THE BULLET POINTS

Small and micro-cap focus

Concentrated (10-15 holdings max)

Focused on the very long-term (durable businesses that should still thrive in 20 years)

High quality, simple businesses I can understand

Companies resistant to technological change

Management on my side of the table (significant insider ownership)

Long-term holding periods and low portfolio turnover

I have no intentions of ever managing a lot of money

CORE HOLDINGS: LONG-TERM COMPOUNDERS

My favorite investments are the highest quality small-caps that I think can compound their value for the next several decades. In general, these companies have most (if not all) of the below characteristics:

- Founder-led (high insider ownership)
- Durable competitive position
- Long runway for growth
- Industry tailwinds at their back
- Profitable
- Safe balance sheet (lots of cash, little debt)

When I find these companies, my focus is on how the industry may evolve over the next 5-10+ years and if the company's competitive advantage can expand within that evolution. The goal here is to find compounders that are still in the early innings of their lifecycle. Unless the facts change (and my thesis is proven wrong) or the founder dies or something like that, I view these holdings as almost permanent investments (whether that ends up being a holding period of 5-10 years or forever, I don't know).

EXAMPLE: WHERE FOOD COMES FROM (WFCF)

Where Food Comes From is the largest third party auditor of food production practices in the US (non-GMO, organic, gluten-free, animal welfare, non-hormone treated, etc). The major tailwind behind them is that now more than ever, our population is demanding more transparency in our food supply chain. The US is also eating healthier and cares more about things like animal welfare than ever before.

I believe they have a durable competitive advantage in this growing industry due to their scale (largest company in this space and they work with all the biggest farmers), barriers to entry (FDA accreditation and some of the auditing programs like Non-GMO Project and Global Animal Partnership are extremely selective), and the recurring revenue that comes from their low churn rate (customers are very sticky).

Finally, Where Food Comes From is still led by their passionate founder who owns 30% of shares and keeps lots of cash and zero debt on the balance sheet. They've been growing 10-20%+ per year and because of the industry tailwinds and competitive advantages, I believe that growth can continue for many years. I hope to own Where Food Comes From forever, or until my thesis is proven wrong, whichever comes first.

REST OF PORTFOLIO: ABOVE AVERAGE, CHEAP COMPANIES

While my goal is to eventually have an entire portfolio of high quality companies that I can own for the very long-term, unfortunately I haven't yet been able to find ten of them. Thus, the rest of the portfolio is filled with a handful of above average companies that are simply too cheap. This second bucket of investments is mostly small companies that are overlooked by the market.

These companies share many of the traits of those compounders I seek out (insider ownership is always a high priority, durable competitive position, more cash than debt), but they are usually more mature and/or don't have the large industry tailwinds that allow for many years of above average growth. Because of this, I generally buy into these companies with the expectation of owning them for 1-3 years, but it depends more on how long the stock takes to reach my estimate of fair value.

EXAMPLE: CALLOWAY'S NURSERY (CLWY)

Calloway's Nursery, purchased in early 2017, is a perfect example of this second bucket of above average, cheap companies. Calloway's runs 19 garden centers in Texas. What attracted me to the business is that Calloway's has local scale advantages, garden centers are resistant to being replaced by technology (it's a very durable business model), and the company is run by a very successful investor who's well-aligned with shareholders. Also, they have a safe balance sheet and have been profitable and growing for many years.

When I invested, Calloway's had an enterprise value of $33 million, so they're too small for most of Wall Street to care about. Their trailing twelve month EV/owner earnings multiple was under 14x and even my most conservative discounted cash flows (assuming GDP-like growth of 2-3%/year) resulted in a fair value that was nearly 50% above my entry point. They also own most of their stores, which by my estimates were worth 20-30% of the entire enterprise value.

In summary, I felt Calloway's was too cheap by numerous valuation methods and they had a durable business model that wasn't going to be eroded away any time soon.

WHY I PREFER FOUNDER-LED COMPANIES

What a company can earn over the very long-term (10-20+ years into the future) is what makes up most of its value today (in other words, a company's terminal value is often 70-80% of its fair value today). Thus, the most important factor when choosing companies to invest in is how durable their competitive position is over the very long-term. And if the very long-term is what matters to a company's value, then the only way a CEO can be truly aligned with minority shareholders is if they are motivated to grow the business in the right way over the very long-term.

Founders almost always have a significant voting share in their company, so there's a much higher chance that they're around for the next twenty years (and just the fact that they're the founder gives them more staying power). A founder also has far more economic incentive to grow the business over the next several decades (thanks to their large ownership share) as opposed to being motivated by short-term incentives. All of this adds up to founders, in general, being far more aligned with minority shareholders like us.

WHY I LOVE INVESTING

More than anything else, I love learning. Investing gives me an unlimited runway of knowledge to obtain. There will always be more companies, industries, and countries to learn about. Beyond that, a lot of outside disciplines help me understand the world better and thus indirectly help my investing. In 2017 I read books on psychology, behavioral economics, politics, healthcare, North Korea, cryptocurrencies, the beanie baby bubble, and of course several investing books.

Next, I enjoy the treasure hunt aspect of investing. Digging through hundreds of stocks in search of the best companies in the world is exciting to me. And it's even better when the company is still run by its founder. I've started companies myself and tend to love all things related to entrepreneurship, so it's fun to follow passionate founders who are trying to make the world a better place.

Finally, investing fits my personality to a tee. I've always been very independent (I've never had a traditional job) and I am an introvert, so sitting in an office by myself reading and researching all day is pretty much my dream job.

LONG-TERM GOALS FOR WIEDOWER CAPITAL

To own a handful of high quality businesses for many years. I get personal enjoyment out of being a partial owner of companies that are a) growing, evolving and changing their industry, b) making the world a better place, and c) led by passionate founders who I can learn from.

Along with that, one of my biggest goals is to make my initial investors (family and friends) a lot of money and provide them with the means to retire a little early or go on a few extra vacations. Because of this, I have no desire to scale to a large AUM. The more money I manage, the harder it is to outperform. And that would be disingenuous to those first investors who put the most trust in me. I want to manage enough money to support myself and live a good life, but that's it. I don't have an exact number in mind, but I will close my doors before I get to $100 million under management.

WHY I THINK I CAN OUTPERFORM OVER THE LONG-TERM

Time arbitrage – the main thing I think about when looking at a company is how durable their competitive position is over the next 5-10+ years. The vast majority of investors are focused on the next quarter or the next year, which is mostly just noise in terms of what really matters to a company's value.

Stay small – I will never manage a ton of money because I don't want a large anchor on our returns. I judge my own success as an investor based on long-term investment returns, not on how much money I manage.

Focus on heuristics and cognitive biases – *Poor Charlie's Almanack* was one of the most influential books I've ever read because I recognized almost every cognitive bias in myself. I go through several self-made checklists before all investment decisions to remind myself of biases that could affect my decision-making. One reason I prefer long-term investments is because fewer buys and sells means fewer decisions where cognitive biases can get in my way.

PORTFOLIO CONSTRUCTION

Wiedower Capital aims to have around ten holdings at any one time. Having fewer positions to keep track of gives me more time to research other potential investments. Selectivity also creates a high hurdle for portfolio inclusion.

The benefits of diversification (decreased volatility) are subject to the laws of diminishing returns. An average portfolio of ten stocks has a standard deviation of ~24% vs an average portfolio of 1,000 stocks that has a standard deviation of 19.2%.[1] So owning more stocks creates significantly more work, but only decreases the portfolio's standard deviation by a few percentage points. Not worth it in my opinion.

Being both highly concentrated and long-term focused, it's not uncommon that I go extended periods without buying or selling anything. My goal is to find a couple great opportunities every year and then stay put.

"If you have a harem of 40 women, you never get to know any of them very well."
– Warren Buffett

HOW I GOT HERE

Self-taught investor

Former professional poker player. After that I co-founded two companies in the foodservice industry. Investing was always a side passion.

Degree in Entrepreneurship

Other things I enjoy: traveling, boating, backgammon

What I look like (on a good day) →

STRUCTURE, FEES, AND MINIMUM INVESTMENT

Wiedower Capital is a Registered Investment Advisor started in February 2015. Client funds are held in separately managed accounts through Interactive Brokers. All client accounts (including the manager's) are invested in the same investment strategy. This strategy is long only and uses no leverage or margin. Wiedower Capital is solely focused on maximizing the long-term returns of this one portfolio and that's it.

Qualified clients pay a 1% management fee paid quarterly, plus 30% of net profits on returns over the Russell 2000 benchmark (above the client's high water mark) on a rolling three-year basis, paid annually (after year three). Non-qualified clients pay a flat 2% management fee paid quarterly.

3-year lockup period with penalties for early withdrawal.

Retirement accounts (e.g. IRAs) are allowed.

Minimum investment is $75,000. There are no restrictions on withdrawals.

CONTACT INFORMATION

Website: wiedowercapital.com

Investing blog: traviswiedower.com. Here I post write-ups on companies that Wiedower Capital is invested in, in addition to more general topics related to investing—psychology, economics, government policy, etc.

Phone: (513) 236-9817

Email: travis@wiedowercapital.com

CRD number: 173610. Visit adviserinfo.sec.gov for regulatory filings.

REFERENCES

[1] http://www.lazardnet.com/us/docs/sp6/3048/LessIsMore-ACaseForConcentrated_LazardInvestmentFocus.pdf?pagename=Financial+Advisors

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