THE VISION TO SEE ECONOMIC MOATS

February 12, 2018

January Performance Update for LRT Global Opportunities, LP and Ltd.

If you are an accredited investor, please contact us for performance information.

The Easy Money Has Been Made

Making money for the past few years has seemingly been relatively easy. Many investors I speak to are becoming increasingly concerned about the sharp rise in the market and warning of a coming, if not imminent, correction. This has led to substantially greater interest in hedging market exposure, "tactical" positioning and the like. As many so-called experts have said, "the easy money has been made".

More money has been "lost" anticipating market corrections than in the actual corrections themselves. Anticipating corrections and warning about market risks is an analyst's favorite pastime, but it is not a likely path to investment success. In fact, the "easy money has been made" mantra has been repeated ad nauseum since the current bull market began. Here are a few sample headlines:

- **Nov. 2009** – Barron's – "The Easy Money's Been Made"
- **Dec. 2010** – Morningstar – "The Easy Money Has Been Made"
- **Nov. 2011** – MarketWatch – "The Easy Money Has Already Been Made"
- **May. 2012** – TheStreet – "The Easy Money Has Already Been Made"
- **Dec. 2013** – Morningstar – "The Easy Money Has Been Made"
- **Oct. 2014** – Barron's – "The Easy Money Has Been Made in Stocks"
- **Dec. 2015** – CNBC – "No More Easy Money"
- **Apr. 2016** – Globe and Mail – "The Easy Money Has Been Made"
- **Nov. 2017** – Howard Marks – "The Easy Money Has Been Made"

That's a lot of easy money! At LRT we have a collection of such articles – 31 and counting! An investor who purchased the S&P 500 index on January 2nd, 2009 (first trading day of the year) and sat on their hands, would have earned a return of approximately 263%, or over 15% annualized, as of the date of this writing. The "hard" part of this investment approach would have been having the discipline to ignore all the headlines about "easy money" having been already made. Fear and doom sells more newspapers than forecasts of sunny skies – despite the appalling track record of the fear mongers.

At LRT, we have no special powers to predict short-term market moves. Just because the market has gone up a lot doesn't mean it can't go higher. Just because valuations are high or an "oscillator" says the market is "overbought" doesn't mean the market can't go higher. Over the next month, the market may go up, down, sideways or around in circles. No financial news anchor, market commentator, or the Chairman of the Fed knows where markets will go in the next few days.

As a professional investor, the more disciplined I remain to process, the better my performance. Today, we exclusively execute a rigorous process focused on analyzing companies, identifying moats and the competitive dynamics of industries.

This perspective positions LRT to "invest with conviction". That means we can execute efficiently, expediently and in size on select opportunities that meet our stringent criteria. Admittedly, such situations are rare. In fact, we don't expect to make more than three (3) such additions to the portfolio per year.

The elements of a good investment process are like CPR – **C**onsistent, **P**redictable and **R**epeatable. It is only natural to feel uneasy after the market goes up in a straight line. Conversely, it is just as easy to get caught up in "irrational exuberance" on the upside. We believe that both in times of panic and euphoria the best approach is having the discipline to stick to one's investment process. Those who cave into attention grabbing headlines often succumb to emotions and subsequently make mistakes that result in missing exceptional opportunities. Investing success is largely about how you behave not what you know.

At LRT we have our share of ideas, thought and feelings about the market. We believe the S&P 500 is likely to continue to push higher over the next few months as investors around the world continue to indiscriminately pile into stocks. The contagion of FOMO (Fear of Missing Out) and TINA (There is not Alternative to Stocks) remains virulent. The fear mongering financial press has put many investors on the defensive over the past few months. Many of these investors may soon be "forced" back into the market as their performance lags and "tracking error" increases. Expect more "easy money has been made" articles to appear in the press – and expect us to continue to ignore them. Hopefully you will as well.

LRT Capital Management, LLC
401 Congress Street, Suite 1540
Austin, TX 78701
Office: +1 512 852 4320
www.lrtcapital.com