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RESEARCH DISCLOSURES SEE PAGE 17

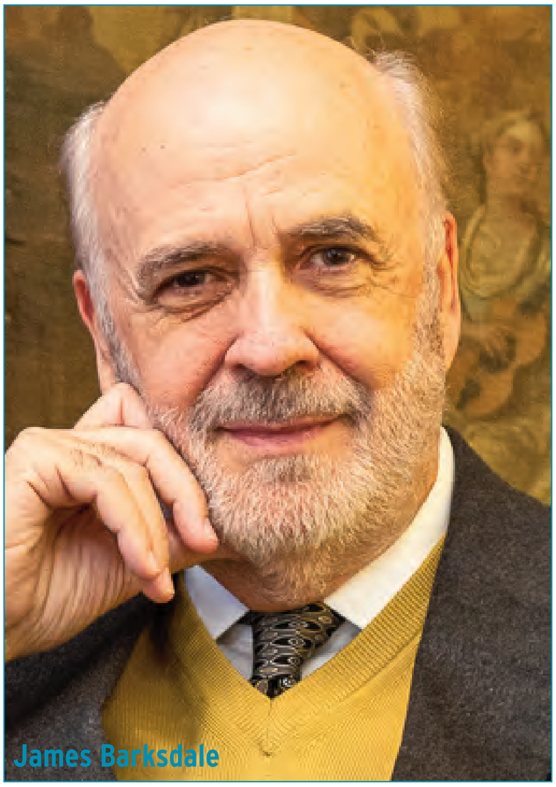
listeningin

He's Baaaack!

Jim Barksdale's New Firm Is Churning Out Returns Like "Old EIC"

Full Disclosure: Not that we kept closely in touch, but Jim Barksdale and I go back a long time. Into the 1980s. Even before, I think, my No. 1 son, the not- quite-35-year-old lawyer, entered the world. Jim's first and career-making investment firm, called Equity Investment Corp. and based in Atlanta, started about the same time. I interviewed Jim in Barron's not much later, when his twist on value investing started generating some flashy returns.

Turns out our Q&A sparked publicity that did Jim's fledgling firm a world of good. Which he, in turn, did for clients. Until EIC split up in 2016. It wasn't Jim's idea, and he had no intention of retiring. Now, he's back, with Barksdale Investment & Research, still working on a 50-year track record. This time, a non-compete has turned him into a publisher of model portfolios , but he's still putting up sparkling numbers. Listen In. — *KMW*



James Barksdale

Welcome back to my platform, after way too long an absence.

Jim Barksdale: Thanks, but I want to forewarn you that I have a disadvantage. I live in the United States.

Join the club!

Jim: I'm referring to our creaky infrastructure. When I was a kid it could rain all day and the electricity stayed on. But it's raining here today and I can't guarantee that anymore. Our low-quality infrastructure these days seems to be "maintained" with objectives other than reliability in mind.

I didn't know you had moved to Texas!

Jim: Nope, still in Atlanta. The Texas situation is remarkable, but infrastructure is a national issue. Back in the old days, the utilities' first priority was keeping the electricity on. Now, I think it is finding out, "how cheaply can we do it?" So it seems like

In Memoriam
David F. Swensen
1954 - 2021
Legendary endowment investing genius. Creator of innovative "Yale Model." Benefactor of generations of university students.

In Memoriam
Charles de Vaulx
1962 - 2021
Disciplined and passionate value investor, Co-Founder, CIO & PM, International Value Investors. Valued WOWS Interviewee & Client.

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Kathryn M. Welling
Editor, Publisher & Principal
Kate@WellingonWallSt.com
Office. (631)315-5076
Cell. (973)650-2722

Donald R. Boyle
Chief Financial Officer
Chief Marketing Officer
Don@WellingonWallSt.com
Office. (631)315-5077
Cell. (201)394-1548

Distributed biweekly, usually on Fridays, 16 times a year, by
Welling on Wall St. LLC
PO Box 620
Mattituck, NY 11952

Office:(631)315-5076
Fax. (631)315-5077
www.wellingonwallst.com

every time it rains in Atlanta, there are electrical service interruptions. If we get an interruption, that'll be the reason. It has started raining. And it's not like I live out in the hinterlands. My house is actually right near the governor's mansion. But it makes no difference to Georgia Power.

Or the other utilities, you're right. There was no way we could have moved my business from the NYC burbs to the East End of Long Island without installing a large generator system to power our computers — and all of our former vacation house — through thick and thin. But my former neighbors in NJ have endured more outages since we moved than we have out here on the edge of Peconic Bay.

Jim: Well, let's hope we're going to have world-class infrastructure again. We shall see.

Biden's proposal is a first step, I guess. Getting it through Congress, though —

Jim: Yes. I'll believe it when I see it.

Since politics have come up, we might as well go there. I somehow wasn't aware that you were Georgia Democrats' sacrificial Senate candidate in 2016. Not great timing, but that must have been quite an adventure.

Jim: It was certainly nothing that had been on my bucket list.

Then what put you on the campaign trail?

Jim: It was a case of — I've seen, let's call it, the fallout from very terrible fiscal and monetary policies over my lifetime — what I mean is that I've seen the creation of what I will call bubble economics by very poor fiscal policies that we've tried to offset with even poorer monetary policies — and not just once. Because the Fed has this dual, and conflicting, mandate for both low inflation and full employment.

It keeps the cycle on spin.

Jim: When you have lousy fiscal problems, you end up with the Fed trying to use monetary policy as a counterweight. That has led to these bubble markets that we've had.

"When you have lousy fiscal problems, you end up with the Fed trying to use monetary policy as a counterweight. That has led to these bubble markets. We're in another one, let's face it. I'm not saying that the entire market is at price extremes, but it is certainly being fed by a monetary bubble again."

We're in another one, let's face it. I'm not saying that the entire market is at price extremes, but it is certainly being fed by a monetary bubble again. Anyway, in 2016, the Georgia Democratic Party found itself in a situation where there wasn't anybody exactly willing to run as a Democrat against the popular Republican incumbent.

You knew you were volunteering for a suicide mission?

Jim: Yes. The strange thing was, I had voted Republican most of my life — until, frankly, we invaded Iraq in 2003. I felt that George W.'s Iraq War was crazy. Not only crazy, but horrible and ridiculous and immoral and lots of things. That's when I pretty much left the Republican Party.

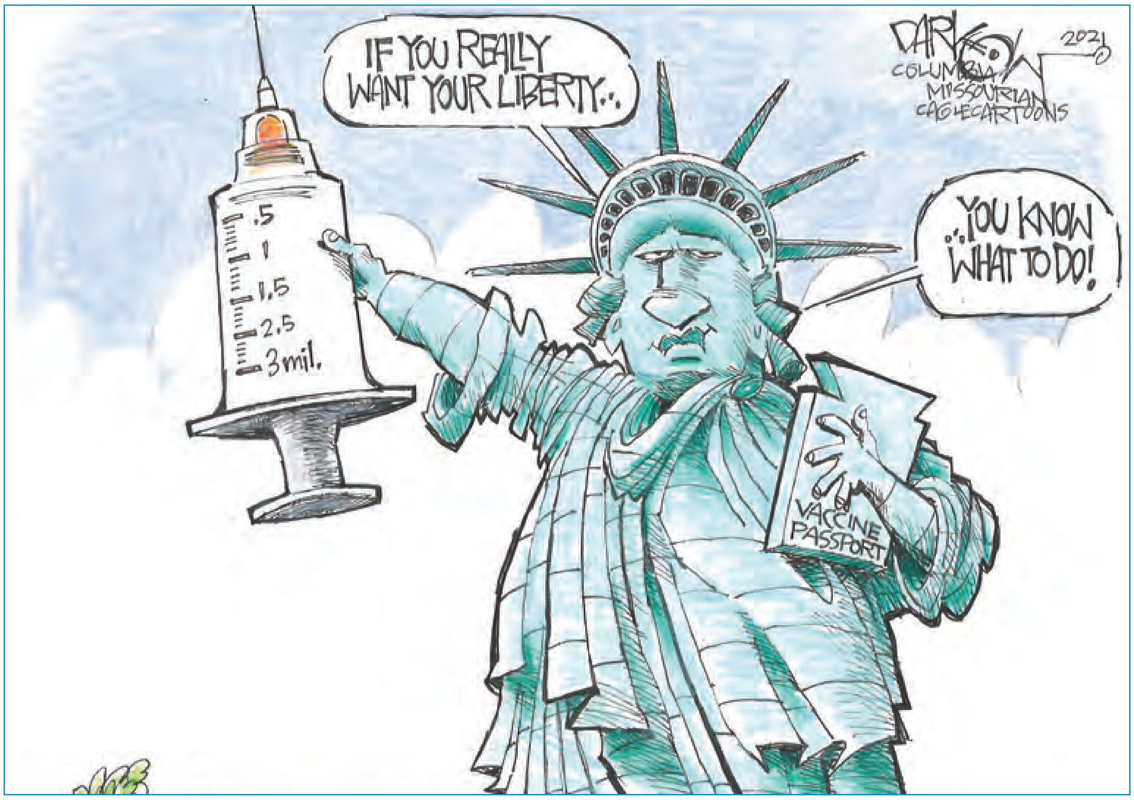
And since then, its policies have just gotten worse. Ultimately, let's face it, both Trump and Bernie were correct — unless you have people making a decent income, it's hard to have decent spending. That shouldn't be hard to figure out. Also, unless you have decent income, you can't grow without taking on debt. That's not that hard to figure out, either.

Even old Henry Ford figured that out years ago, and he wasn't exactly a radical liberal.

Jim: Exactly. Anyway, I ran just hoping — not that I expected to win — but I did believe that Georgia had it in its DNA to overcome — and to set a new path for the country.

Really? It seemed even much more recently that there were very long odds against the runoff election miracles Raphael Warnock and Jon Ossoff pulled off in early January.

Jim: What I knew and you seem to have forgotten is that in Georgia's DNA are the Civil Rights Movement, Martin Luther King, John Lewis and also President Jimmy Carter. I am one the very few — who, I am not embarrassed to say, thinks President Carter was the best president in my lifetime. I do realize that that's almost impossible for anyone to admit —



Vaccine of Liberty, by John Darkow, *Columbia Missourian*

***Best?* I don't know. But Carter's record *is* being re-examined. The passage of time seems to be burnishing it more than a little.**

Jim: Yes. I mean, President Biden is rehabilitating Jimmy Carter at last, and without embarrassment.

At any rate, I did feel like we were in a deep, dark place, even before Trump got elected. But I also felt that Georgia had it within its power to change the pathway we were on. So I could not be more pleased with the two new senators we elected this year. Both men had been very helpful to me four years earlier. I respect both of them tremendously, and I think they absolutely represent the path back to what makes America the great country we are and have been.

Georgia voters certainly turned the tables for President Biden, by the slightest of margins.

Jim: Absolutely. It took an amazing amount of, not only incredible work by so many people, but also what I call the joint probabilities of low-probability events.

I like that construction.

Jim: You had to have good candidates on the Democratic side, poor candidates on the Republican side. You also had to have a President who was basically out there losing it.

Putting it mildly.

Jim: I won't even go into that, but the last straw may have been having him so publicly attack his own, Republican-led, Senate. Saying basically, that the only way people would get "his" $2,000-relief checks was by getting rid of the Senate's GOP majority — and electing Democrats. That's what he was saying.

It was hard to tell *what* he was really saying, amid all his bombastic incoherence.

Jim: But that was basically the conclusion, even if he wasn't using those words — and Georgia voters got it; understood what he was implying.

Did you see the Saturday Night Live parody of the Georgia voters — where they're in the cafe after the election?

I must have, but remind me.

Jim: A visitor from New York is introduced to the locals in a Georgia cafe, and all of a sudden everything the locals say in their Georgia drawls sounds like what's stereotypically expected from the most liberal NYC-types. Then a guy in a MAGA hat comes in and is quickly shown the door. It was hilarious —

I'll pull it up on YouTube.

Jim: Of course after all that, the sketch ends up with everyone ready to brawl over face masks. So it's still Georgia. But at least we can start with a laugh.

And only hope the wingnuts keep shooting themselves in the foot. We've got a long road to recovery.

Jim: And we're not out of the woods yet. The winds have been blowing in the right direction, but that doesn't mean they can't change. There's always a good chance of countervailing winds. But I think folks down here are prepared.

I have to say, the groundwork Stacey Abrams did looked formidable from afar.

Jim: It was. I met her in 2016, when she was helpful to my losing cause. She was foremost among the many people I was referring to, who did incredible groundwork, across the state, in the last elections. I have to give such credit to so many people who were willing to — what should I call it? — see the sun in the middle of the night.

Let's bring this back around to something we both know a bit about — the investment realm. I assume your detour into politics had something to do with you leaving EIC [Equity Investment Corp.], which you had founded back in 1986, during the 2016 election year?

Jim: I would say yes and no.

A political answer, if I've ever heard one.

Jim: I actually got drafted into running for the Senate because I'd recently been in the news quite a bit down here, in connection with helping to raise the financing to bring a Robert Berks statue of Einstein to the campus of Georgia Tech. I am a bit of a collector of his smaller works — have versions of his busts of both JFK and RFK, but that's a long story. Anyway, I had convinced Berk's widow, Dorothy "Tod" Berks, who hadn't been thrilled by private offers for the 12-foot bronze, that the university was a fitting setting for honoring her husband's legacy — and made the lead donation in a fund drive that took off like wildfire. Georgia Tech Provost Rafael Bras said was the fastest and most successful he'd ever seen.

But what most excited both Mrs. Berks and me was that we were able to change the granite star chart at the foot of the statue to show Dec. 10, 1948 *over Atlanta*. That's the date the Universal Declaration of Human Rights was signed and we wanted to honor the great contributions made to the human rights movement by Georgians like Jimmy Carter, Martin Luther King, John Lewis and so many others —

Okay, so the Democrats heard you speaking their language, and more importantly saw you raising big bucks. But your colleagues at EIC weren't universally thrilled?

Jim: Well, basically what happened was that my former colleagues — in the midst of my election campaign — decided to form their own firm. Which put me in a difficult situation. What does one do when the rest of your investment team forms its own firm and announces its intention to leave?

Good question. It doesn't sound like you were exactly banking on winning that senate seat.

Jim: Scarcely. Nevertheless, what I tried to do was structure a succession plan that would allow us to work together thereafter as a team — even though there was no external reason I had to do it — given that the odds of my getting elected were slim to none. The prediction markets never even came out with any betting odds on my race — there were no odds.

Ouch.

Jim: Yes. So the leadership change at EIC was really not something that I had to do for the election. Rather, I had to do in response to my colleagues going out and forming their own firm. The succession plan we eventually agreed on assigned the business' investment accounts to their new firm. I get a percentage of the revenues generated on those accounts, as long as I operate within certain — non-compete constraints, I guess you might call them. I also get a percentage of all of that firm's revenues. But it wasn't as though this all came about because I had any desire to retire or pursue other interests.

Ultimately, my senate campaign had come about because I really felt that *someone* had to speak out about the political situation in the U.S., and I had the independence to do it. Unfortunately, as a politician, I certainly didn't do a very good job. But Georgia really wasn't ready to change in 2016, anyway.

Unlike your former partners, who wanted to take control of EIC?

Jim: Yes, there you go. So that's what happened. And my attempts to keep the team together didn't work out. So as of Oct. 1, 2016, they began making and implementing all of their own investment decisions across the majority of the firm's AUM — except for a few small socially responsible portfolios that I continued to manage on my own.

Essentially, I was put on what Ted Turner used to call gardening leave. In the process, their new firm was renamed EIC, the same as my old one, so that's a bit confusing to people. Anyway, when those contractural non-compete restrictions eased a bit, at yearend 2018, I started Barksdale Investment & Research (BI&R), to begin publishing my strategy via a U.S. equity model portfolio —

And put your money where your mouth is?

Jim: Yes, my non-compete does prevent me from directly raising or managing money for U.S. clients, but at the end of 2018, I began implementing my strategy in an unrestricted investment account whose holdings and weightings follow the BI&R's model's recommendations. Frankly, part of the beauty of what I'm doing at BI&R is that my model allows me to potentially deliver my investment approach to clients at lower cost via things like arrangements with discretionary advisors or separate accounts; we're actively exploring various avenues.

A quick look at the EIC website reveals some PM names I recognize as long-term staffers at your old firm, and an emphasis on a 30-plus-year track record. But nothing that jumps out at me as a big change in EIC's leadership or in what I remember about your long-standing value focus —

Jim: Yes. I'd rather not get into those details. My agreements with EIC place some constraints on how I can respond. I would just say that my portfolios are very different and my portfolio characteristics are very different and my results are very different — and they represent my consistent implementation of value investing ideas that hit me at age 23 and that I persist in believing in at age 68. I guess the good news here is that there are very few ideas that captured me at 23 that I still embrace at 68!

I could be obnoxiously arch and suggest there's little that we liked doing way back *then* that we're still capable of *now* — but remind me instead, what inspired you so?

Jim: It was an article by a then-relatively unknown investor, named Warren Buffett, published in *Fortune* in May, 1977.

A dubious choice of publications, but I won't quibble about the author.

Jim: That original Buffett article, I actually find very tedious to read now. Really, when I look at it, I wonder, how did I read this thing? It's boring as heck. But the basic ideas Buffett laid out in it were the guiding principles of his value religion, so to speak. They have stayed with me.

As soon as I could afford to do it, in 1986, I launched Equity Investment Corp. (EIC) to implement the value investing framework I took away from that Buffett piece. During the 30¾ years that I was responsible for the firm's investment decisions (from 1986 through September 30, 2016) our All-Cap Value results exceeded Russell's large/mid/small growth and value indices (as well as the S&P 500's), with an annual "alpha" of 2.5%, and a 72% downside capture ratio. (That's based on monthly data, gross of fees, from Morningstar.) Moreover, each of the firm's investment strategies outperformed its passive benchmark. Now, granted, I did have some help over that span —three team members joined me in 1999, 2003 and 2005. But I had sole veto and decision authority at all times.

At any rate, my main point is that I still continue to implement that same strategy, which is very different than most value styles.

There's that word again, different. Can you be a mite more specific?

Jim: Broadly, my approach differs from other value and growth strategies in two general respects. A) coming up with a value, to an owner, of a business's *long-tailed growth capability*, and B) relying on a business' structural and managerial health to sustain it through difficult periods, rather than trying to predict outcomes.

The first differentiator is driven by a company's ability to *earn* a high return on invested capital, while *reinvesting* those earnings at high returns to *sustain* growth, *and* doing so *for a long time* (Buffett's franchise & reinvestment-privilege values). Hence our focus on companies' structural health and staying power. Businesses with these favorable economics typically generate more cash than they need for growth, reducing their debt needs. Thus, our portfolios are generally underweight in the commodity and capital intensive sectors (e.g., energy, materials, heavy industrials, REITs, and utilities) that often dominate more traditional value portfolios. I think that the idea of analyzing what the value of long-term growth is — that's something that's just not all that easy for most folks to get a handle on.

A lot don't even try.

Jim: Right. I mean, most value styles, to my mind, are either too focused on today's earnings or today's yield or today's price-to-book — and most growth styles are too focused on tomorrow's hopes, and then they try to reconcile those hopes in a rational way to say what is a rational or reasonable judgment. What is this firm's growth worth to me?

The second differentiator you mentioned sounds a lot like the moat and fortress franchise characteristics that a lot of value investors talk about.

Jim: It does, but for me, it's driven by footprints of structural decline that I didn't systematically recognize until EIC was 10 years old. That's when I paused to review the good decisions — and also the mistakes I had made — in the firm's first decade. The footprints of structural decline that I recognized in most of my mistakes at that point led me to create certain "value-trap avoidance tools."

What sort of tools?

Jim: Basically, they involve being sensitive to signs of poor structural or managerial health at companies. In other words, we try to avoid stocks that look cheap, but then disappoint you by not growing. Because if you are incorrect in your growth assumption, you're also wrong about the company's future value, and the investment never works out.

To try to become more correct, more of the time, in our growth assumptions, and more efficiently avoid value traps, we employ a lot of graphical financial analysis. We're trying to look at what I call pictures of companies' structural and managerial health. If a company looks healthy, in those terms, then I'm willing to bet a little bit on it — but that's not because I can see the future with any certainty, even though I've gathered a lot of information on it.

But to step back a bit, when I started out I thought of the Buffett concept — intrinsic value — as the holy grail. For years and years, I searched for the perfect manifestation of the holy grail — fruitlessly.

Eventually, though, I concluded that value, or intrinsic value, isn't an externality — something you can find outside of yourself. It's an internality. It reflects your view, your knowledge of a company, your view of how much it can earn, and — importantly — your time horizon.

That's because, in my view, the potential for alpha creation lies in your investment horizon — and in the long term, a business's structure and managerial quality outlast any operational data or information you can analyze today. But also critical are your risk tolerance and your hurdle rate — and protecting against permanent loss of capital.

What I mean is that all of these things are internalities — as an investor, you have to reach a conclusion about them that you're comfortable with. That is really what this approach allows me to do.

Value is in the eye of the beholder? That's very poetic, but not a lot of help.

Jim: Yet it *is* a rational thing, I think, in the sense that there's math. It's an engineering-type challenge. So yes, you gather analytical insight. Yes, you're looking into things, because you need to know why the earnings are good, bad or ugly. It's not as though information is irrelevant. But, ultimately, you have to put it within a rational framework that makes sense to you, and that fits your internal investment structure, in terms of time horizon, investment objective, knowledge level, risk tolerance, all these things.

That's asking quite a lot. But I still don't see what makes your secret sauce much different from a typical value strategy, or even what your old partners are doing.

Jim: Well, my strategy has led to portfolios — at EIC during my tenure, and now at BI&R — with distinct characteristics that have been fairly stable over the long term — namely, high active share, and lower-than-benchmark P/Es, yields and debt, combined with higher-than-benchmark growth and return on invested capital (equity, or assets).

And your portfolios have generally outperformed other value shops'?

Jim: In a word, yes, in recent years and over the long haul — though I hasten to add that no one is perfect, and every strategy suffers bouts of underperformance, including mine.

But you're saying, basically, because your stock picks tend to have higher quality balance sheets and managements, a bit more internal growth, and are purchased at lower P/Es than the average "value" name, you tend to outperform? It can't be easy to find those diamonds in the rough —

Jim: Okay, I'm going to make up a table [page 7] to send you, comparing those telling metrics in my BI&R approach to those same metrics on the Russell 1000 Value, and on the portfolios of a few other value managers — as well as versus the new EIC's mutual fund. All using data as of the end of March.

That sounds like more than a bit of work —

Jim: Actually, I've been gathering resources to pull something like this together for a while — it won't take long. To show I'm not data mining, I'll (somewhat randomly) include stats on the top four multi-

Portfolio Style Characteristics [1] As of March 31, 2021										
	BI&R ACV	Yacktman	Davis NY Venture	Dodge & Cox	EIC ACV	Bridge Builder LCV	Vanguard Windsor II	T. Rowe Price Value	Indices	
Symbol		YACKX	NYVTX	DODGX	EICIX	BBVLX	VWNFX	TRVLX	R1000V	S&P 500
Forward P/E Multiple	13.8	19.6	19.6	17.0	15.7	19.0	21.3	20.4	19.9	24.4
Yield	1.9%	1.7%	1.1%	1.8%	2.8%	1.9%	1.5%	1.5%	2.0%	1.5%
Net Debt to EBITDA Mulitiple [2]	2.1	1.7	1.7	3.1	2.8	4.1	2.8	3.4	4.3	3.1
Dividend Growth (10 Year)	11.8%	13.4%	15.8%	11.0%	10.5%	12.0%	12.3%	12.7%	11.1%	13.0%
Return on Assets	6.6%	6.1%	5.4%	4.0%	4.2%	5.6%	5.8%	5.4%	5.2%	7.3%
Return on Capital	10.3%	8.1%	9.8%	8.0%	7.7%	8.0%	9.0%	7.6%	7.2%	11.4%
Returns For Periods Ending March 31, 2021 [3]										
Expense Ratio	1.0% [4]	0.74%	0.90%	0.52%	0.97%	0.24%	0.34%	0.77%	0.0%	0.0%
12-Months Ending 3/31/21	88.7%	60.2%	71.7%	75.3%	58.9%	65.4%	69.1%	65.7%	56.1%	56.4%
15-Months Ending 3/31/21	39.0%	25.5%	26.2%	24.1%	20.8%	21.9%	27.4%	23.9%	14.4%	25.7%
10/1/2016 to 3/31/2021 [5]	104.8%	84.3%	85.3%	88.7%	62.7%	77.7%	85.4%	75.7%	61.0%	100.0%

[1] Source: Standard & Poor's Capital IQ Portfolio Analytics

Color Coding: Blue = Highest; Red= Lowest

[2] Net debt after cash & investments

[3] Source: Morningstar, except BI&R. Returns are cumulative for period and not annualized.

[4] BI&R Results are independently audited through 12/31/2020 and are net of hypothetical 1% annual fees.

[5] Barksdale's investment role at "Old EIC" ended 10/1/2016.

billion-dollar large-cap value mutual funds (at least, according to *U.S. News & World Report*'s latest rankings): Bridge Builder LCV, Dodge & Cox, T. Rowe Price Value, and Vanguard Windsor II. I'll also include the Yacktman and Davis NY Venture funds — just because I found they were frequently compared with EIC during my tenure — and I was told it was because Yacktman and Davis demonstrated higher sensitivity to growth than traditional value managers. Call back in about 10 minutes, when you see it pop up in your email —

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That was fast. What's the colorful typeface in the table telling me?

Jim: You can clean it up later, but I used the colors to highlight differences. In each criteria's row, I bolded in blue the strategy with the *highest* metric versus the other strategies' — and I also bolded in red the strategy with the *lowest* metric. As I said earlier, my perspective is that I want some of those metrics, on my portfolios, to be near the bottom of the bunch, while on others, I'd like to lead the pack.

Is there much overlap between your portfolio and the EIC fund's at this juncture?

Jim: Not really. If you look at EIC's latest portfolio disclosures next to BI&R's, you see about 30% of my holdings still overlapping theirs. But probably half of those overlapping holdings are legacy positions at EIC — meaning stocks, most often in the financial sector, that have been in their portfolios forever. Things like Wells Fargo (WFC), U.S. Bancorp (USB) — let me think — Travelers (TRV) and Globe Life (GL) are a couple of other names. In other words, at most 15% of their portfolio consists of overlapping stocks added since we've parted ways — where we've both independently landed on the same new ideas.

Much more typically, our different processes lead to different holdings. And you've seen our results in the 2020 and 2019 yearend letters I sent you.

Indeed, but go ahead and spell your track record out for my readers, please.

Jim: Briefly, in 2019, my model portfolio increased 29.6% (gross), versus 26.6% for the Russell 1000 Value, and 31.5% for the S&P 500 — marking my third consecutive year of outperforming the R1000V, since leaving EIC's investment team. And my outperformance streak continued in 2020 — my best year of outperformance since 2008-'09 — with my All-Cap Value model rising 15.3% (gross) versus 2.9% for the R3000 Value — outpacing the benchmark by 12.4 percentage points.

Surely, fees and expenses would narrow any clients' net returns, but you're making a pretty decent case here that active management can beat passive [See table below comparing the BI&R model's recent performance to the records of the funds and indices that Jim compared above.]

Jim: I have no doubt. While the value of active management is often questioned, *each* of the seven investment strategies I have managed since 1986 (using the same principles we've been discussing — including four socially-restricted strategies) outperformed its passive value benchmark while I was calling the shots.

A table you can find in my 2021 marketing presentation [reproduced on page 8] presents the nearly

Barksdale-Managed Portfolio Returns Since 1986 [1] (Gross of Fees)				
	Barksdale			
	Gross	Net of 1% [2]	R3000V	S&P 500
ACV at 1986-EIC (January 1, 1986 - September 30, 2016)				
Cumulative	3030.8%	2207.8%	2073.9%	1980.0%
Annualized	11.9%	10.7%	10.5%	10.4%
Since October 1, 2016				
Q4 2016	8.0%	7.7%	7.2%	3.8%
2017	17.6%	16.4%	13.2%	21.8%
2018	-7.6%	-8.5%	-8.6%	-4.4%
2019	29.6%	28.3%	26.3%	31.5%
2020	15.3%	14.2%	2.9%	18.4%
2021 - YTD thru Mar. 31	22.1%	21.8%	11.9%	6.2%
Cumulative	114.1%	104.8%	61.3%	100.0%
Annualized	18.4%	17.3%	11.2%	16.6%
Barksdale All-Cap Value Since 1986				
Cumulative	6601.7%	4625.2%	3407.0%	4059.5%
Annualized	12.7%	11.6%	10.6%	11.2%

[1] See Disclosures on page 18

[2] Net of hypothetical 1% annual fee, billed monthly

35-year record of the longest-running of my strategies (All-Cap Value), through March 31. It is divided into two segments: My 30¾ years managing the original-Equity Investment Corp.'s All-Cap Value strategy, and then the four-plus years that have passed since my responsibility for that strategy at new-EIC ended on Oct. 1, 2016.

Frankly, BI&R's returns have been better than I ever could have imagined. COVID has had a silver lining that I never would have guessed possible, certainly in early 2020. As is perfectly clear to anyone who has read a copy of my yearend 2019 client letter, I certainly had no inkling of anything like COVID on the horizon. Either in terms of the devasting toll of the pandemic, or of its impact on the economy and markets — also, my returns.

Pretty much nobody did.

Jim: True, but what I'm getting at is that in *most* of the many years that I've been applying my active approach to value investing, the reality is my returns just basically kept pace with the market's. My approach is more about consistently hitting singles, rather than doing anything stellar. And about minimizing losses. Sometimes you look good, sometimes you look stupid. But once in a while, something happens and fear suddenly grips the market, creating major opportunities for active managers — that's when my approach tends to hit it out of park.

Crisis Navigation History Since 1986 (Gross of Fees) [1]		
Key Event	Outperformance Vs. R3000V	
October Crash & Quick Recovery	1987	10.7%
Technology, Internet, & Large-Cap Bubble	2000	10.6%
	2001	21.2%
	2002	11.2%
Housing Bubble & Credit Market Collapse	2008	13.4%
	2009	7.1%
COVID Lockdowns	2020	12.4%

2020 was clearly that kind of year —

Jim: Yes, only the fourth in my career. The first was the 1987 Crash, followed by the 2000 - '02 large cap/technology bubble, and then the 2008 -'09 credit collapse. All of them, obviously, pre-COVID Pandemic. So these opportunities are rather rare. But, when we all of a sudden get a big event and the markets start reacting with a lot fear, it creates a big opportunity set for investors. If, and only if, you can maintain your rational investment strategy structure — your time horizon, your risk tolerance level, all of the rational pieces of your process — your returns get a big boost. [Jim's crisis navigation history is quantified in the table below.]

That was the opportunity what 2020 offered. Without any guarantees of success, of course. I had no prescience whatsoever that things would work out. And I have freely admitted that I made more mistakes in 2020 than I've ever made — especially in the first quarter. I was just very lucky that I did so while we were on our way to posting our best year of outperformance since the credit collapse. But if you knew all the mistakes I made in 2020 —

Given your performance, isn't your only worry what you learned from the mistakes?

Jim: Probably the most important lesson, when you have an approach as time-tested as mine, is that you can trust your history — in the sense that if you've successfully managed to navigate through past market challenges, you'll probably do okay this time, too.

Difficult as that is to remember in the maelstrom. What misstep do you regret?

Jim: Some of them were just bad luck. I had been holding a lot of technology stocks that ran up and did very well in 2019 — like Apple (AAPL), Taiwan Semiconductor (TSM) and Qualcomm (QCOM). So I was trimming those positions back late in the year — and all of a sudden ended 2019 with 13% cash in the model portfolio. Now, that would have been perfect to be sitting with, March 2020, when the market was plunging. But instead I had started reinvesting it in January, as some of those same stocks started falling. Little did I know some of that selling pressure evidently can be traced to secret briefings a few senators — including Georgia's — got that month about the risk of COVID spreading from China.

Anyway, it ended up that I had zigged into cash only to zag back into stocks right into the COVID punch. So I went through fairly significant portfolio turnover in the first quarter, then smacked right into the Fed's massive March 23 liquidity injection, and it hurt. The biggest hit to my model's performance last year simply came from the cash I carried into what became a quickly-changing world — in which I had to make a lot of portfolio adjustments just to follow the same simple, rational value strategy logic that I'd successfully employed in past crises. Namely, figure out, where are things cheap? Where is there fear? And among those stocks, where is there quality? Meaning, to me, if the — I won't say it — S**T really hits the fan, and things don't work out, which companies have low-enough debt levels to sustain positive cashflow, even through a prolonged, deep crisis?

The sustainability of positive cashflow in a crisis has only become more critical since the GFC, as corporate debt levels, relative to cash flow, have risen dramatically. Luckily, I had set up some systems to help me look at how the definition of plentiful positive cashflow in a crisis had changed between 2009 and 2019, as many corporates piled on debt — while doing whatever they could to flatter reported margins. That groundwork allowed me to choose pretty easily the companies that still had manageable debt, even in a deep crisis — and had the positive cashflow to sustain themselves.

Can you be more specific?

Jim: Well, you could say 2020 provided an excellent example of how business prospects can change and how active portfolio management can add value. Grocers, technology, shipping, and communications saw dramatically improved prospects as country after country shut down. Meanwhile brick and mortar retailers, restaurants, hospitality, and airlines encountered existential threats. All those changes, not to mention the stop-gap government rescue programs, made it particularly difficult to assess normalized earnings power, long-term growth, and value. So to capitalize on the opportunities all the fear was creating, we focused, as I indicated, on companies with organic growth, sustainable cash flow coverage of debt and, of course, value.

For example, we increased our weighting in the communications sector in the fourth quarter, adding to our model weights in AMC Networks (AMCX) and ViacomCBS (VIAC) , and starting a new position in Discovery Communications (DISCA). Reduced advertising and concerns about the trend toward streaming had sent all of those firms' stock prices dramatically lower. However, each demonstrated continued positive cash flow, while adapting to market changes by introducing streaming access to their content.

And they definitely contributed to what you called your lollapalooza of a year.

Jim: Right. And it kept going. Which was pretty amazing, after the fourth quarter — when our All-Cap Value model increased 23.8% (gross) versus 17.2% for the Russell 3000 Value benchmark. For 2020, our ACV model rose 15.3% (gross) versus 2.9% for the Russell 3000 Value, or 12.4% above the benchmark. As I said, the similarity of our 2020 returns to how we'd done in previous crisis markets shows "you can trust our history."

Though part of the fireworks in those names was evidently due to some minnows catching whales in short squeezes.

Jim: I try not to get caught up in short-term trading noise. And I still think those companies are relatively cheap here, and growing, with sustainable cash flow coverage of their debt. I'll stress too, that just like I haven't changed my value approach, my portfolio management style remains consistent with the practices that have created what is now my 35-year track record of outperformance. My portfolios still contain 35-40 stocks. They are diversified across sectors, with no one broad group carrying a weighting of more than 20%. I limit individual position size to no more than 6% of the portfolio.

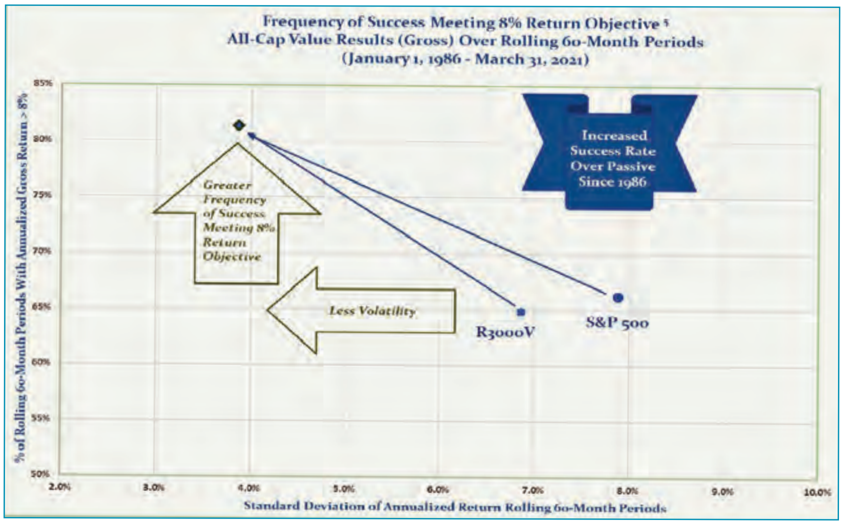
So you are anything but an index-hugger —

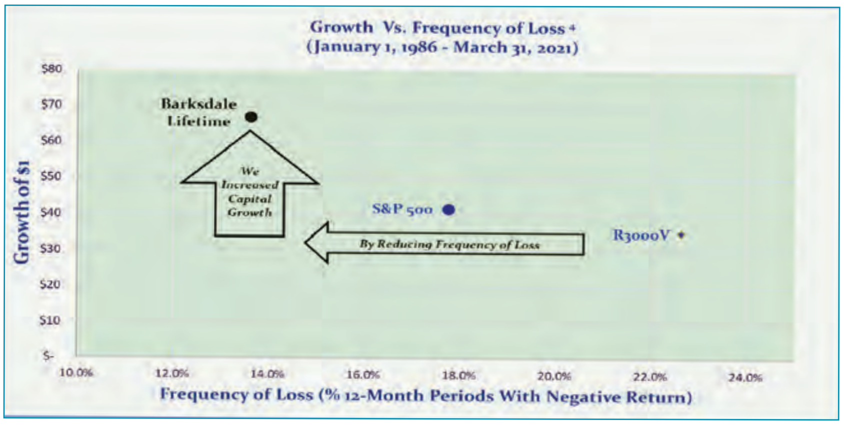
Jim: Precisely. Our active share metric is typically 90-plus percent. Since 1986, my portfolio's excess return over a risk-free rate, adjusted for volatility —

That other holy grail called alpha, you mean?

Jim: Yes, "alpha" — it has topped both the Russell 3000 benchmark and the S&P 500 by more than 3% a year. And, as proud as I am of the extraordinary performance we turned in amid the crisis last year, I want to point out that my long record of market-beating performance hasn't been driven by a rollercoaster of periodic blowout quarters.

You're bragging that your returns have been a lot more boring, but consistent?





WOWS 2021 Issue Dates

January 15
January 29
February 19
March 12
April 2
April 23
May 14
June 11
July 9
July 30
August 27
September 17
October 8
October 29
November 19
December 10

Jim: Absolutely. Our long-term alpha generation has been driven by, in the main, returns that are a little above-market — combined with below-market volatility. For example, our annual volatility has been 84% and 80% as much, respectively, as that experienced by passive investors in the Russell 3000 and S&P 500 indices [charts, next page].

Just the sort of things, in other words, that lets financial advisors, and their clients, sleep at night?

Jim: Have you noticed that, too? I found over my years at EIC — and am continuing to see — that our strong long-tern returns combined with below-market volatility improves client retention. Simply because it increases the odds of success in meeting long-term investment objectives.

Client seeing pretty consistent gains in their accounts, and only modest drawdowns when headlines are consumed with stories of plunging stocks, tend to stay put?

Jim: So we're told. For example, through the end of last year, our approach has provided clients with at least an 8% annualized return (gross) in 81.2% of the 361 rolling 60-month periods since 1986 — versus the only 64.5% and 65.9% frequency of successes they would have experienced, had their funds been invested in the passive Russell Value or S&P 500 indices. Admittedly, few active managers consistently deliver value versus passive strategies. But our data show that our approach has significantly improved client success rates in meeting long-term objectives.

Okay, Jim — but as much as you like to humbly focus on the long term, slow and steady aspects of your style, I can't resist pointing out that you actually sent clients and potential clients a note in January comparing yourself to none other than Super Bowl immortal Tom Brady!

Jim: I can explain — BI&R's ACV portfolio had a great January, just as Brady did. It rose 5.6% (gross) in January versus actual, albeit small, declines in the stock indices. This strong outperformance during COVID was due to the crisis's unusual investment opportunities and should not be expected long term. Nonetheless, I wanted to make a point of demonstrating my strong portfolio management returns — in what was then the four years since I'd effectively been shown the door at EIC on October 1, 2016. After all, my value portfolio's 85.2% increase, post–EIC, almost matched the S&P 500's 86.4% — despite the supposedly broad index's concentration in a few large growth stocks.

Not bad, for an "old guy." I guess you deserve some slack on the Brady analogy.

Jim: I was rooting for him. I think Brady's performance at this year's Super Bowl illustrates why sporting statistics such as pass completions, ERAs, batting averages, etc., are rightly associated with the individual who threw the ball or swung the bat.

Similarly, I firmly believe that investment performance track records are rightly associated with the individual who exercised portfolio decision-making authority. And that's really the point I was making. It is common sense, and it has been repeatedly endorsed in SEC decisions about how investment managers are — and are not — permitted to advertise investment track records. This same common sense is also incorporated in the CFA Institute's GIPS performance standards.

I know the SEC and GIPS are, understandably, picky about who gets to claim credit for winning records. It's that old story about success having many fathers...So I was going to ask how many hoops you had to jump through to claim your old firm's

track record —

Jim: Before I answer that, I should also point out that they're always insistent too, about using the disclaimer, "past performance is not a guarantee of future results." And we do, of course. But people want to look at track records anyway, and investment managers naturally want to market using metrics that burnish their reputations as much as they possibly can.

In my case, BI&R follows common sense and only advertises performance for strategies and in periods in which I was the person who exercised portfolio decision-making authority. Thus, common sense dictates that I can advertize my results at original EIC in conjunction with my track record on the portfolios I've run since separating from EIC. Beyond common sense, there's a fairly long record of regulatory rulings supporting BR&I's decision to advertise my full track record to clients — and it is because of the continuity of my decision-making authority over the portfolios that have generated the statistics comprising my track record. Indeed, that continuity of investment management is what BI&R's portfolios offer.

I suspect you've had the requisite lawyers and compliance folks vet your position —

Jim: Absolutely, and they quote chapter and verse. There was a 1992 ruling in a case involving Great Lakes Advisors in which the SEC ruled that it couldn't advertise a predecessor's results because people other than the prior firm's lead PM had played significant roles in creating its record.

Hmm. I hate to play the skunk, Jim, but you did have three other PMs working with you at EIC, as you said.

Jim: I did. I didn't want to get into these weeds, as I said. But you are asking and the fact is that, as EIC's 2016 form ADV, stated: *"Jim Barksdale retains final investment authority over all investment decisions. Andrew Bruner, Terry Irrgang, and Ian Zabor report to Jim."* [That disclosure document was filed on March 2, 2016, before the company, in essence, blew up that May when those three identified EIC staffers formed a new company, ultimately renamed "EIC," according to its October, 2016 ADV filing.]

What's more, there was a SEC decision in 1996, in a case involving Horizon Asset Management, in which the SEC made clear that it would permit Horizon's "controlling manager" to advertise results from a prior firm, even though different team managers had participated in those decisions, because the "controlling manager" was the person actually responsible for making the investment decisions — and those decisions did not have to be made with the consensus of the other members of the investment committee. In other words, continuity of the controlling decision-maker is key — not of the entire investment committee, if the final decisions were a solo authority.

And as recently as 2018, the agency reaffirmed its thinking on track record attribution in a ruling allowing State Street Bank to advertise a predecessor firm's results — because no changes had been made to its investment or management teams in conjunction with the restructuring. Finally, continuity of investment-decision-making personnel and process from a predecessor is the prerequisite set out in the CFA Institute's voluntary GIPSs reporting standards. The regulators' intentions are clear: They don't want investors misled by the numbers.

And you actually kept sole final decision authority to yourself over all those years, as EIC grew?

Jim: Yes, I was the founder, CIO and controlling manager in that sense. And BI&R only advertises results for strategies and periods in which I made the final decisions. Specifically, at the original EIC from its founding on Jan. 1, 1985, through Sept. 30, 2016, I held and exercised solo veto and decision authority over all of the firm's investment strategies. (Original EIC was registered with the SEC in 1986.) During my time at its helm, original EIC's All-Cap Value strategy During this time, the firm's All-Cap Value strategy earned 11.9% per year versus 10.5% and 10.4%, respectively, for the benchmark Russell 3000 Value and S&P 500 indices, based on monthly gross returns reported to Morningstar.

Okay, here's another picky question. You weren't involved in running the new EIC's value strategies after September 2016. And couldn't start BI&R until 2019, yet you are advertising an uninterrupted track record —

Jim: Remember, I did say that I continued making all the investment decisions on a handful of socially responsible portfolios at new EIC, while I was on gardening leave? While smaller, those ESG portfolios (Environmental, Human Rights, Catholic, and Protestant) had always followed my same growth-oriented value strategy and process, albeit with my stock choices slightly restricted to address some investors' specialized concerns. And I continued to do that, with solo authority to call the shots, while I was restricted to "gardening."

So you're reported results for those years are some combination —

Jim: No, what BI&R advertises is the results from the least-restrictive of these strategies (Protestant Value) from October 1, 2016, until December 31, 2018. During that stretch, new-EIC's composites for the Environmental, Human Rights, Catholic, and Protestant strategies increased 17.0%, 14.6%, 16.9%, and 17.6%, respectively. And that was versus 11.3% for the Russell 1000 Value index. And actually, the Protestant Value sub-portfolio that BI&R advertises earned slightly less than the Protestant strategy — namely, 17.3%.

As long as we are this deep into the weeds, tell me exactly what your reported numbers for BI&R are based on, since you're not registered to actually manage money for clients —

Jim: Of course. Since January 1, 2019, our results are those of a separately managed account whose holdings and weightings follow BI&R's recommended U.S. All-Cap Value Model Portfolio. And before you ask, our results since October 1, 2016, have been independently certified following a review by The Spaulding Group to ensure the firm's policies, procedures, and performance results follow industry advertising guidelines and best practices. I can send you a copy of their review and certification.

I've seen the disclosures —

Jim: Then you know that all the figures I've been citing are time-weighted returns, gross of management, or administrative expenses. And cumulative results include reinvestment of dividends. We only publish model portfolios at this point, and all the typical disclaimers apply. And the charts and tables I've forwarded all link the returns of the portfolios on which I've served as the controlling manager, going back to 1986.

Got it. So what do you make of the markets at this juncture?

Jim: It's one of those times when I don't want to jump ahead too much. I'm not trying to make a big announcement here. But the thought that's been going through my head lately is that we're almost to the last coil of the value spring, so to speak.

What are you implying?

Jim: Well, value clearly has been coming back. And there's still more lift in the spring, I would say. This market — that a lot of people now talk about as so overpriced — is still a market of stocks. In fact, I have a number of companies that are really cheap in my model portfolio.

But, in terms of finding *new* stocks to buy, it's getting very hard to find them — or to push me into taking new positions.

You need to be pushed?

Jim: Let me give you an example of something I've considered adding in the first quarter, but decided against, which is Owens-Illinois Glass (OI). For me, it's just a little dodgier than stocks I usually gravitate towards for the model portfolios — it's a little more capital-intensive, a little more debt-laden than I normally like. But when I was considering adding it earlier this year, it was trading down at pre-2020 levels — That's why I say the things coming to me now probably are the last coils of the value recovery spring. Of course, now Owens-Illinois has already recovered significantly just in this quarter. As I said, it's getting harder for me to find new things to buy. So I'll probably just let the size of some of my positions increase for a while, instead of moving down into what I would

BI&R U.S. All-Cap Value Model Portfolio

March 31, 2021

	BI&R	R1000 V	+ / -
FINANCIALS	32.3%	20.6%	11.7%
Banks	8.8%	8.6%	
PNC Financial Services	2.5%		
U.S. Bancorp	3.0%		
Wells Fargo & Company	3.3%		
Insurance	8.0%	3.5%	
Aflac, Inc.	3.5%		
Globe Life Inc.	2.5%		
The Travelers Companies, Inc.	2.0%		
Capital Markets	15.5%	4.4%	
Federated Hermes, Inc.	3.0%		
Invesco	3.0%		
Northern Trust	2.0%		
Raymond James Financial, Inc.	2.5%		
State Street Corporation	2.5%		
T. Rowe Price Group, Inc.	2.5%		
CONSUMER DISCRETIONARY	9.8%	7.8%	2.0%
Alibaba Group Holding Limited	2.5%		
BorgWarner Inc.	2.0%		
Carters, Inc	3.3%		
Mohawk Industries	2.0%		
CONSUMER STAPLES	14.5%	7.1%	7.4%
Altria	3.8%		
General Mills	3.5%		
Kroger	4.0%		
Molson Coors Beverage Company	3.3%		

	BI&R	R1000 V	+ / -
INFORMATION TECHNOLOGY	8.5%	9.6%	(1.1%)
Arista Networks	2.5%		
Intel Corporation	2.5%		
Cognizant Technology Solutions	1.0%		
Cisco Systems	2.5%		
HEALTH CARE	14.8%	12.6%	2.2%
Cardinal Health	2.8%		
Cigna Corporation	3.5%		
CVS Health Corporation	3.8%		
McKesson Corporation	2.5%		
Laboratory Corp. of America	2.3%		
INDUSTRIALS	9.0%	13.9%	(4.9%)
MSC Industrial Direct Co., Inc.	2.0%		
3M Company	2.0%		
WESCO International, Inc.	2.0%		
General Dynamics	3.0%		
COMMUNICATION SERVICES	10.8%	9.2%	1.6%
Facebook, Inc.	2.8%		
Alphabet Inc.	2.5%		
AMC Networks	2.5%		
ViacomCBS Inc.	3.0%		
ENERGY	0.0%	5.1%	-5.1%
UTILITIES	0.0%	5.0%	-5.0%
MATERIALS	0.0%	4.8%	-4.8%
REAL ESTATE	0.0%	4.3%	-4.3%
CASH	0.5%	0.0%	0.5%

call the third tier of quality.

Is that part of the way you try to avoid value traps?

Jim: Yes. My process doesn't find value where there isn't growth, good returns. In fact, very often I think the so-called growth darlings — Apple, Qualcomm, Facebook (FB), Google (GOOG), Amazon (AMZN) — have been mispriced by a lot of investors. Really. I've owned all of them except Amazon. And obviously, I wish I had bought it! I also wish I hadn't sold Apple at the end of 2019. Even though it was high-priced then, and I had rational value reasons to sell it at the time, it has climbed higher still.

Can you explain to me how you can say the FAANGs have frequently been undervalued, when they generally trade at huge premiums to the market and at eye-watering multiples of — forget earnings — cash flow?

Jim: Oh, just over and over again, whether you're talking about Google or Facebook or any of these companies, the world typically has been pricing them for about 12% annual growth, according to my math — my valuation construct. Yet they have been pretty consistently turning in 20% to 40% annual growth. Now, even if they're not going to sustain that 20% - 40% growth rate for a couple more decades, if you just let your clock run forward one year with those companies growing at those rates, their values pop — a lot — between this year and next. So I've just found them to be tremendously underpriced — chronically.

Maybe, but they're pretty special cases —

Jim: I don't know. I think that's also true with Alibaba (BABA) today. It is just not priced for the kind of growth it's turning out. While Google, today, is probably priced for closer to high-teens growth, instead of 12%, so I'm not saying it's cheap here. On the other hand, it's still priced for a growth rate below what it's turning out. I'm just saying that these FAANG-type stocks have been very misappreciated and undervalued. Perhaps because people still remember 2001-2002, and find it easy to throw rocks at growth investors.

Especially if they can't distinguish between a speculative mania and sustainable growth — which, to give the devil his due, is often because "sustainable" is meaningless to traders with nanosecond horizons as well as to couch potatoes playing manic memes.

Jim: Right. We can get volatile changes amid those episodes. But they create opportunities. And so far, the FAANG-type stocks have continued to surprise on the upside. They keep growing, even though people say that they can't continue to grow. Remember Apple in 2013, when it went down to, like, $65, on a pre-split basis, because everyone was just sort of saying, *what* are they going to next?

Right, "everybody" already had an iPhone.

Jim: Exactly, so Apple supposedly was doomed to be another Nokia (NOK). But it has kept growing. And Google has just kept growing. I can't even remember when it was anymore, but when I first bought Facebook, there's was incredible negativity around the stock. The narrative was that lots of the clicks on their site weren't real; that they were the work of bots. And once that was exposed, it would be a catastrophe for FaceBook's ad revenue, blah, blah, blah.

Still, I have sympathy for the idea that nothing grows forever — and investors have a nasty habit of getting way out over their skis in fast-growing stocks.

Jim: No argument. What isn't well-enough appreciated about these companies is that we are in the midst of a real technological transition in the economy. We could compare it with the electrification of the country from the 1890s to the 1920s, or with the rollout of the railroads or the advent of cars. And what do we know about these major technological changes, like the one we are living through? That these "disruptive' technologies continued to produce real growth, real cash flow, for decades upon decades. Yet this one continues to play out to, how shall I put it, a skeptical audience in the market.

Dare I point out that many — even the majority — of the disruptors in those earlier tech cycles ended up going down in flames, with their investors? And that's even without considering the impact of trust-busters.

Jim: Sure, there are reasons to be skeptical. Always are. But I'm warning against a cynicism that denies the systemic change happening before our eyes. And sure, one of the latest worries is regulatory overreach that declares them monopolies and then collapses them. But there have been assaults on these companies, left and right, for almost as long as I can remember. Actually, that's a reason they've been tended to stay reasonably priced despite their outsized growth.

There's always a reason why something looks cheap or seems cheap or people don't want to own it, and you're always going to have an error rate as an investor. I make plenty mistakes. The point is just to put up a few chips when it seems something has decent odds of working. And if you're wrong, you're wrong. Get over it.

It's a cost of doing business.
Jim: That's too true.

Speaking of which, I know what it is to essentially run a "one-man" shop. Do your thing and run a business, too —
Jim: I'm very lucky that a couple of my key operating support staff at old EIC have come with me. On the marketing side, I'm also fortunate that my model portfolios are being distributed by F/m Acceleration, out in D.C. It was just by serendipity that I discovered them, but to quote their website, their mandate is "to enable talented managers to do what they do best." They've taken over all of the operational trading, compliance, management and marketing hassles for me, so all I have to do is focus on publishing the portfolios, and that's great. F/m implements the portfolios, either in separate accounts or as models and, again, we may have some other outlets in the work — within the constraints of my non-compete with new EIC.

Back at EIC, I was running a company with 29 employees and had all the complications that go with that. You were needling me about the Tom Brady thing. But I was really pulling for him. And I'm not claiming to be the greatest of all time — at anything like that. I defer to Muhammad Ali, and stay away from delusional pronouncements about what I've done. But I was happy to use that metaphor in that marketing piece — and F/m was happy to play the role of the Buccaneers in distributing it. I'm particularly appreciative at this stage in my career that I can leave that stuff to them, focus on investments — and still have a life — while I work to meet my long-standing objective of creating a 50-year track record of capital creation via my growth-tinged value process. And I'm delighted to say that my son — a very successful software engineer who has tired of unrelenting deadlines in Silicon Valley — is moving back to the East Coast to help me reach that target. We're very different but I'm looking forward to what our collaboration might produce.

So 35 years down, 15 to go?
Jim: That's the goal, and I hope it's in reach. I'm certainly not anxious to retire. I've always found wrestling with the alligators in the market quite a lot of fun — let's face it, the investment profession is just an incredibly enjoyable, privileged occupation. No heavy lifting, at least literally. Always changing and demanding that you stay engaged and aware and probe everything going on in the world. Perpetually challenging; there are always new puzzle pieces to grapple with.

Yet you aren't enthralled with the opportunities you're finding in the market at the moment, you said. OI is your only fresh idea?
Jim: Well, we are coming off a period where we had some very unusually mispriced fears, and I would say to a large extent we still have those fears in communications. I think Viacom and AMCX are still very cheap. Discovery's come way down. I haven't repurchased it, but it's certainly moving toward — it's getting there. Maybe when we finish this interview I'll look and see if it's gotten there. Last I looked, it was a little bit away. But those are still very cheap areas.

Any others?
Jim: Yes, if you look at CVS Health (CVS), it's very cheap. Alibaba's still very cheap, as I indicated. Federated Hermes (FHI) is very cheap. Likewise some of these things in my March model portfolio. There is quite a handful — like these —selling at 10 P/Es in an environment where growth is going to be strong and there's no inflation — although I know that view of inflation isn't consensus here. CVS for instance, has been growing at a 4-5% annual rate for years. I think CVS is worth over 120, and yet it's selling at 80. The reality is, I still go to the CVS because there's some little dinky thing that I need. It's cheap.

At the same time, while I have not been waving my hands and yelling about how the market is so crazily overpriced, I do think that there are certain areas — there are so many stocks that make me wonder what the people buying them are smoking.

Are you talking the crazy stuff like Dogecoin, Bitcoin and those — whatever?
Jim: There's always the speculative fringe. I'm really referring to many of the lower-quality small and mid-cap names priced on the vapors of the moment. Industrial or drug companies with big promises and nothing real. Lousy, capital consuming businesses that don't grow. For whatever reasons, some investors are betting they will start growing. So the overpriced segment in today's market isn't concentrated in the FAANG stocks, although people tend to think it is, just because that's how it was back in the tech bubble.

I remember it well —
Jim: I wouldn't say that this market is like that. The real craziness now is where things are priced for

growth that really is unlikely to happen or for earnings that are unlikely to happen or for a drug pipeline that's unlikely to happen. And that extends far beyond Nasdaq's top 50 names in this market. I would say that something like nine out of ten stocks I've looked at lately have left e mystified about why people are buying them. Take energy or utilities. I don't find those stocks to be cheap.

Aren't those sectors likely beneficiaries — should we actually see the government pouring money into infrastructure?

Jim: Yes, but if you believe that, I think there are other more interesting stocks to buy than commodity producers and utilities. Don't get me started on all the speculation in little drug companies with no prospect of revenues or earnings — probably in our lifetimes. That's high-risk. I think an investor is much more likely to come out okay by owning something like a FaceBook or Google over the next 7- 10 years, even if the stocks drop 10% or 20%. They're great companies. They're going to keep compounding growth. Keep going. And that growth will bail you out.

The miracle of compounding is very real. All you need is patience. Is that your investment horizon these days? Seven to 10 years?

Jim: When I started out at EIC, my horizon was really a Graham and Dodd-type four-year horizon. But I found that was really keeping me from buying the higher quality stocks. I was being too short-sighted in terms of valuing how much growth I was willing to buy into. I missed the Hersheys of the world, and so many good companies. So I went to a 4 - 7 year horizon. I want to get inflation plus 4.5%, annually, on my original investment and on my re-invested dollars, over that span. What I've found is that the longer the horizon, the more sensitive I am to the company being able to generate a high-enough return on investment to avoid destroying my capital. Being very careful and rational about only wanting companies that can grow helps my sell discipline.

Now, I choose a time horizon — four, seven or 10 years — depending on how much competition I think a company is subjected to. For most companies I own, I'm using a seven-year. I wouldn't say that I've "officially" used a 10-year horizon to justify a portfolio purchase. I use it as more of a valuation check on myself. Being willing to give a growing company a ten year horizon to deliver on its valuation, I think, an evolution of my awareness or understanding that really riding a growth engine for a long period of time — and valuing it properly — is the right stuff in investing. When Buffett says the best holding horizon is forever, what he means is *not* that you should just buy any old stock and lock it away.

Would that it were as easy as "one-decision stocks!"

Jim: What Buffett means by that is the best investment horizon is forever because the company you buy somehow has a business franchise or technological or market strength that is impregnable. So it will be growing sustainably forever.

But even Buffett makes mistakes. We saw that the newspapers he thought would last forever did not. We saw the advertising companies that he thought would continue to dominate be displaced to a large extent. There have been so many franchises that seemed likely to go on forever but ultimately stumbled when faced with new challenges.

Anyway, what you really want a company that can earn a high return on invested capital, that can keep turning the crank by doing the same thing, and reinvesting its returns to keep growing, and that will do this for a long, long time. When you find that, you have a tremendous value —something that's very good and very rare. Banks were like that for a long time. Buffett's See's Candy was like that.

Over the years, happily, I've found my share of companies like that to lock away — in the finance sector, especially — A.G. Edwards, Raymond James (RJF) and T. Rowe Price (TROW) just kept growing and growing and growing. A.G. Edwards is gone now, after a takeover by Wells Fargo. But you get my point, these types of businesses are rare and extremely attractive.

I see Intel in your model portfolio, Jim. There's quite a bit of skepticism these days about the company's chances of regaining its past glory —

Jim: You're not the first to challenge me on that. Insist that Intel's growth days are over and that it's a value trap. I know Intel has a bad rap at this point. It may be true. But I do own some Intel. Not because I can see *how* they're going to pull it out, but because I think they have the resources and the capabilities and the direction and the desire — and so they have reasonable odds of pulling it out, particularly because the U.S. needs to have a semiconductor manufacturer — as does Israel. Let's face it. The government is not going to let this thing fail, if they can help.

They're going to have a lot of people pulling for them. I remember mentioning that I was holding Microsoft, in 2013, during an interview on Bloomberg. You can't imagine how they assaulted me about what an awful company MSFT was. Now, I admit that the company, since then, has done far better than I ever imagined. I didn't predict it. What I saw in Microsoft back then was basically a lot of cashflow, no debt, a tremendous franchise and deep roots in the economy. So my bet was like, they'd have to screw up for a really long time for these guys not figure out a path out of its rut.

You hope for something similar out of Intel?
Jim: Kind of like that. I don't want to bang the table for it. I could be wrong. Hardware is a lot different than software, let's face it. I've gotten earfuls from my software engineer-son about how bad Intel's hardware is —

They've evidently lost their tech edge —
Jim: They got behind the times. Others came up with smaller chips that could do the same things or more on less energy. So Intel has a lot of work to do.

It may need the help of that cavalry you were talking about.
Jim: Well, even though I can't predict the future, I can see if a company has the footprints of poor management — and if they do, I just don't go there. For instance, if a company is reporting persistently declining returns on capital, that's unlikely to change.

You mentioned Alibaba earlier. Are you betting China comes to its senses before it kills its golden goose?
Jim: I can't make that call any better than anybody can. Even Jack Ma can't make that call, really. But I think it's reasonable that China wants to grow and wants its consumers to be happy. And, to me, China's leaders haven't shown signs of being stupid.

So I expect them to figure it out in a way that doesn't kill Alibaba. I've been surprised that the price has come down as much as it has, so I'm probably going to be increasing my exposure.

What's it down to now?
Jim: I think it was 225 earlier today. It's down quite a bit from its peak last fall, over 300. Again, it's a company that's been growing in the 30% range, in the high 20% range. And I'm not valuing it at that kind of growth rate at all. I'm pricing it was if it has about a 15% growth rate. They're going to be able to sustain that kind of growth for a very long time; this is China. I doubt many people underestimate them anymore.

I was a mite surprised to see Kroger on your list, especially now that we can begin to venture into other kinds of stores.
Jim: At the risk of sounding repetitive, they are a quality company that can keep growing — and Kroger (KR) is selling very cheap. They're going to keep putting money in your pocket as an owner.

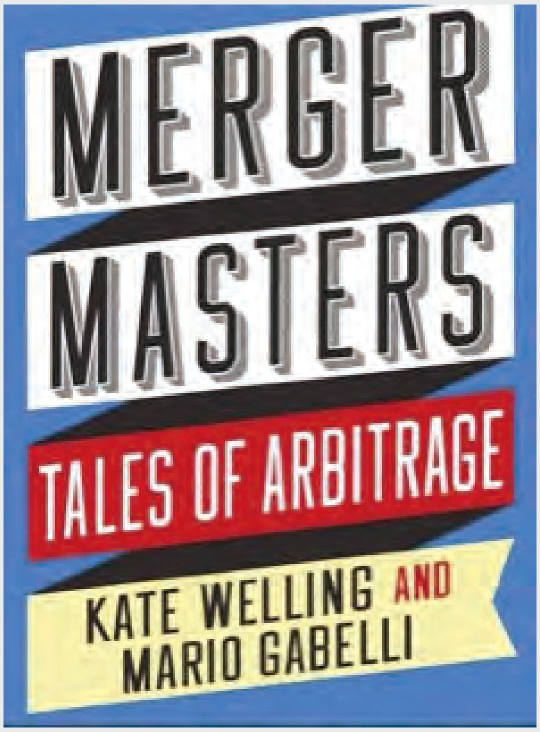
But supermarkets are so not cool. Very low margins, too boot.
Jim: Kroger, yes, is facing the same issues with Amazon as all the traditional retailers. But it's selling at an enormous discount to my valuation of it. Using my metrics, Kroger, is worth at least 50 and it's selling at 36. It has positive cashflow, has been doing big buybacks, has a very good ROE, and they're have the top market shares in most of their markets. Kroger is not going away. Yes, they're going to have to fight it out with Amazon — but they've had to fight it out with Walmart, and are not pushovers —

Also, though in a low margin business, they're generating the cashflow and expanding and growing the business. They're doing something right.

I think these companies are better-than-average investment choices, frankly — not just in this particular market, but in terms of my 35-year perspective on the sorts of opportunities the market has historically served up. Meanwhile, to sum it up, I'm avoiding industrials with high fixed costs and low margin structures — because they avoid hiring people to grow and use what cash they generate to buy back stock while taking on debt — destroying capital.

This is just how I'm trying to play it safe in this environment, and so far it is working out.

As it has for years. Best of luck as your quest continues, Jim. And thanks for sharing your insights.



Welling on Wall St. Interviewee disclosure: James F. Barksdale is the founder and President of Atlanta-based Barksdale Investment & Research, a growth-tinged value investing publisher of model portfolios that he established as of the beginnining of 2019, when the "garden leave" period of his separation arrangement with Equity Investment Corp., permitted. Jim had founded what he refers to as "1986- EIC' at the beginning of 1986 from a spare room in his home. He based it on Warrent Buffett's valuation framework and through the next 30 years, Jim served as President and Chief Investment Officer. In 1996, he augmented the approach by developing graphical "Value Trap Avoidance Tools," based on his review of investments during the firm's first decade. Due to market-leading esults, the firm grew under Jim to manage approximately $5.6 billion, by 2016, principally for high-net-worth clients sensitive to losses and taxes. Significant clients included Wells Fargo, Morgan Stanley, UBS, US Trust, Merrill Lynch, and Raymond James, as well as many regional RIA's. But Jim's time at the heln of EIC ended at the end of September, 2016.

At that point, in the midst of a doomed race for a Senate seat, led by a Georgia Democratic Party that did not yet have its act together, and faced with employees threatening to decamp to a new firm, Jim agreed to turn over the reins at EIC – and not to compete, etc.. But Jim wasn't about to retire. After his requisite time as a "gardner," Jim (who never entirely stopped managing portfolios according to his differentiated value discipline – to keep alive his personal quest to achieve a 50-year track record) has been creating model portfolios that are being marketed by Washington's F/m Acceleration. For further information, see www.barksdaleinvestment.com Also, see https://www.fmacceleration.com For detailed disclosure on Jim's portfolio returns, see the next page.

Jim grew up in Atlanta, began investing in high school, and quickly learned it was easy to lose money. After attending Vanderbilt and graduating from the College of William & Mary, he completed an MBA at the University of Pennsylvania's Wharton School of Finance. During that time, Jim studied the efficacy of numerous equity valuation approaches, and eventually readi Warren Buffett's 1977 Fortune Magazine article entitled "How Inflation Swindles the Equity Investor." It set him on the course he's pursued ever since.

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All performance references exclude the impact of management fees, and investors cannot directly invest in market indices. Jim Barksdale founded Atlanta's original Equity Investment Corporation in 1986 and served as its Chief Investment Officer with sole veto authority until September 30, 2016. There, he was the single portfolio manager of the firm's investment strategies from 1986-99 and was assisted after that by three investment team members who joined his firm in 1999, 2003, and 2005.

The S&P 500 is a market-cap-weighted index comprised of the largest US stocks, and its constitution is the intellectual property of S&P Dow Jones.
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The SEC recently updated and clarified its advertising rules, broadly re-affirming prior No-Action letters regarding advertising of performance results achieved at another firm. Page 267 states, "prior performance results of accounts managed by a predecessor entity may be used so long as: (i) the person responsible for such results is still the adviser. "The SEC previously concluded that a change in the investment team advising an individual exercising decision authority (the Controlling Manager) would not preclude his or her subsequent advertising of performance from another firm so long as there is continuity of the individual exercising ultimate decision authority across firms. (See Horizon Asset Management, available September 13, 1996, at https://www.sec.gov/divisions/investment/noaction/1996/horizonasset091396.pdf).

BI&R only advertises results for strategies and periods in which Jim Barksdale was primarily responsible for results as a strategy's Controlling Manager. From January 1, 1985, through September 30, 2016, Barksdale held and exercised sole veto and decision authority over investment decisions for all investment strategies at 1986-EIC (CRD#108510 / SEC # 801-27781). Barksdale was assisted by three additional investment team members who joined 1986-EIC in 1999, 2003, and 2005. On October 1, 2016, 1986-EIC sold certain of its assets to a firm formed by the three other investment team members (2016-EIC).
Barksdale had no role in investment decisions for 2016-EIC's ACV, LCV, and MCV strategies after the sale, but he continued as an employee of 2016-EIC, where he managed four socially responsible restricted strategies (Environmental, Human Rights, Catholic, and Protestant). BI&R advertises results from the least- restrictive of these strategies (Protestant Value) from October 1, 2016, until December 31, 2018. During this period, composites for the Environmental, Human Rights, Catholic, and Protestant strategies increased 17.0%, 14.6%, 16.9%, and 17.6%, respectively, versus 11.3% for the Russell 1000 Value index. The Protestant Value portfolio advertised by BI&R earned 17.3%. Since January 1, 2019, the results are those of a separately managed account whose holdings and weightings follow BI&R's recommended U.S. All-Cap Value Model Portfolio.

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Other notes:

Source: Standard & Poor's Capital IQ- Characteristics reflect BI&R's U.S. All- Cap Value Model Portfolio (ACV) as of March 31, 2021. Differences in portfolio implementation by individual subscribers may result in portfolios with different characteristics and risk profiles. The above s statistics are only a subset of the metrics evaluated during the investment research process.

Growth of $1 illustrates the growth in an initial investment of $1, including reinvestment of dividends and distributions, gross of management fees. Frequency of loss is based on 411 rolling 12-month periods since December 31, 1985.

Frequency of earning an annualized return greater than 8% (gross) is based on 364 rolling 60-month periods since December 31, 1985. Standard deviation is a measure of volatility, with a higher figure denoting wider variation in outcomes and greater risk.

See 1986-EIC's Form ADV, Part2, dated March 2, 2016 (CRD#108510 / SEC#801-27781). Page18 states: "Jim Barksdale retains final investment authority over all investment decisions. Andrew Bruner, Terry Irrgang, and Ian Zabor report to Jim."

See pages 23 and 24 of BZI Partners' (subsequently Five Falls Capital and Equity Investment Corporation, or 2016-EIC) ADV –EIC ADV Part 2 dated October 4, 2016, where the firm's investment members are Andrew Bruner, Terry Irrgang, and Ian Zabor.

Jim Barksdale founded the original Equity Investment Corporation in 1986 (CRD # 108510 / SEC # 801-27781, or 1986-EIC). On May 2, 2016, 1986-EIC's other investment team members (Bruner, Zabor, Irrgang) obtained Georgia registration for their firm, BZI Partners. BZI Partners (BZI) received its SEC registration approval on June 15, 2016 (CRD # 283930 / SEC # 801-107945). On October 1, 2016, 1986-EIC sold certain of its assets to BZI, which changed its name to Equity Investment Corporation (2016-EIC).