

## HOW WE INVEST

We believe in transparency, particularly at the beginning of a relationship. Transparency is important so investors can make a sound decision in choosing whether to invest with Tsai Capital.

There's an old African proverb that says, "If you want to go quickly, go alone. If you want to go far, go together." I couldn't agree more. Therefore, in order to encourage an alignment of interests, this letter is sent to all prospective investors before we engage in a deeper conversation.

Historically, the S&P 500 Index has outperformed the great majority of money managers and most other indices. It's my belief that this index is a suitable alternative to Tsai Capital; I therefore propose it as a *long-term* benchmark to our performance.

I must, however, clarify one point: while our performance may yield surprising results – good or bad – relative to the benchmark over the short-term, this phenomenon should neither be cause for concern nor celebration. That's because our approach is to compound capital over the long-term, ideally in businesses that we can own for a decade or more. I therefore ask investors to judge our performance using evaluation periods in excess of five years. Anything less than that is far too short a time frame to evaluate our results.

My only objectives are the long-term growth and preservation of capital. But first, let's address what many people are obsessed with, namely the general market. Trying to predict the market is a fool's game. All of my attention is therefore devoted to finding the best individual investments that I believe offer significant upside potential and a margin of safety at the time of purchase. If you feel that an alternative strategy is essential to an investment program, you *should not* be invested with Tsai Capital.

Ideal investments are hard to find, especially in times of market euphoria. I seek to avoid investing in trees that appear to grow to the sky – that is, situations in which valuations drastically exceed intrinsic business values. This approach helped us weather the outbreak of COVID-19, as well as the dot-com and housing bubbles. And since our buying and selling decisions are not tied to general market behavior, we may be a spectator for long periods of time.

Our preference for inaction motivates us to swing hard when we see a pitch we like. This results in a relatively focused portfolio, which, as previously mentioned, may substantially deviate from our benchmark over short time frames. But these fluctuations are of little importance to the long-term investor. I ignore them, and ask you do the same.

Finally, let me be clear that volatility is not the same as risk. Volatility is price fluctuation whereas risk is the potential for permanent capital loss. Unlike many others, we think of volatility as our friend because it occasionally grants us the opportunity to buy shares in high-quality, growth businesses at large discounts to intrinsic value. I therefore focus on preserving capital to be in a position to seize these rare opportunities and allow the 8<sup>th</sup> wonder of the world – compounding – to do its miracles.

Christopher Tsai

## **Important Disclosures**

**Past performance is no indication or guarantee of future performance and no representation or guarantee is being made as to the future investment performance of Tsai Capital's separately managed accounts or any entity.**

References herein to Tsai Capital's efforts to minimize losses and seek a margin of safety should not be construed to imply an absence of risk in any investment. All investments carry risk, including the risk of loss of investment principal. Additionally, short-term market volatility may present increased risks for investors who have shorter investment horizons due to impending or current liquidity needs.