levels – this where we are focusing most of our research efforts.

In prior letters, I've discussed what it means to buy stocks opportunistically but I haven't spent as much time on how we manage risks in our existing portfolio. In the next section, I will walk through three case studies where we made sell decisions to preserve our capital and maximize long term investment performance.

Reasons to sell a stock

Philosophically there are three good reasons to sell a stock:

1) We find an investment with a superior expected return (our favorite reason to sell).

2) A stock will cause us to lose money (creates a problem of determining where to reinvest).

3) A company is doing something immoral or doesn't line up with our values (we try to avoid these situations altogether but sometimes facts change).

Our investment process is to underwrite businesses for multi-year time horizons. We would even be happy to never have to sell a stock as selling creates the problem of having to find a suitable place to re-invest our capital. Sometimes selling is the right decision to make although it is never an easy decision. Below are three recent case studies where we made a sell decision in our Growth Portfolio. The goal here is to expose our risk-management process and provide an honest reflection of investment outcomes (good and bad).

Case Study 1: Turning Point Brands (NYSE:TPB)

Turning Point Brands manages a portfolio of alternative tobacco products including Zig-Zag rolling papers and vaping pens. Turning Point's rolling papers business is a direct beneficiary of the cannabis decriminalization and legalization trends in the United States and the vaping asset represented an interesting call option that investors did not ascribe much if any value to at the time we invested. We purchased shares of Turning Point during the summer of 2020 at an average cost of ~$26 per share.

The investment thesis played out well and the company saw record sales during 2020 and 2021 as cannabis consumption increased. Towards the end of 2021, the company updated investors that the regulatory approval process for its vaping products was not progressing as planned and that organic growth was expected to slow. The stock declined from the mid-$50s to the low $40s but we were OK to hold on because the stock was still cheap and the long-term growth opportunity was still attractive.

Then the company abruptly appointed a new CEO without a background in the industry. We became concerned that the company would radically shift its strategy and no longer had confidence in the management team's ability to execute given the recent stumbles. We sold our shares for ~$37 per share during the first week of January 2022.

During the CEO's first earnings call in February 2022, he laid out a radically different business strategy that involved making transformational acquisitions and potentially issuing equity to get these deals done. This is exactly the kind of strategic shift we were afraid of and it validated our decision to sell the stock.

Acquisitions can be a good use of capital for some businesses, but they come with a higher degree of risk relative to internal business investments. Generally speaking, the bolder the acquisition strategy, the riskier the prospects are for shareholders. And given the new CEO's desire to potentially diversify away from the core business, there is little visibility on what to expect. Sadly, we continue to like the core business and the stock still trades cheaply but we do not view the current situation as "investable" as we could wake up one day to a completely different business with a radically different capital structure.

Case Study 2: Naked Wines (LSE:WINE)

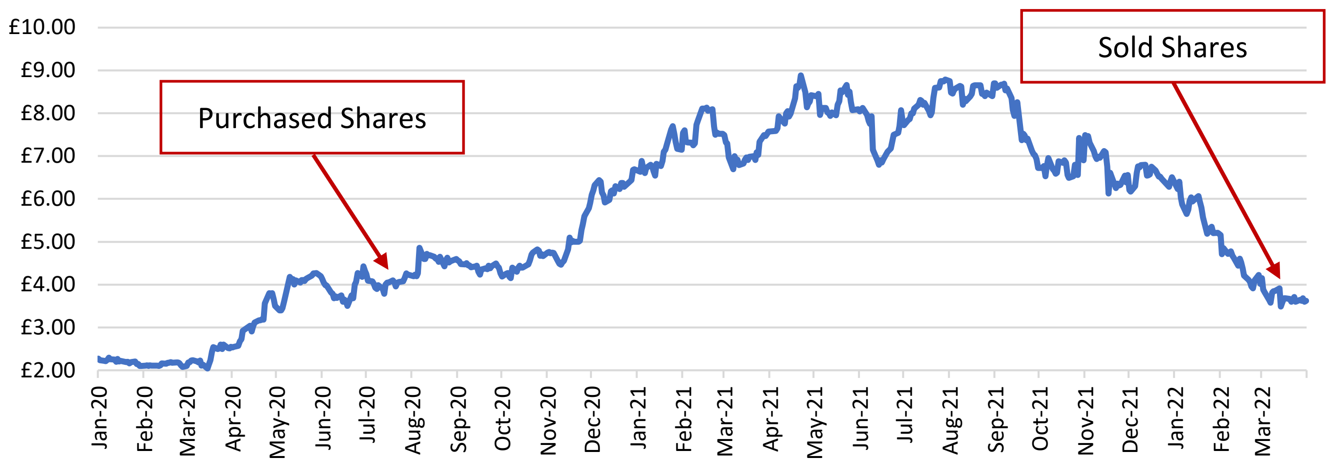
Naked Wines is a direct-to-consumer e-commerce company selling wine in the US, UK, and Australia. The company has exclusive agreements with award-winning winemakers and offers consumers quality wine at discount prices in a slick app that educates users on the attributes of different wines. Naked Wines was riding a decades-long boom in direct-to-consumer wine clubs and was poised to benefit from economies of scale as the largest online platform. We believed that the company had strong growth tailwinds, sustainable competitive advantages, and was available for a reasonable valuation. We invested in the stock during the summer of 2020 at an average cost of ~£4.6 per share.

Initially, the investment worked well and the stock nearly doubled to £8.8 by mid-2021. However, shares started trading off because of fears that fewer people would be interested in purchasing wine online post-pandemic and that supply chain disruption was exacerbating the cost to ship wine around the world. We viewed these risks as "short-term" in nature because the supply chain issues would eventually work themselves out and the long-term demand stemming from pre-pandemic growth trends was clear. We added to our position, "averaging up" from our original cost basis to ~£5.4 (including the original purchase).

Later in 2021, Apple implemented changes to the iPhone's operating system that limit mobile ad targeting. This impaired the ability for DTC brands to cost-effectively acquire customers on mobile apps like Facebook. Unfortunately, Naked Wines was reliant on targeted advertising and has seen its cost to acquire customers online increase as much as 50% with no incremental benefit in customer growth. The problem is that Naked Wines is still at a fragile stage of its development as a business. Despite being the largest DTC wine club, it is not yet profitable. The investment thesis was predicated on the company quickly scaling to a point at which it could be profitable at the enterprise level. The change in customer acquisitions costs broke the business model for now and is compounded by the issues investors were already worried about (post-covid reopening & logistics issues).

While Naked Wines will benefit to the extent it can innovate around its current growth challenges, based on our research, we do not see a near-term light at the end of this tunnel. We ran several scenarios for what could play out from here and no longer believe the business risks are worth the upside rewards. We decided to sell our shares in March 2022 for ~£3.7 per share, taking a loss on our investment.

When we made our investment in Naked Wines, the company had tailwinds in every aspect of its business. However, the situation changed and the business model was no longer as strong as it was just a few months earlier. When the facts change, we need to update our views to determine if an investment is worth holding. The silver lining is that we can reinvest our capital into a more promising opportunity.

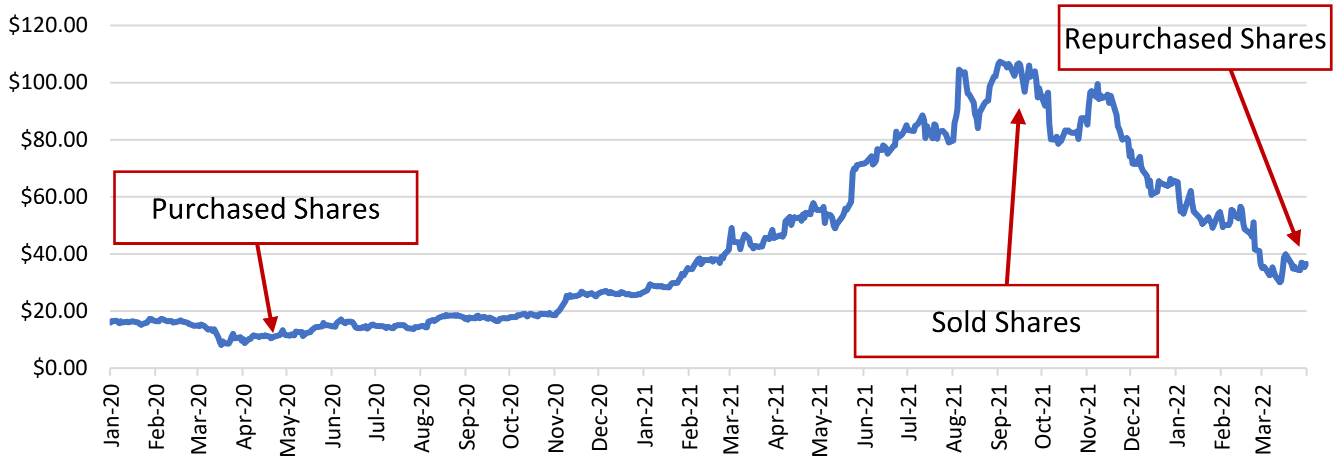


Case Study 3: The Joint (NASDAQ:JYNT)

The Joint is the largest chain of chiropractic clinics in the United States. The company franchises its brand in addition to operating its own locations. The company is rapidly growing its store footprint from less than 400 units at the end of 2017 to over 1,000 units expected by the end of 2023. The unit economics around opening these locations are exceptional. We invested in The Joint's stock in May 2020 at a price of ~$10.7 per share.

Our thesis played out well. The company continued to open new units at a rapid clip through the pandemic and showed strong revenue per store growth. We were bullish on the stock but were still surprised by what happened next. The market bid up the price of the stock to over $100 per share by the summer of 2021. We are OK with holding expensive stocks that we believe will grow into their valuation but at one point The Joint traded for over 100x on a price-to-earnings basis and we decided that the implied forward returns could no longer justify holding. We sold the stock at prices ranging from $105 to $82 over a period of weeks with an average sale price in the $90s. Not a bad outcome for a stock we had purchased just 15 months prior!

As much as I'd like to take credit for making an amazing investment, there was a high degree of luck involved in both purchasing the stock at an extremely low price and selling it at an extremely favorable price. There was also discipline in holding the stock while it rocketed higher! In the months following our exit, the stock collapsed with the sell off in the market. We continued to follow the situation and recently repurchased shares at a price in the mid-$30s. We like the business for the long term and are thrilled to be able to own it again at an attractive price.



Until next time

I will be attending the Berkshire Hathaway annual meeting during the last weekend of April. Feel free to get in contact with me if you are also attending and would like to meet.

Best regards,

Luis V. Sanchez CFA

ABOUT LVS ADVISORY

LVS Advisory is a full-service financial advisory firm providing active investment management, financial planning, and institutional investment research services for individuals, families, and institutions. Luis V. Sanchez CFA is the Founder and Managing Partner of LVS Advisory. Luis' professional experience includes working in investment banking, consulting, and investment management. Luis is a licensed Investment Adviser Representative and a CFA Charterholder. LVS Advisory LLC is a Registered Investment Adviser based in New York City.

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