Blackwattle's Lessons Learned

Episode 1

Blackwattle
Investment Partners

Blackwattle's Lessons Learned - Series

At Blackwattle Investment Partners, we believe that learning from our mistakes will make us better investors over time.

Rather than hide from our mistakes, we believe that we should discuss them and continuously learn. Thus, we are proud to launch of our new "**Lessons Learned in Investing**" series.

In this series we will candidly share the personal mistakes that we have made in our own careers and provide insight into our lessons learned.

Why This Series?

Our experiences, both good and bad, have shaped our approach, style, and strategies.

By sharing our mistakes and the stories, we aim to provide insights that can help other investors navigate the complexities of the financial markets with greater confidence and skill.

What to Expect?

Each month hear from a different Blackwattle Investment Partners team member, they will provide:

1. An honest account of their biggest mistakes
2. Discuss what we got wrong
3. Identify key lessons learned
4. Provide context on how to avoid similar pitfalls

Who Should Follow This Series?

Whether you're a seasoned investor, new in your journey, or someone interested in the intricacies of financial markets, we hope that this series offers you new perspectives and actionable insights.

Episode 1 - The One That Got Away (Tim Riordan, Portfolio Manager and Partner)

In the world of long-only investing, we often face two critical pitfalls:

- Losing money on the downside, which is capped at 100% of the position size.
- Or missing out on owning a stock that continues to rise, compounding into hundreds of percent over time.

If we have the mindset to learn from failure, our experiences as investors can teach us invaluable lessons about recognizing and seizing high-quality investment opportunities.

High-quality companies can come in various forms, pattern recognition from our focus on these types of companies over many years reveal some common traits:

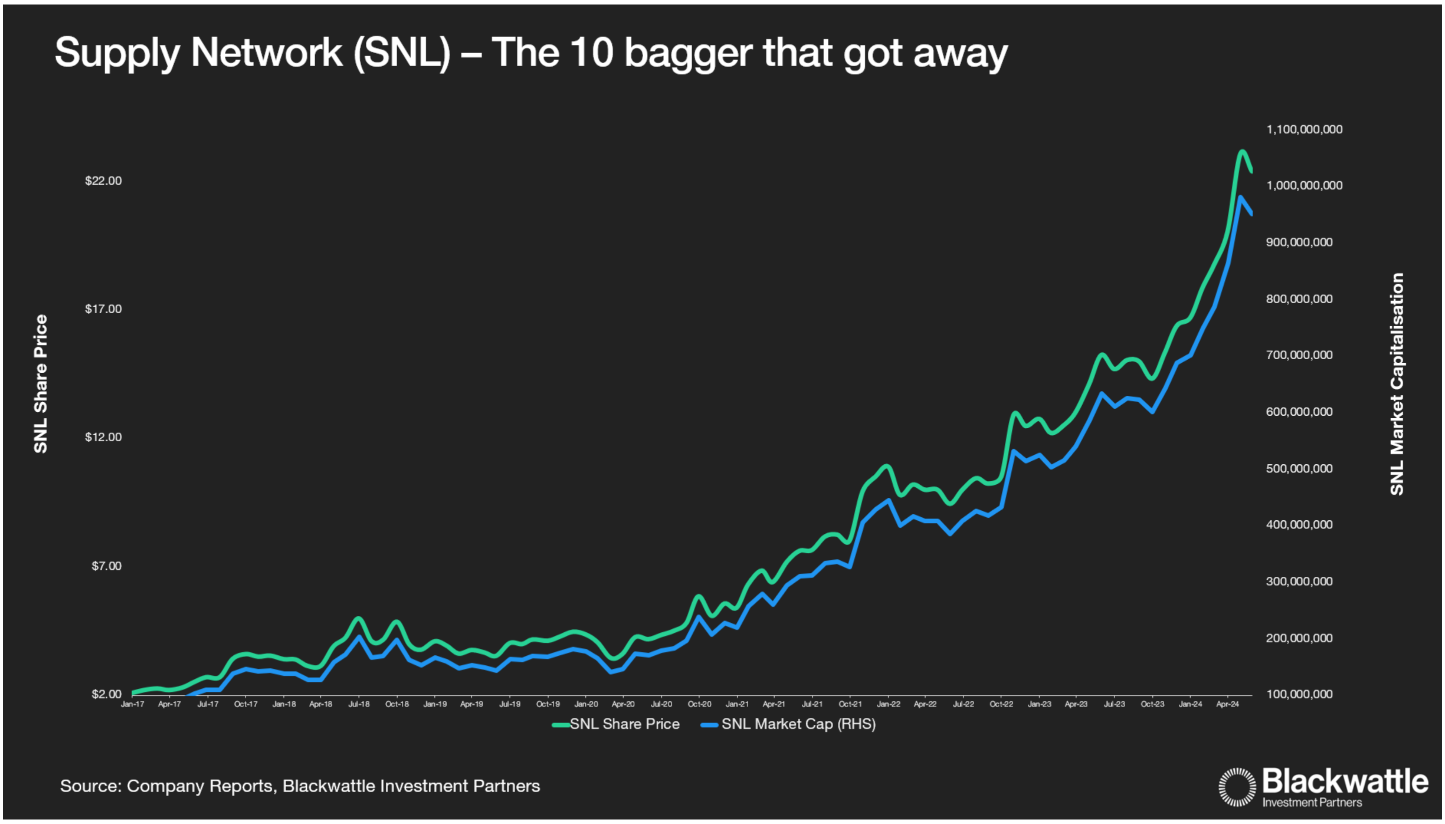
1. **Dominance in Their Niche:** These companies carve out an advantage—be it product, cost, service, or technology—that sets them apart.
2. **Durable Demand:** They can increase prices on current products, broaden share of wallet with new products, improve cost profiles, and scale efficiently.
3. **Sustained High Returns:** Their returns are higher than most and stay that way longer than expected, we call this Enduring Quality – a key source of advantage for our process and strategy.
4. **Strong Leadership:** Often led by founders or long-term executives who drive the company's cultural aims.

Reflecting on my past experiences managing portfolios, one particular case stands out: Supply Network Limited (ASX:SNL).

SNL supplies truck and bus spare parts to specialist mechanics, offering the widest variety of parts and best-in-class service levels. This allowed them to charge reasonable prices and earn solid returns with ever increasing scale.

During 2017, SNL had a market cap approaching $100 million and was trading around $2 per share. The founders held around half the shares at the time.

Despite its attractive 13x Price Earnings (PE) ratio enhanced by strong alignment from the founders, its small/micro-cap status and associated low liquidity made it seem less appealing for our portfolio, a large pool of capital, to own.

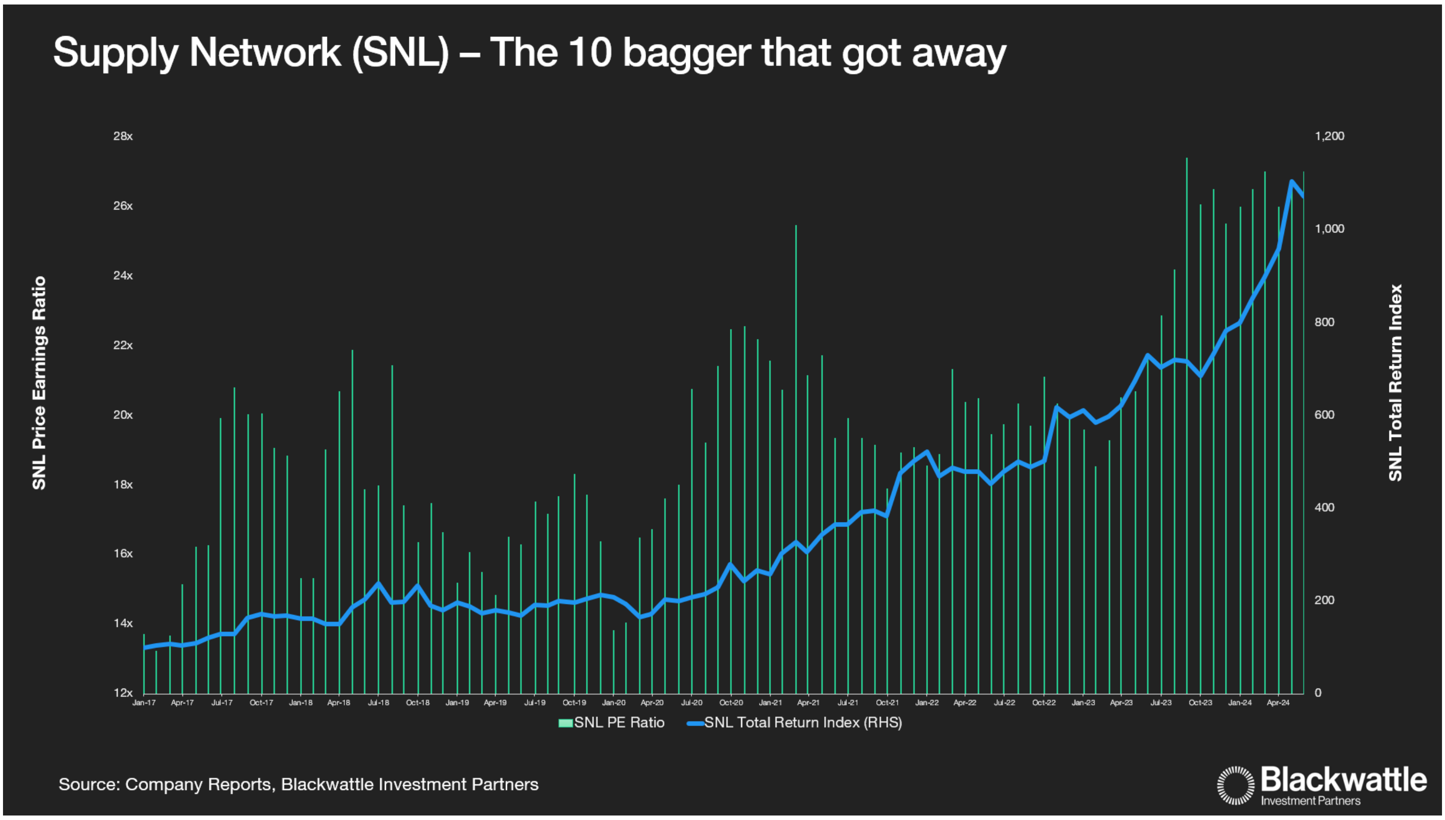


Fast forward 15 reporting periods: SNL's earnings have grown consistently at over 25% CAGR, a large portion of capital reinvested into expanding its network, and increased liquidity as founders gradually reduced their ownership over the years.

Their superior service and product offerings won more market share, creating a virtuous cycle that competition remain shy of matching.

Today, SNL's stock is 10x its price back then, dramatically outperforming the market. Its PE multiple has doubled, compounding shareholder returns well above the substantial earnings growth the business delivered.

Interestingly these gains have been achieved over several years, even after delivering strong results all the way through to 2022, investors buying the stock then would have still doubled their capital to today.



Key Investing Takeaways:

1. Think Long Term: Visualize how a company might evolve by looking beyond the immediate horizon.

Asking questions like, "What will achieving your strategy enable you to do next?" can provide valuable insights.

2. Embrace Probability: Investment decisions are rarely black and white. Acknowledge that no assessment is guaranteed to be accurate forever. Remain flexible and adaptable.

3. Avoid Anchoring: Don’t get stuck on your initial perspective. Keep an open mind and regularly revisit interesting opportunities.

A stock not right for you today might be perfect later. Investing is a marathon, not a sprint, and patience is key to success.

How to Invest

To invest click on the link www.blackwattlepartners.com/invest/
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