D|O

Del Principe | O'Brien
Financial Advisors LLC

Dear Fellow Investors,

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"Human beings are subject to wild swings in their levels of fear, risk tolerance, and greed. That won't change. I base my whole approach on buying when others are fearful and selling when others are greedy. The reason Shakespeare is so relevant still today is that his plays were all about human nature, and human nature never changes."
–Mark Sellers

December 2018 brought many investors face to face with their all-too-human nature—and what they saw wasn't pretty. Indeed, December was the worst month for the Dow and the S&P 500 since 1931. We at D|O weren't immune to the market pullback, either. This was the first time since 2008 that we could not report a gain at year's end.

Friends in the financial services industry told me about the panicked calls they were getting from clients who were upset about falling prices. Do you know how many anxious calls I received from my clients? Zero. This is proof of what I knew already: I have the best clients around. You are educated, trusting, and dialed into the way of value investing. You knew not to panic because as value investors, we are not beholden to the short-term fluctuations of an irrational, inefficient market. We base our investment decisions on intrinsic value, not price.

Intrinsic Value

"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."
–Benjamin Graham

When we look beyond price, we see that the intrinsic value of the companies we are invested in is better today than five months ago. In fact, many of our companies are reporting record revenue and profits. Their free cash flow is at an all-time high, and most are growing their earnings per share. The

3815 River Crossing Pkwy. Ste. 100
Indianapolis, IN 46240

www.dofinancialservices.com
joseph@dofinancialservices.com
765.479.2568

625 S. College Ave.
Rensselaer, IN 47978

JDP Equity, JDP Bond, and JDP Income Portfolios are all trading at the largest discount to their intrinsic value since 2015. Again, when we make investing decisions based on intrinsic value, we are not dismayed by a market pullback. In fact, we see it as an opportunity to purchase more shares of companies that are trading well below their intrinsic value.

Hunters vs. Farmers

"I consider myself to be a farmer—not a hunter. And I think most people on Wall Street are hunters. They like to fell big beasts, and I'm very comfortable planting a few rows and just tending to them carefully."
–Tom Russo

Most human societies in the world today rely on agriculture (i.e. raising plants and animals) for our food. But for most of human history, we operated as hunter-gatherers whose survival depended on what plants we could find and what animals we could track down and kill. We had to seize every opportunity that looked the least bit promising. It was the difference between starving and living to see another day.

We shouldn't be surprised, then, that investing brings out our inner "hunter" impulses. It's exciting to "fell big beasts," as Tom Russo says. It's much less exciting to behave like farmers: planting seeds one day and trusting that, with careful tending, the seeds will bear fruit someday in the future. But that's exactly the mentality that sets us value investors apart from the Wall Street hunters. We opt for prudence and steady growth over quick scores. Like actual farmers, we know there is a natural cycle to things; we know that no drought lasts forever, nor will every year bring record yields. Though no one can predict the weather (or the market), educated decisions rather than impulsive ones often make for bigger gains in the long run.

Merger News: All-Cash Deal

"The market is really just a pendulum that forever swings between unsustainable optimism, which makes stocks too expensive, and unjustified pessimism, which makes them too cheap. All we're trying to do is keep a level head, sell to the optimists, and buy from the pessimists."
–Jonathan Shapiro

American Railcar Industries, Inc. (ARII; ownership 1%–7%) is a North American designer and manufacturer of hopper and tank railcars. We recognized the Carl Icahn-guided company as undervalued and purchased shares in March 2017. In fall 2018, American Railcar announced its agreement to merge with ITE Rail Fund, L.P., managed by ITE Management L.P., an investment firm focused on industrial and transportation assets and companies. The sale, which closed in December 2018, was valued at $1.75 billion and produced a 92% return on our investment.

Fundamentals

"When you have a model you believe in, that you've used for a long time and which is more empirical than intuitive, sticking with it takes the emotion away when markets are good or bad. That's been a central element of our success. It's the emotional dimension that drives people to make lousy, irrational decisions."
–Will Browne

At the core of our philosophy is a focus on the underlying value of the companies we invest in. We think it is important for you to know why we own them and to be aware of what the possible risks are. The following are brief sketches of a few of the companies in our portfolio. (Please note: Ownership percentages vary based on our clients' particular needs.)

Liberty Braves Group (BATRA) | Ownership: 1%– 8%
Liberty Braves Group, owners of the reigning NL East Division champion Atlanta Braves, continues to win big with The Battery Atlanta—the 60-acre dining, shopping, and entertainment complex that includes the Braves' SunTrust Park. With game-day revenue up 9.5% and concessions per capita up 10.7%, the second season at SunTrust was a success. Even in the offseason, The Battery Atlanta is generating revenue every day. The complex attracts 3 million people per year (5.6 million if you include baseball games) and houses 3 of the top 10 grossing Atlanta restaurants in 2018. Last year it held 88 non-baseball events including music acts, with an average of 3,000 tickets sold per show. Real estate development in The Battery Atlanta has continued as well. The three-building residential complex was sold in 2018, and BATRA announced additional development plans, including Silverspot Cinema, Savi Provisions, an Aloft Hotel, and the new North American headquarters of Thyssenkrupp, which will provide workspace for 900 employees.

New Purchases

NXP Semiconductors NV (NXPI) | Ownership 1%–7%
NXP is a global semiconductor manufacturer headquartered in the Netherlands. The company has positioned itself as "the world leader in secure connectivity solutions for embedded applications," which, for those of us who are *not* in the tech industry, means NXP makes parts that enable electronic devices and systems to hook up to the Internet wirelessly and securely—think "smart" things, like phones, watches, and appliances. NXP's solutions for the Internet of Things (IoT) extend far beyond consumer products. They also make semiconductors that are used in industrial automation, communication infrastructure, and automotive applications like autonomous driving systems. With more than 25,000 customers, NXP has a diversified revenue stream. They posted $9.41 billion in revenue in 2018 and since 2010 have had a compound annual growth rate (CAGR) of over 27%.

We first learned about NXP in August 2016 when it was trading around $88 per share. After doing some intensive research, we decided that the company was worth investing in. Our technical analysis helped us identify a great entry point at $80. Over the next few days, the stock pulled back to $81, and then out of nowhere, Qualcomm (QCOM), a company in which we also own shares, announced they would be acquiring NXP. In a day's time, the stock shot up to $102 and gradually crept up to $125. We were so close and we missed it! After two years of drama from activist investors and trade conflict, the acquisition was called off. Over the next six months, NXP shares dropped from $125 to $71, effectively fading out the speculators. Finally, the time was right for us. We purchased the stock multiple times when it was priced between $71 and $80.

Broadcom Inc. (AVGO) | Ownership 1%–7%

Broadcom is a U.S.-based designer, developer, and global supplier of digital and analog semiconductors. Their products are used in wired infrastructure, wireless communications, enterprise storage, and industrial applications. In November 2018, Broadcom completed its acquisition of CA Technologies (CA), a company that made information technology management software. According to Broadcom CEO Hock Tan (a compelling investor who we will highlight in future letters), the acquisition "create[s] one of the world's leading infrastructure technology companies." This move will produce significant recurring revenue and will position Broadcom as a firm that provides "mission-critical" technology—that is, hardware and software that are essential to the functioning of an organization.

Broadcom holds more than 23,000 patents for its products. This massive collection of intellectual property serves as a durable economic moat for the company, allowing Broadcom to create legal monopolies or take part in oligopolies. Owning so many patents also creates a long cash runway, which gives Broadcom enormous pricing power over the long term. Furthermore, Broadcom's free cash per share has grown impressively over the last six years. In 2012, it was $1.79 and in 2018 was $18.28, for a CAGR of 47%.

JDP Bond Portfolio

"The best time to start was 20 years ago; the next best time is now." –Chinese proverb

Here's another example of how a market pullback is actually good news for us: When interest rates go up, prices are driven down. Because shorter-duration bonds are trading at a discount, we are able to purchase more, creating the opportunity for a higher yield and lowering market, credit, and inflationary risk. The following table provides a brief summary of how the JDP Bond Portfolio has performed on average over the last three years:

JDP Bond Portfolio by Quarter*

2016	Yield**	2017	Yield**	2018	Yield**
Q1	6.5%	Q1	6.2%	Q1	7.1%
Q2	6.1%	Q2	6.4%	Q2	7.3%
Q3	5.9%	Q3	6.9%	Q3	7.8%
Q4	6.0%	Q4	6.5%	Q4	7.4%

*Monthly yield average **Does not include redemption

The Best Clients Around

"The best way to find yourself is to lose yourself in the service of others." –Mahatma Gandhi

It is our great privilege to be the firm that serves you no matter what the market is doing and no matter what the financial fortune tellers say. We are committed to your wellbeing and always put your interests ahead of the firm's short-term financial gain. We believe this is the right way to do things. As it happens, this approach has also brought us great success.

We couldn't be more grateful for the chance to serve this special group of investors, and we continue to be very selective with those we add to our growing family. Selfishly, we only want to work with like-minded people whom we admire, respect, and love. Thank you for your trust. We will always work diligently to remain worthy of it.

Cordially,

Joseph Del Principe