Poor Richard Capital Management

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(11/25/2024)

Dear Poor Richard Partners,

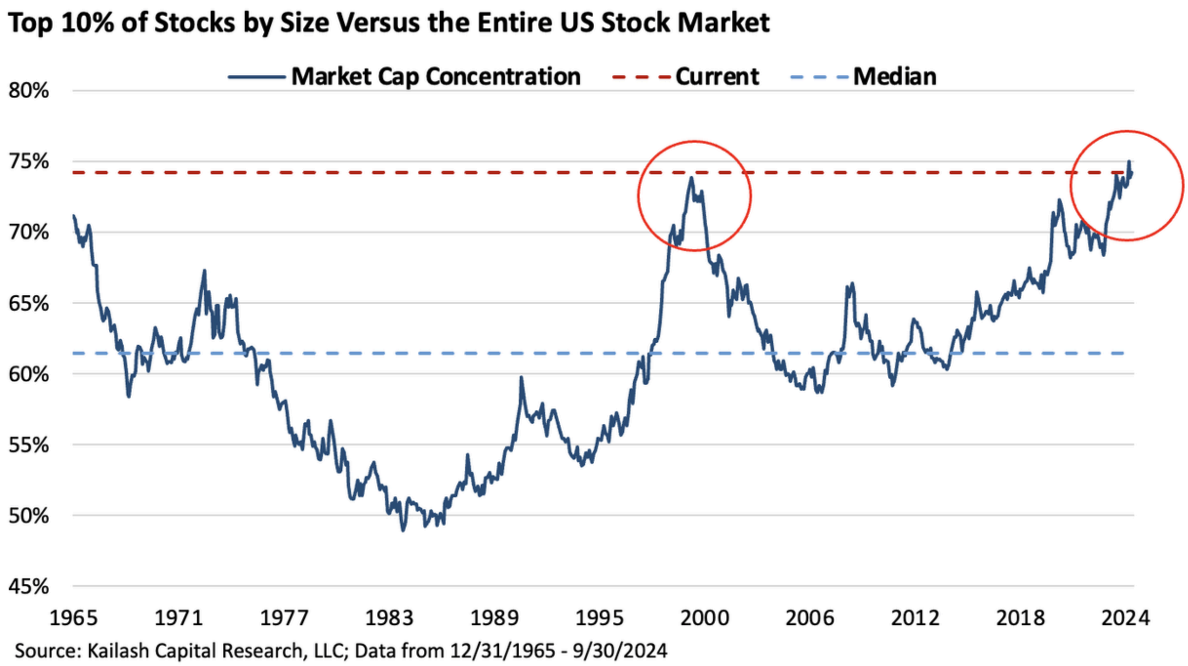
Over this previous quarter, the fund underperformed the market, returning 2.00% compared to the 5.53% that the Standard and Poors 500 Index returned.

As of 9/30/2024 at market close, the fund’s holdings were:

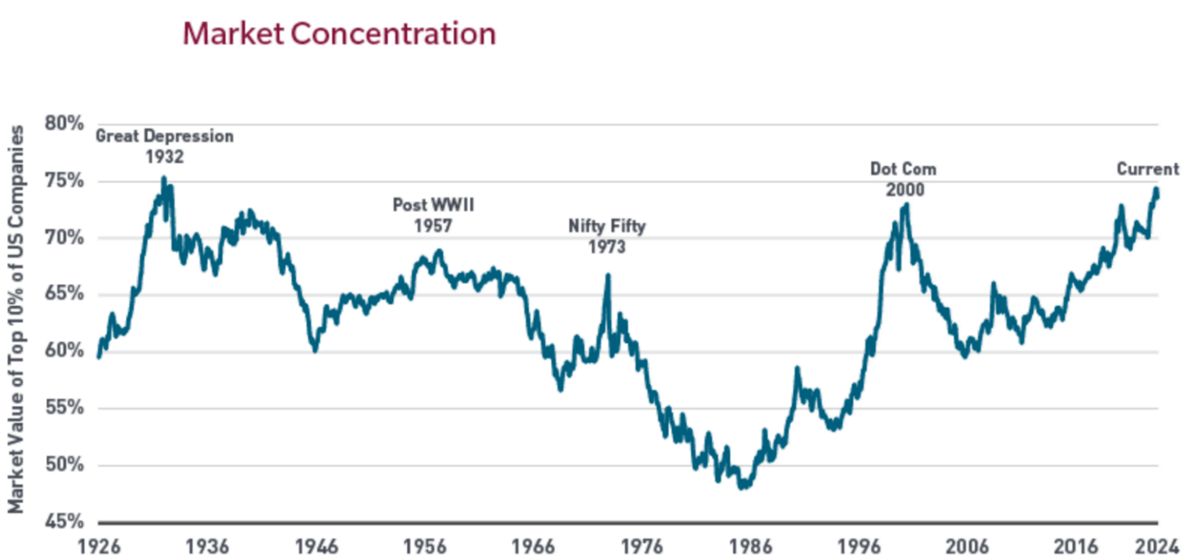
Security Held	Portfolio Weight
Nexstar Media Common (NXST)	63.36%
Gray Television Common (GTN)	34.92%
Cash and Cash Equivalents	1.72%

Summary of Last Quarter

The fund had a relatively uneventful third quarter, continuing to underperform relative to the broader market. While the geopolitical landscape internationally remained inconstant, the economy at home remained relatively resilient, with real gross domestic product growth running between 2-3 percent, and the labor market continuing to sustain full employment. While economic growth and labor rates continue to remain solid, asset multiples across various sectors and markets have continued to expand with very little fundamental justification. Even outside of the technology sector, it's become quite normal to find mature businesses with high cyclical exposure and average earnings growth trading at historically high valuations. As highlighted in previous reports, these nosebleed valuations, along with historically high index concentration has discounted any real earnings growth well into the future. At the end of the third quarter, the S&P 500 index was trading at a price to sales ratio of 3x, almost (2) standard deviations above its trailing 20 year average, and its highest concentration since 2000.



With this level of mega-cap concentration and valuation, any level of market leader underperformance in the future will have a significant impact on future overall market returns. As shown in both examples above, history has shown that the probability of mean reversion rises substantially as valuation multiples stretch and concentration grows well above the historical average. While these stretched valuations create a hidden risk for passive strategies, there is a strong argument to be made that it creates a growing opportunity for active investors, especially value investors, who specialize in identifying overlooked and undercapitalized businesses that reallocated capital finds its way into. In the past, when the market experienced heavy market cap concentration, undercapitalized equities and more diversified indexes outperform substantially.



Performance After Concentration Peak

	3 Years		5 Years		10 Years		Diversification Cycle	
	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative
Equal Wgt. - Cap Wgt.	14%	50%	12%	82%	8%	125%	9%	197%
Small - Large	10%	36%	9%	61%	8%	114%	9%	158%
Value - Growth	5%	18%	7%	44%	4%	46%	7%	104%

Source: NYSE, American Stock Exchange, and NASDAQ sourced from Kenneth French database Kenneth R. French - Data Library (dartmouth.edu) https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html#Research.

The above illustrations show concentration levels in the US stock market over the last century, and the performance spread between different groups of equities and indices following the market's concentration peak. Summarizing the data above, one can see that declining concentration (increasing diversification) vastly favors small-cap and value equities, which are typically underperformers and exhibit below-market multiples during periods of high concentration. If future market activity follows past cyclical trends, it can be predicted that the hegemony that the current technology giants have had on market returns has an expiration date, and that capital inflows will rotate to below market-multiple names with higher real earnings yields.

<u>Our Portfolio:</u>

Nexstar and Gray reported 3rd quarter results on November 7th and 8th respectively. Nexstar recorded another record revenue quarter, driven by distribution rate escalators, record-high third quarter political advertising revenue, and record audience growth at the CW network. On Nexstar's quarterly earnings call, CEO Perry Sook expressed high optimism regarding broadcast deregulation with the incoming Trump Administration that could lead to further local station consolidation and roll-up. Under current law, a station operator can only operate one "Big Four" affiliated station per designated market area (DMA) (known as the "Duopoly Rule"), and cannot cover more than 39% of television households, which both Gray and Nexstar are at or close to. Sook, along with other industry executives, have argued that the rules are outdated, and don't take into account the increased fragmentation and new internet technologies and players that have entered the media landscape. An easing of these regulations could be a catalyst for broadcasters and their spectrum to be reevaluated by the marketplace, which would likely lead to industry-wide multiple expansion.

Gray Television missed analyst expectations on political advertising revenue in the quarter, and revised full year political ad spending guidance downward for the full year, largely due to a reallocation of ad spending from in market senate campaigns to out of market senate campaigns. Despite this, Gray paid down $241 million in debt principal in the quarter, and just announced an additional $278 million in fourth quarter principal debt reduction in a press release last Wednesday, bringing full year debt reduction to $519 million, surpassing my internal estimate of full year debt reduction of $500 million. As echoed in past investor letters, Gray is uniquely set up to deliver multiples of its current stock price to investors through deleveraging with its future free cash flows.

Sincerely,

Sage Hood

A chart showing the growth of an assumed $100,000 investment in Poor Richard Capital Fund 1 from inception.

Period	**Poor Richard Net Asset Value**	**Poor Richard Return Net of Fees**	**SP 500 Net Asset Value**	**SP 500 Index Return**
3/09/2023	$100,000	0%	$100,000	0%
3/31/2023	$103,254.12	3.25%	$104,874.28	4.87%
6/30/2023	$100,557.08	-2.61%	$113,578.78	8.3%
9/29/2023	$ 89,910.15	-10.58%	$109,433.16	-3.65%
12/29/2023	$104,976.81	13.18%	$121,733.45	11.24%
3/29/2024	$104,053.92	-0.88%	$134,101.57	10.16%
6/28/2024	$96,349.15	-7.40%	$139,358.35	3.92%
9/30/2024	$98,273.40	2.00%	$147,064.87	5.53%
Cumulative Return	**$98,273.40**	**-1.73%**	**$147,064.97**	**47.06%**

Note to Investors:

On all future reports, this chart will be placed at the bottom of the report comparing what the fund produced in the past quarters compared to the Standard & Poors 500 Index. While I feel it's important to post this for transparency purposes, I would caution investors on concentrating on quarter to quarter results. One or two years is too short of a time to make any opinions regarding investment performance. This is because there is simply not enough data to judge performance through both strong and weak markets, which do have a significant impact on the long-term compounded rate of return.