

To: Ribeiro Capital Followers

From: Eduardo Ribeiro

Subject: 2024 closing thoughts

As the year comes to an end and some of my choices in stock picks have not been kind to the portfolio lately, I keep turning back to the philosophy that made me start this project in the first place. Learning to invest by creating a track record, for better or worse, not only allows others to join me on this long journey called investing but also serves as a constant reminder that my word and credibility are always on the line, and I must hold them with the highest responsibility. This process reminds me that everything I do can and will be scrutinized in the future, so I either have to be right or, if I'm not, it has to be the last time that specific mistake is made. Making these mistakes led to a lackluster performance this quarter. But mistakes would've been made whether I started this platform in 2034 or 2024. I'm glad I didn't wait 10 more years, or even a single day, to be ready.

The idea that the stock market is constantly in a bad mood toward certain stocks, and that this attitude problem reveals itself as an opportunity to generate exceptional returns, still resonates in my research and continues to guide my investing philosophy. Looking for companies that are, have been, and will continue to be strong cash flow generators in the near future still provides the best and most predictable returns in the market. However, my approach to analyzing a few specific companies was flawed and caused capital depreciation. Each wrong choice made me realize a gap in my research and improve my methods.

Cleveland-Cliffs was a prime example of this. Even though I had priced in a higher-than-average WACC to ensure a bigger margin of safety in the analysis, my idea that the company was healthy enough to not perform as poorly as the market was predicting was wrong for two main reasons. First, I underestimated how their capital expenditures were predicted to consume a large portion of their cash flow in the next few years. Second, I didn't grasp how unprepared they were for a prolonged downturn in steel prices, which led them to shut down furnaces and reduce

production. Analyzing companies with such high capital expenditures and reliance on a specific commodity requires a more thorough look into their scheduled maintenance of PP&E and the strength of their balance sheet to sustain them during rainy days—both of which I overlooked, believing the market was overly pessimistic.

Warner Brothers, however, was a prime example of my philosophy. Hit by a billion-dollar impairment charge that severely affected their net income, the company's cash flow generation was still strong and severely overlooked. They did have significant capital expenditures, as predicted by the market, but their strength in movie theaters and streaming services kept them far from the abyss the market was pricing the company at. I still believe the company has great potential, especially with a recently speculated split of their cable networks division, which has been dragging their income down in recent years. This division's steady cash flow generation adds to the company's value. However, their stock price has risen and is now approaching a figure that slims my margin of safety. This was a play in which I identified a "grumpy market" and capitalized on it properly.

I could spend some time talking about each of my holdings and explaining the thought process behind each of them, but it would be less useful to you, the reader, than reading the investment theses I've been publishing. Publishing these theses involves extensive research, deep dives into rabbit holes, and financial modeling, which inevitably causes some delay between the acquisition of a stock and the publication of the corresponding research (as of now, for example, Ford, Airbnb, Tidewater, and Google don't have published theses). This is absolutely not meant to suggest that no research was done on these companies or that their purchases were made blindly; rather, it reflects that the overall assessment of the company was positive, passing the analysis threshold for purchase, while the full material for publishing the article has not yet been compiled. Further research is still needed, in one way or another, to confirm that these purchases were correctly made. The market moves extremely fast for a junior analyst studying at a demanding university to gather all data, crunch all the numbers, and develop a perfect narrative without losing the timing of the stock. In these cases, it is better to purchase the stock after conducting a fair amount of research and then confirm the thesis in the following weeks.

There have been instances where this velocity-driven approach has caused trouble, however. Ford, for example, has a fortress balance sheet with a strong and growing dividend that comes from solid cash flow, but I am looking deeper into every aspect of the company, and my belief that the company was underpriced may be wrong, meaning my position may need readjustment. However, it still has a solid margin of safety as an investment, which provides me with a layer of protection against mistakes. All of the companies I hold in the portfolio either have a positive thesis or lack any disruptive data in my research that would prompt divestment. However, in a few specific instances, I didn't conduct research fast enough to identify thesis-breaking data before a drop in the stock. These cases served as great wake-up calls to slow down when purchasing stocks so I can make better, more informed decisions. A solution to this problem is to analyze fewer companies and reduce portfolio turnover, a strategy I will now implement as the portfolio has grown to include a significant number of different assets. Such a strategy at the beginning would have resulted in very few positions and heightened risk due to low diversification. However, this problem has been mitigated, and research will now be conducted on fewer companies but more thoroughly.

The diminished returns caused by bad luck and small mistakes this year serve as a simple metaphor: investing, like any art, is a work in progress. It's a challenging road, with shining moments along the way that nudge an investor toward growth, and bumpy scenarios that force necessary adaptation. Rome wasn't built in a day, nor were Bridgewater or Citadel. Everything I do with my name on it requires an extra amount of sweat and blood to protect, build, and grow, and in 10 years, I will not be burdened by the regret of not having done so properly. Ribeiro Capital will continue to grow stronger every day as I learn from both successes and failures, refining a strategy for success and building a journey to share with you along the way.

A handwritten signature in black ink, appearing to read 'Eduardo', with a stylized, flowing script.

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