



2021 Year-End Commentary January 31, 2022

36 Years & 5 Crises Markets (so far)

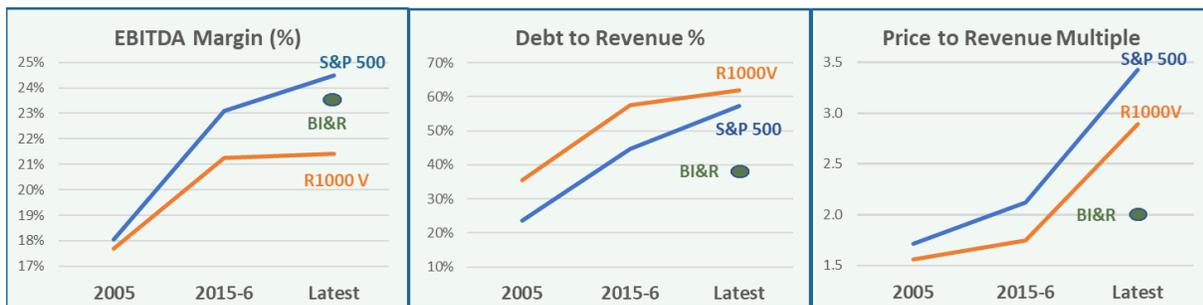
BI&R's All-Cap Value (ACV) portfolio increased 28.9% in 2021 (gross, or 26.4% net of a 2% hypothetical fee) versus 25.3% and 28.7%, respectively, for the Russell 3000 Value (R3000V) and S&P 500 indices¹. Over the past 36 years, our investment approach has provided returns above those of passive equity indices with below-market volatility, producing an annualized excess return versus volatility ("alpha") of 3.5%². This has primarily been driven by successful navigation of crisis markets (the 1987 Crash, the 1990 Kuwait invasion, the 2001-2 collapse of the large-capitalization "Buffett Inevitables" stocks and dot-coms, the 2008-9 credit crisis, and 2020's COVID).

Ray Dalio's new book "Principles of Dealing with the Changing World Order" reveals how unpredictable risk is. However, my method of dealing with uncertainty differs from Dalio's because I do not believe I can anticipate future events despite the broad repeating patterns he discusses. Instead, I try to protect against market-specific risks through stock selection, while protecting long-term against inflation and insolvency risks through strategy engineering and design.

Protecting Against Today's Market-Specific Risks

Each market has its specific risks, drivers, and triggers. The risk today is high margins, high debt, and high prices, driven by aggressive fiscal and monetary policies, with an inflation trigger.

The graphs below show how profitability, debt, and stock prices have risen versus revenues since the 2007 credit crisis. While I have no proof of causality, I believe stimulative monetary and fiscal policies have facilitated these increases. Any directional change to tame inflation will expose significant price risk if EBITDA margins return to normal levels while interest payments on increased debt have risen.



Source: S&P Capital IQ, all figures are medians

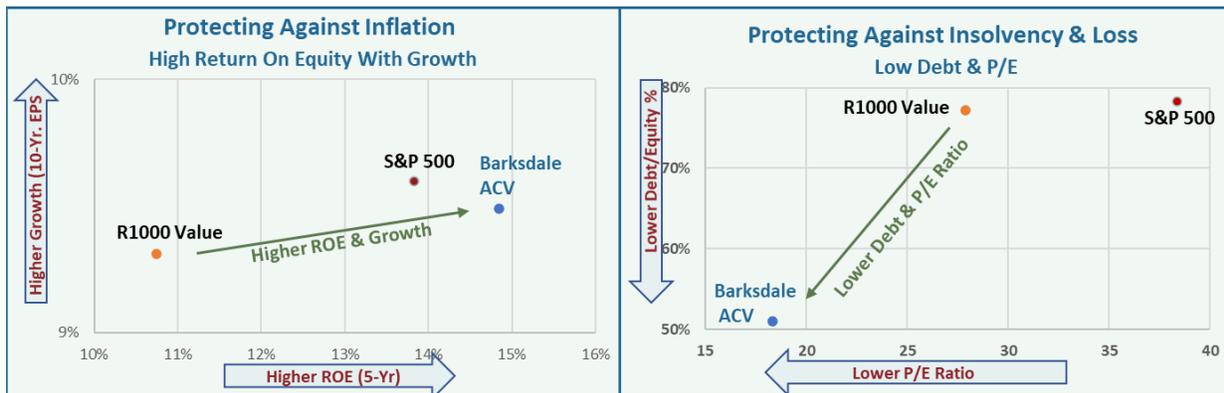
As Warren Buffett has said, "only when the tide goes out do you discover who's been swimming naked." While we cannot guarantee success in navigating the next market crisis, we can guarantee that we have been conscious of these growing risks and tried to bolster portfolios to protect against them. **Our positioning can be seen by the green dots showing that our portfolio selections have focused on owning companies with more normalized margins, debt, and prices versus revenues.**

Protecting Against Inflation & Insolvency

Our investment approach is engineered to protect against inflation and insolvency through ownership of businesses that earn high returns on shareholders' capital, reinvest earnings for growth, achieve growth without excessive debt, and are purchased below their "real value." Our "real value" targets a 4%-5% return on our invested capital above inflation over a seven-year holding horizon. This portfolio design has been present since the inception of our approach, as stated in our [1986 Year-End Commentary](#):

"We tend to own companies that earn high returns on their shareholders' capital, reinvest earnings in their business for growth, achieve their earnings and growth with low debt, yet sell at low P/E ratios." [Equity Investment Corporation, 1986](#)

Continuity of this portfolio strategy design can be seen graphically versus the S&P 500 and Russell 1000 Value indices below.



Source: S&P Capital IQ, all figures are medians

2021 Portfolio Attribution

Our 2021 outperformance versus the Russell 3000 Value index was driven by stock selection across multiple sectors (Communications, Consumer Staples, Technology, Industrials, and Health Care), offset by poor performance from one stock (Alibaba - Consumer Discretionary). Alibaba's price decline has been principally due to political rather than economic issues and we believe it continues to have long-term growth potential.

The strong contribution from stock selection was partially offset by our underweight positions in the two top-performing market sectors (energy +55.8% and REITs +42.3%). We typically have underweight positions in these sectors under our discipline due to low growth, low returns on invested capital, and high levels of debt.

Q4 Portfolio Changes

As noted earlier, our determination of "real value" is calibrated to provide a real return over inflation. Because of this, a higher rate of inflation reduces the amount we are willing to pay for a business. We increased our inflation assumption to 3% last quarter due to prevailing higher inflation rates. This reduced valuations and triggered several sales, particularly given 2021's strong price increases.

For example, we sold our positions in Arista Networks, Cisco, Cognizant, Lab Corporation of America, General Mills, and Wesco, all at significant gains. We added one new position (Activision), which Microsoft now plans to acquire at a 60% premium to our purchase price. As a result, we closed 2021 with about 11% in cash.

How to Access BI&R Portfolios

I appreciate the decades of support for our investment approach by so many firms, advisors, and clients. Our portfolios are currently available as separate accounts from [F/m Investments](#) or via model implementation at [Adhesion Wealth Advisors](#).

Jim Barksdale

Founder, President, & Chief Investment Officer

[Barksdale Investment & Research](#) (8/1/19 to present)

Equity Investment Corporation – Registered 1986 (12/31/85 to 9/30/16)

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[Barksdale Investment & Research](#) publishes model portfolios, which are implemented by [F/m Investments](#), an SEC registered investment advisor. The portfolios are available as separate accounts at Charles Schwab, Fidelity, and Envestnet, or via model delivery through [Adhesion Wealth Advisor Solutions](#), a Vestmark company.

Disclosures

¹ Barksdale Investment & Research's (BI&R's) results since October 1, 2016 reflect its All-Cap Value (ACV) composite, which has been verified by the Spaulding Group. All figures are time-weighted returns, gross of management, administrative, custody, other fees, or trading costs, and include reinvestment of dividends and interest. BI&R's performance figures are provided as supplemental information to the firm's GIPS composite reports. Individual account results may differ from BI&R's composite results, and past performance is not indicative of future results. Results are provided after hypothetical 2% annual fees (billed monthly) to illustrate the potential impact of fees. Past results do not imply nor guarantee future results. All investing involves risk, including the risk of loss. BI&R publishes model portfolios, which are implemented by F/m Investments, a registered investment advisor

² **Consistent with the SEC's Horizon Asset Management No-Action letter, BI&R advertises results for strategies and periods in which Jim Barksdale held and exercised sole decision and veto authority and was thus primarily responsible for a strategy's results**³. 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 Equity Investment Corporation ("original-EIC" - CRD # 108510 / SEC # 801-27781). Barksdale was assisted by three additional investment team members who joined the firm in 1999, 2003, and 2005. On October 1, 2016, original-EIC sold certain of its assets to BZI Partners, an RIA formed and registered in 2016 (CRD # 283930 / SEC # 801-107945). BZI Partners changed its name to Equity Investment Corporation (BZI n/k/a EIC). BI&R's ACV strategy results prior to October 1, 2016 reflect original-EIC's ACV strategy under Barksdale's management.

³ 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. The SEC previously concluded that a change in the investment team advising an individual exercising decision authority 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's results from October 1, 2016, through December 31, 2021, have been independently certified following a review by The Spaulding Group to ensure the firm's policies, procedures, and performance results follow the CFA Institutes GIPS guidelines and best practices. Their review and certification is available upon request.

Barksdale Investment & Research publishes model portfolios, which are implemented by F/m Investments, an SEC registered investment advisor. The portfolios are available as separate accounts at Charles Schwab, Fidelity, and Envestnet, or via model delivery through Adhesion Wealth Advisor Solutions, a Vestmark company.