

**Arm Holdings Sale/July 2025.** We sold all of our shares of ARM on July 31 for \$144.04. We purchased shares at \$103.99. So, we made 38.51% on the investment. As I wrote in the June 2025 newsletter: *there are only three full years of sales and earnings history available for the company. This really isn't enough to enable me to have a lot of confidence in my valuing of the company . . . As I continue to monitor the company's development in the market, one of my central goals will be to focus on building some more certainty around the company's growth rate.* The company's last couple quarterly reports were okay, but it was clear that revenue growth was slowing. A key reason for this is that the sale of mobile devices, in general, has not been as strong as it was a few years back. This may recover at some point, but clearly these sales are cyclical and probably more cyclical than previously believed. (Apple's iPhone sales, for example, have been flat for a few years now.) The stock started selling off after the most recent quarterly earnings release. After the previous quarterly release, I had a fair value of \$139.52. The average price target of analysts' was \$147.00. I had started thinking of selling our position last month. Now seemed as good a time as any to exit this position, especially when we could take a good profit at a price higher than my calculated fair value.

**Lululemon Athletica Inc Sale/July 2025.** We sold out of this after LULU's most recent quarterly earnings report. The company reported that its sales and earnings grew at a substantially slower rate than had been the case for the last several years. Management blamed tariffs and merchandise mix. The real problem seems to be that LULU now has competitors (e.g., Vuori and Athleta) that offer the same quality of clothing at lower prices. We lost about 20% on the investment. Thankfully, it was a relatively small position. Investing is never mistake free.

**James Hardie PLC sale/October 2025** and an explanation of why we aren't selling **Builders FirstSource.**

At the end of October, we sold James Hardie (JHX) because:

1. My investment thesis was going to take longer to payout than I originally expected. I had purchased JHX as a trade, meaning I did not see the company becoming a long-term, core holding. It is a good company that holds a leading position in the manufacture of concrete fiber building products like siding. The stock price had fallen to a multi-year low because of the continued recession in the housing market. I was expecting that interest rates would come down, that mortgage rates would follow, and that the housing market would then recover. Trump's tariffs muddied the macro-economic outlook, and the Federal Reserve has had a higher interest rate bias. These things and the U.S. national debt have kept interest rates and mortgage rates too high to enable the housing market to break out of its recession.
2. It began to look like the risk in the stock price was to the downside. I bought the stock for \$19.14 (a multi-year low at the time). Over the few months I owned the stock, it was becoming clear that mortgage rates weren't going to come down significantly for another half year or so. During those months, the stock encountered upward resistance at ~\$22. The stock price rose a number of times to around \$22 and then dropped back. I began to think that the stock wouldn't break above \$22 until the housing recession broke. The longer it took for the housing recession to break, the more likely it seemed to me that the stock price would fall below, rather than stay above, \$19.14. We sold our shares at \$20.41 for a 6.64% profit.

Now seems like a good opportunity to share the understanding I've come to about how I view the difference between what I consider a long-term, core holding and a trade. We currently own another

building materials and construction company—Builders FirstSource Inc. (BLDR). BLDR provides manufacturing, supply, and installation of a full range of structural and related building products. (There's a full description of the company later in this newsletter.) This company's stock price is under pressure for the same macro-economic reasons as JHX—the housing recession. BLDR's stock price also has the same potential to rise significantly when mortgage rates drop and the housing recession breaks. The differences for me between BLDR and JHX are:

- BLDR has a much larger total addressable market. It's goods and services are broader and more diversified than JHX. Builders includes most of the materials and, if a builder wants, even the labor in residential construction. JHX sells cement fiber construction materials like siding.
- BLDR has built and continues to build a moat around its business. I bought BLDR for its moat, in addition to its stock price being undervalued. I bought JHX simply because it was undervalued and because I could see a catalyst (the end of the housing recession) that would drive appreciation in JHX's stock price. BLDR's moat is attributable to its products and services mix and to its scale.
  - A very significant part of BLDR's portfolio of products consists of manufactured products like factory-built roof and floor trusses, wall panels, vinyl windows, and pre-hung doors. Given the labor shortage in the construction industry and given home builders' needs to keep costs down and build homes quickly, BLDR's product portfolio aligns well with industry trends in the homebuilding industry. Preconstruction requires infrastructure like factories and machinery.
  - BLDR has also focused on building out scale. The company is approaching 600 locations in 43 states. This scale enables BLDR to offer products to customers at lower prices than its competitors. It also gives them access to a lot of customers across a broad geographic range.

BLDR's scale and product mix give the company a moat which should protect its earnings for a number of years. Because of this moat and because the company is aligned with the future direction of its industry, I am comfortable being patient holding this stock and will even purchase more shares if the stock price drops enough.

**ASML sale/November 2025.** We sold out of this company the second week of November.

I still believe in ASML's products and business model. With around 90% market share, the company is the leader in photolithography systems, which are used in the manufacturing of semiconductors. The company has a monopoly on EUV (Extreme Ultraviolet) systems, which are necessary to produce complex chips that require 5-nanometer or smaller process nodes.

We sold ASML because:

1. The share price was close to fair value. My estimated fair value for ASML is \$1,048.18. Analysts have an average fair price of \$1,042.03. We sold our shares at \$1,030.695/share, which was close to my fair value.
2. The risk in the stock price began to look like it was to the downside. This stock is subject to wide swings in price. These swings aren't always based on fundamentals of the business. News and sentiment often impact ASML's stock price. For example, because a good deal of ASML's sales have been to China, the share price can fall when technology transfer restrictions are instituted

(or even just talked about) in the U.S. and/or Europe. The new CEO, who has been in place the last few quarters, tends to give very conservative (bordering on negative) guidance. In the earnings release for the quarter ending 6/30/2025, he said he couldn't give guidance for growth next year because of "increasing uncertainty driven by macro-economic and geopolitical developments" (i.e., tariffs and conflicts/wars). In the earnings release for the quarter ending 9/30/2025, he said that ASML won't have any sales in China next year, despite the company's having had strong sales in China the past two years. Though I believe he is posturing somewhat to try to influence the Netherlands' government and to complain about the U.S. government, I took him at his word and sold our position.

3. ASML's business is somewhat cyclical. Its machines can cost its customers 300 million euros, and there is a small number of chip fabricators who buy these machines. When all your customers have purchased the machines with the latest technology, there will be a lag in sales of machines before the next innovation cycle.
4. We needed to reduce our portfolio's concentration in semiconductors. With the strong growth in Taiwan Semiconductor (TSM), Nvidia, and ASML, our portfolio's exposure to the semiconductor industry had risen to about 30%. Nvidia and TSM are both still undervalued and have further upside. With ASML right around fair value, it seemed the logical company to sell to reduce our semiconductor exposure.

This is the second time we bought and then sold out of ASML. The first time, we made 43%; This time, we made 50%. If the stock price falls below \$700 again, I will buy it again.

**Pfizer Inc sale/November 2025.** We sold all of this position in the third week of November.

We sold Pfizer because:

1. In the 18 months we owned Pfizer, the stock price was essentially flat. Even though we had parked money in PFE as a kind of bond surrogate to protect against potential volatility running up to the 2024 presidential election and then left it there while we dealt with the Trump tariff disruptions, I had thought that the stock price would eventually move and stay above the ten-year low at which we bought it. That never really happened. PFE did move up to ~ \$30 at one point, only to fall back. It became clear by the sixth quarterly report, that there really weren't any drugs in Pfizer's pipeline that were going to change the trajectory of the company's revenue and earnings. Pfizer seems to have recognized this too, as the company has begun buying other companies and distribution rights for other companies pipelines. Even if some of these investments pay off, it will likely be at least a couple years before they impact sales.
2. This investment accomplished what I intended it to: it preserved capital and we made a little money by collecting the 7 to 8 percent dividend. However, it became clear to me that this isn't the type of investing that I do, or that I'm even interested in. My investment goal is capital appreciation. When I have been successful, I have stuck to that goal. The investing process I've come to learn to achieve that goal is to identify high quality companies with significant competitive advantages that are selling at a fair (or even discounted) price. Pfizer doesn't currently have competitive advantages. Given that its business is to develop drugs, I would even argue that it currently is not a quality company; it has to purchase drug candidates from other companies.

**Energy Transfer sale/February 2026.** We sold our position in early February. Over the last couple years, Energy Transfer and its subsidiary Sunoco went on a buying spree. In part because stock was issued to fund some of the acquisitions, these acquisitions diluted existing unit holders. Liabilities on the balance sheet became 5 times greater than current assets. Moreover, in addition to the debt levels and to the company's now having a significantly greater number of shareholders who had claims on the company's cash flows, the Energy Transfer's corporate structure became overly complicated, with part of Sunoco issuing its own stock and another part remaining a consolidated subsidiary. Management seemed much more focused on buying stuff than on building shareholder value. We had a total return on the investment of 10.31%, and I no longer trusted management. So, we sold.