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Dear Friends,

As of September 30, 2023, we were up +1.1% for the quarter and +18.5% for the year. We are 88% long and 12% cash. Our equity positions are trading around 9.8x and 8x 2023E and 2024E normalized look through earnings respectively.

Benchmarks

25 Year Review	**3 year**	**5 year**	**10 year**	**25 Years**
Asset				
Money Market Fund	**1.72%**	**1.49%**	**0.98%**	**1.67%**
Consumer Price Index	**4.87%**	**3.69%**	**2.81%**	**2.32%**
Average Price of Single Family Home	**8.62%**	**5.08%**	**4.32%**	**4.24%**
Big Mac Index	**7.50%**	**5.99%**	**4.80%**	**4.95%**
500 Stock Index Fund	**10.05%**	**9.82%**	**11.80%**	**7.79%**
Oil	**31.18%**	**5.27%**	**-1.56%**	**7.78%**
Gold	**-0.65%**	**9.35%**	**3.20%**	**8.04%**
Berkshire Hathaway	**18.42%**	**10.68%**	**12.03%**	**9.14%**
CP&E Partners, L.P. Net Returns	**15.95%**	**5.07%**	**9.42%**	**13.15%**

The purpose of investing is to increase one's purchasing power over time---to be able to buy more hamburgers five years from now. Over the last 25 years, we have beaten inflation by a wide margin. Since inception, we have also been able to hold our own against the typical 500 stock index fund and the best capital allocator in the last 93 years (Warren Buffet).

You will note though that we have had a bad relative performance for the last five and ten years. A lot of my decisions lost money. Two banks (weak money x 2), the VIX short, our investments in energy (made money but lots of underperformance), Chinese and Russian stocks, and Pandora music were all costly. And value discipline has had a tough time. My best guess is that the three primary causes of value discipline underperformance are:

1) **Increasing Pace of Innovation.** It has never been easier for our companies' competitive advantage to erode. For example, how will new effective weight loss drugs that reduce appetite affect food consumption and snack companies? (Though hopefully the drugs will be good for our national health). It has never been easier to mistakenly invest in a melting ice cube.

2) **Low Interest Rates** made our value stocks less attractive compared to growth companies. Patience is the key. We own cheap stocks. Our look though P/E is very modest, and the balance sheet of our companies are good and improving. So even if our stock prices don't go up in the near term, as long as they are paying down debt, increasing earnings, and paying us excess cash via buybacks or dividends, I will not lose sleep over short term stock fluctuations.

3) **Fewer Quality Companies at Cheap Prices.** Most importantly, the list of available companies with lower valuations, strong balance sheets, and good businesses is not as large as 25 years ago. There have been times when I was able to invest in wonderful businesses at cheap prices like Paris Stock Exchange, Cancun Airport, FICO, Standard & Poor's, Duff & Phelps, Mastercard, Visa and several software companies. True, Amazon, Google, Baidu, Alibaba, Naspers, Yandex, and Facebook are all great businesses and cheap with good balance sheets. We have 29% of our assets in those firms. If you assume we leave 10-15% of our assets in cash, then that leaves 60% of our assets in cheap, mediocre business that may be value traps (11% of our assets are in energy). In other words, we are going further out on the risk curve. We are betting on who we think are good managers. And we were wrong in the cases of Metro Bank and First Republic. Or we buy earlier in less proven business models like Pandora. Or we go outside the US to China and Russia and end up delisted like Yandex or forced to sell like China Mobile. There just seem to be more ways to lose money than before.

Thing I Wish I Could Tell Myself Thirty Years Ago

This is the 25th year of CP&E Partners LP. I started on Wall Street in the fall of 1992. As I reminisce, here is what I would say if I could send a message back to my 25-year-old self.

Dear 25-year-old Jimmy,

Hey good looking, this is you from 30 years in the future. I am not going to tell you what happens over the next 30 years, no spoilers! But I do want to give you advice so perhaps you can save some time in the early years. The first part is about how to avoid losing capital; the second part is more about life. Maybe you will adhere to my suggestions, but you probably will need to suffer to take the lessons to heart.

You were very fortunate to go to a world class MBA program. That taught you accounting, marketing, management, and corporate finance. What they didn't teach you was how not to lose money. Not losing money is 80% of making money. As the wise Charlie Munger said, "Tell me where I will die, and I will never go there."

Here is a quick---though not exhaustive---guide to not losing capital.

1) **Leverage.** Borrowing money can kill you. You just never know when things will get so crazy that the little debt you have can overtake your liquidity, and the banker winds up taking your house. There will be a hedge fund created called Long Term Capital. They will have two Nobel Prize winners and lots of IQ points as general partners. But their leverage will cause all their equity capital to be wiped out as they did not have enough equity to ride out the mark-to-market.

   Another Cautionary Tale. Barney Frank, one of the smartest guys ever elected to Congress and future author of the Dodd-Frank reform bill, will be a director of a bank that gets seized by the FDIC. Again, it was a mark-to-market issue that overwhelmed the equity, leading to disaster. Sometimes, smart guys are simply no match for a counterparty concerned about its own capital or nervous regulators. (I relearned this lesson twice in the last year when two bank investments (Metro Bank and First Republic Bank) had mark-to-market issues and were forced to raise capital.)

2) **Avoid Short-Selling.** Part of this "never borrow" strategy is to avoid short selling---no matter how overpriced the stock is. If you need to borrow the shares, that exposes your capital to irrational behavior of the counterparty like short squeezes (i.e., GameStop in 2021 or Volkswagen in 2008).[1]

[1] Shorting the VIX almost killed me in 2020---so never again.

In general, short selling will have below average absolute returns. It's great for hedge funds trying to sell low volatility to justify their high fees, and you will be tempted because it could help with the mark-to-market in the inevitable bear markets. But it is very tough to make a good after-tax return in the long run (short selling realized gains are all taxed at the highest short-term gain rate). Plus, your job is to buy earnings, and short selling is selling earnings in hopes of a future earnings decline or lower earnings than expected.

3) **But Listen to Short Sellers.** Pay attention when short sellers are short a stock that you are long. They are good analysts---far better than the typical long analyst. A short seller's skepticism should always be given very serious consideration.

4) **Avoid Ponzi Schemes and Frauds.** I know in the mid-90's, you'll be asking yourself, "how do people fall for this?" They will. (Look out for Madoff and FTX). You can avoid falling for a scheme if you train yourself to avoid the fear of missing out (FOMO), recognize when there is lack of transparency, and realize when investment strategies are not simple enough to actually explain. Do not be impressed just because they are being celebrated by the media and hanging out with smart, beautiful people.

5) **Read *Where are all the Customer Yachts* by Fred Schwed Jr.** Recognize that your friendly money manager and charming broker are there to make themselves money, not necessarily make you money (though it would be in their long-term best interest to make you money in order to keep you as a client). When push comes to shove, they will shove you. (And I say this as someone who loves my brokers and the funds I invest with). Furthermore, beware of IPOs and promotional lunches. The better the lunch, the worse the deal.

6) **Read *Manias, Panics, and Crashes* by Charles Kindleberger.** Study how manias happen. Study how to recognize when one is happening. Like Ponzi Schemes, you need to learn how to avoid FOMO. As Socrates said, "To know thyself is the beginning of wisdom." This also means knowing your weaknesses. Avoid manias and other get-rich-quick schemes. Patience and discipline is a far safer path to wealth.

7) **Study the Second Law of Thermodynamics: Entropy.**[2] Entropy is the gradual decline of order to disorder. You will spend the next 30 years trying to bend Entropy so you can build a comfortable life for you and those you care about. It's a real battle. Businesses face the natural law of Entropy too. The companies you think are giants now, most likely will be shells of themselves 30 years from now. They will be victims of technology, innovation, and most importantly their own arrogance.

You got it? That should start to get you thinking about how to avoid losing capital. Now, I will leave you with some general life advice. I say this with all humility as I am always humbled by my mistakes, and I am frequently humbled.

You have about 30,000 days of existence. Focus on the purpose of life, which in my opinion, is to be happy.[3] To be happy, you need freedom plus health. Freedom means you can do what you want to do, when you want to do it, with the people you want to do it with. It helps to be wealthy. The key to becoming wealthy is not how much money you earn, but how much you save. In general, the lower you spend relative to your liquid net worth after you have no mortgage or rent on your primary residence, the more choice and thus freedom you have.

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[2] I got this Idea from Christopher Begg of East Coast Management.
[3] *How to Fail at Almost Everything and Still Win Big* by Scott Adams

There are many who make a lot of money that go bankrupt because of high living expenses. I also know a lot of modest-income people who are wealthy because they are happy with low-expense experiences---leftovers as opposed to fancy restaurants, used cars as opposed to new cars.[4] In short, the less you need, the wealthier you are.

Now here is the second element of the happiness equation: invest in your health. Eat non-processed food, work out, and join an activity in which you chase a ball. Team sports are great for young adults for both exercise and social engagement. Outside exercise with the sun is a great source of Vitamin D, which is good for the immune system. Sunshine, fresh air, and exercise are also all natural antidepressants.

Social engagement is maybe the most important factor to your health. Don't wait to be invited into a community. Invite yourself or start building one of your own.

Recognize the dangers of addictive behavior: alcohol, drugs, screen time, and gambling. Avoiding those is a good way to avoid misery.[5]

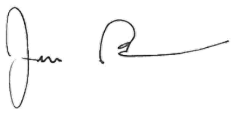
Eleanor Roosevelt once said, “If you want to be loved, be helpful.” So whenever you walk into a room, figure out how to be helpful. When you solve your own problems, you become an adult. When you solve other peoples’ problems, you become loved. If you help other successful people become more successful, then they will bring you along.[6]

If you are not making somebody money or saving somebody money or time, then the market will weed you out. The exception if you just want an income with little pressure are nonprofits and the government. You only end up working 20-25 hours a week with little accountability.

It may seem that a lot of matters in your 20’s---finding the right partner, landing the right job, charting your journey, etc. Those things are important. But somehow by the time you reach your 50’s you learn to live with your own values and not the judgment of others (FOMO dims). It doesn't really matter what school you went to, or who you married (though who you marry is very important), or what job you had. You spend most of your time and emotional investment taking care of your pets and plants (or some other trivial thing that matters only to you). In other words, whatever success, or disappointment, you have now fades over time so don't beat yourself up too much about disappointment. There have been 117 billion homo sapiens that have ever existed. The good news is you are sitting on top of the pyramid of human existence.[7] The bad news is that no matter what you do, it won't make that much of a difference as time goes by. So embrace the irrelevance and the moment if that makes any sense.

There you have it, 25-year-old Jimmy. Now go to it and best of luck.

Sincerely,



James Pan

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[4] To this point, study the Vanderbilts, who were one of the richest families 150 years ago. Now, Anderson Cooper, a descendent of the family, says there is not much money left at all. Watch https://www.youtube.com/watch?v=dnti9hFyce0

[5] Got to give Donald Trump credit for this one. Love him or hate him, he always says don’t smoke, drink or take drugs.

[6] *Influence: The Psychology of Persuasion* by Robert Cialdini

[7] All thanks to mankind’s technological, social, and cultural progress. I can buy fresh apples or learn about any subject anytime I want. And I don’t have to live under a king or suffer a harsh life in the elements.