

Introductory Investment Letter

No major life decision, be it career, love, or friendship, should be made hastily. This is especially true with the thing that makes us act in the most irrational manner, money.

I spend my professional and most of my personal time analyzing, investigating, thinking, and trying to understand what causes people to make the decision to part with money. Be it their own personal resource or that which is owned by the shareholders of a company that an individual has been hired to manage, allocate, and grow.

In fact, you could summarize my job as giving money to individuals whom I believe are spectacularly skilled at making money grow. And as I am sure you are aware in your own respective professions, there are few individuals who are truly spectacular at their job.

I am writing to you today because I am going to test how good I really am at investing in companies/people that can make money grow at above average rates.

What I am going to provide now and going forward is a multi-year, real time view of how I assess businesses, the people that run those businesses, the value of those businesses, and how I make decisions. I hope that my ability to correctly assess businesses, people, and investments improves and those improvements translate into attractive investment returns.

Generally, around this part of an investment letter there will be statements of philosophy and statements about how above average investment returns are made over the long-term. These statements are generally preceded by quotes from a rotating cast of great investors and businessmen (Warren Buffett, Charlie Munger, Benjamin Graham, Jeff Bezos, Bill Gates, Peter Lynch, John Maynard Keynes own 90% of the famous investing quotes). These men (and yes, unfortunately they are all men right now) have been some of my best teachers. But I do not want to put their quotes in here because I am not them. And there is no formula or process that will allow an individual to have the same level of success as them. They were/are truly independent thinkers, and you cannot replicate their success.¹

What you will be getting is me. I am an individual that thinks long and deeply about business, investing, and incentives (there is a reason professional investment managers do not charge by the hour). I have strong opinions that are loosely held. My thinking is clearest when I am in front of a keyboard and a word document that was blank a few hours ago is now filled with my thoughts. Every bit of success I attain will include some portion of luck. I believe in a growth mindset and I never stop learning. And maybe most important, I will never be 100% certain I have made the right decision.

I favor small and micro-cap stocks. These are stocks that most professional investors do not examine because the companies are too small to invest in. That also means that there is little to no research done by sell-side analysts (analysts who work at Goldman Sachs, J.P. Morgan, Bank of America, et cetera). These companies can be difficult to analyze and face much greater risks than larger, well established companies. But there is plenty of potential for above average investment returns. It is also an area where an investor can have a conversation with the c-suite without having to be one of the largest investors in the company.

That is not to say I will not invest in larger companies (I am researching one now), but I do expect small and micro-cap stocks to take up the majority of my research time. These stocks can be highly volatile and are not traded frequently (buying/selling \$10,000 of a microcap stock is a lot different than trading the same amount of Apple's stock).

You will also notice that much of my portfolio is still in market index ETFs. That is because I did not start investing my personal account in specific companies until the summer. I only want to invest in companies that I believe present attractive long-term risk/reward opportunities (usually referred to as high quality companies, something I will touch on in future letters). When I purchase a stock, I am not just changing the ticker symbols and numbers in my portfolio, I am becoming a part owner of a business. Finding companies that I want to be a part owner of, researching them, and truly understanding the risks involved in an investment takes a lot of time. And even after researching a company, I may decide that it does not offer a compelling opportunity at this time. I am searching for golden needles in a haystack.

¹ That is not to say I will not quote them in future letters. There are complex ideas that would take me paragraphs to clearly explain. Those individuals can explain these ideas in a single sentence. That is a remarkable talent.

Adaptability

While I will present a monologue on quality in the future, I would like to briefly discuss adaptability (I always prefer dialogue to monologue, so if you would like to discuss any of this with please, please contact me). In multiple ways the world has gone through immense change, much of which is still occurring. The world is also moving faster than ever before. This is nothing new. Change is the only constant and the rate of change is accelerating. This also means that competitive dynamics in the economy and industries are also changing at a rapid pace.

The classic business example of the consequence of the inability to adapt is the decline of Blockbuster. Companies need to be able to see not only how their customers' preferences change, but also how competitors are changing. While Google used to be first place everyone would go to search for a product, an increasing number of people are starting their search on Amazon. Television networks used to think their competitors were other networks. The truth is Netflix, Fortnite, Joe Rogan, and Roblox are their competitors. It is a game of gaining the customers attention. Only those companies that are willing to adopt to the changing environment will maintain their competitive advantage.

PAR Technology (my largest investment) realized that the enterprise level restaurant industry has changed. A restaurant must be able to accept and process payments from online/mobile orders, have a loyalty program, easily integrate with food delivery services, and quickly manage inventory. Legacy software was not easily integrating these changes. PAR is designing software for restaurants that makes all this easy for the restaurants and the restaurants' customers.

A company does not magically adopt to change overnight. It requires a culture that accepts and is open to change. The willingness to adopt to change also means a willingness to accept failure. No company is going to know at first what will work in a new environment. Thus, it must be willing to experiment and fail, but fail quickly. The most successful company at adopting this mindset is Amazon. To see this in action over the last twenty years, go read Jeff Bezos' Amazon shareholder letters.

Conclusion

I do not know what these letters will lead to, but I would be lying if I did not say that I hope they help me open my own investment firm one day. If you know of anyone that might be interested in my letters, please let me know and I would be happy to mail them their own copy.

You have received this letter because I trust that you will be honest in your assessment of me. Also, if you discover that I do possess the skill necessary to achieve above average investment returns, I want you to be able to prosper without any fee except your time to read this and future letters. Time, even more than money, is the most valuable resource we possess, and I hope to never waste yours.

I am mailing this to you instead of email because I want to signal how important this is to me. An email is cheaper and more efficient, but in today's world a physical letter shows a sense of importance. I am very serious about my endeavor to be the best possible investor I can be. I believe capitalism and investing are the greatest games ever invented, but the only way to give yourself a chance at success over the long-term is to devote an enormous amount of time and effort. Thankfully, I thoroughly enjoy the process.

Below is a list of companies I currently own shares of as well as a brief description of each company. If you would like to read a more detailed report on a company you are also welcomed to read them on my website, redwagoninvestor.com.

Thank you for your time,

Performance

Since I started allocating my capital to specific stocks on 7/27/20, the S&P 500 increased 15.95% and the Russell 2000 (small-cap index) increased 33.76%. My portfolio returned 27.97% over the same time period. The only realized return during the year was selling iCAD Inc. for a 43.83% return. I sold my ownership in iCAD because I had not spent enough time learning about the business and had other companies I was more interested in researching. It was pure luck that my brief ownership in the company resulted in the return it did.

Current Portfolio (12/31/20)

<u>Company Name</u>	<u>Symbol</u>	<u>Portfolio Weight</u>	<u>YTD Returns</u>
GREYSTONE LOGISTICS INC	GLGI	5.49%	-2.18%
PAR TECHNOLOGY CORP	PAR	14.11%	49.04%
SHARPSRING INC	SHSP	0.25%	21.40%
AUDIOEYE	AEYE	4.91%	34.03%
Nocopi Technology	NNUP	1.60%	-6.40%
Cash & ETFs		73.64%	
Total		100.00%	

Par Technology (PAR)

This was the first investment I made last year. It is my largest position and was also my most successful investment in 2020. The company builds point-of-sale (POS) hardware and software for restaurants (mostly enterprise level restaurants). The company started out as a manufacturer of POS hardware for restaurants. McDonalds, KFC, and Dairy Queen are their largest customers. The software business revolves around the company's Brink POS software. The software is incredibly flexible and can be used by a single POS unit or scale up to run an entire enterprise restaurant. The software is cloud based and the platform allows restaurants to integrate other services such as mobile/online ordering, loyalty programs, kitchen video systems, guest surveys, payments, delivery services and any other features a restaurant might need. Through the acquisition of Restaurant Magic in 2019, Brink offers full back-office cloud-based software. COVID has forced every restaurant to realize that sit down diners cannot be the only source of revenue. PAR's Brink software allows any restaurant to create a rewards program, set up delivery service, run drive-thru service, and sell gift cards.

While the company is over 40 years old, it is currently run by a young, entrepreneurial CEO, Savneet Singh. He is transforming PAR into a 21st century software company. He has changed the corporate culture of PAR. The company is located in upstate New York, yet he has been able to recruit top-tier software engineers and managers. Maybe most important of all, he understands that the company's goal is to improve the lives of its customers. This not an easy task given the current circumstances of the world.

Greystone Logistics (GLGI)

GLGI is a manufacturer of recycled plastic pallets. Almost all manufactured goods are transported on wood pallets. But wood pallets are inferior to recycled plastic pallets in almost every way. They are heavier, less durable, weaker, impossible to clean, splinter and create work hazards. Wood pallets have historically been cheaper than recycled plastic pallets, but thanks to advances in manufacturing, a recycled plastic pallet is now almost as cheap as a wood pallet.

The company's largest customer is iGPS, a pallet management company that manages the pallet inventory of companies like Costco, Dannon and Publix. GLGI is the sole provider of recycled plastic pallets to iGPS. Because of the advantages of recycled plastic pallets, as well as their more environmentally friendly qualities compared to wood pallets, Costco recently announced that all manufactures that sell products in Costco must ship their goods on plastic pallets. I expect other retailers

to follow Costco's lead, especially as environmental concerns become a part of every decision a company makes. GLGI should benefit from this trend.

AudioEye (AEYE)

COVID has accelerated every trend that was in place prior to the global pandemic. Our lives have become increasingly digital and that is not expected to change once we reach the other side of the pandemic. But for those with visual disabilities, an increasingly digital life creates a more challenging life. AEYE creates software that allows individuals with hearing and vision disabilities to observe and participate in the digital world. This software automatically adjusts code so those with disabilities can easily read a website. Imagine being color blind and trying to buy clothes on Amazon or being legally blind and trying to read your online bank statement. AEYE solves these issues.

Nocopi Technology (NNUP)

This company was founded in the 1980's and developed paper that couldn't be copied or faxed; a business that was quickly killed off by the internet. The company took the same technology and created an invisible ink product. While the invisible ink is still used for some security purposes (~10% of NNUP's revenue), the company's main customers are children's coloring book publishers.

The invisible ink technology has been licensed by two children's entertainment and publishing companies. The most successful of these two is Bendon, which licenses characters from companies like Disney and DreamWorks to produce children's coloring books. NNUP's invisible ink technology allows for children to color, follow mazes, and play games with their favorite characters using a single pen. Best of all for parents, is this pen will not stain carpet or furniture.

These products have been wildly successful. These products have thousands of five-star reviews on Amazon and YouTube videos featuring these coloring books have millions of views. The highest number of views for a single video I have found so far is a woman coloring the Frozen book with over 49 million views!

NNUP grew revenue by 39% in 2019 and will grow revenue by ~30% in 2020. Because of the licensing business model, the company generates ~70% gross margins and 30% operating margins.

SharpSprings (SHSP)

SHSP is a Software as a Service (SaaS) business that provides marketing automation software for small and medium sized advertising agencies. The company's software is used to run custom advertising campaigns on websites. I am still in the early days of exploring this company (thus the small position in the portfolio) and will address it more in future letters.