Greenfield Seitz
CAPITAL MANAGEMENT

2022 Mid-Year Letter

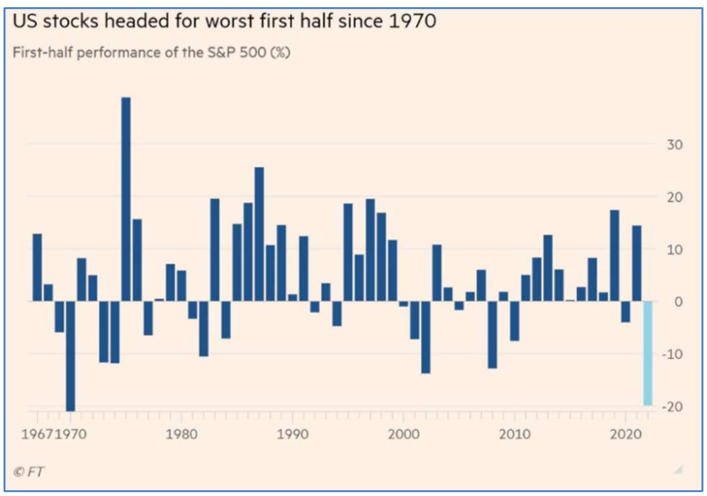
July 7, 2022

"Successful investing is about having people agree with you later." James Grant

Dear Investor,

For the first half of 2022, the Greenfield Seitz Composite declined 14.2% (net of fees) while the S&P 500 fell 20.0%, which is officially a Bear market.

This was the worst first half performance for the S&P 500 since 1970. There was almost nowhere to hide with stocks falling into a Bear market and Bonds had their worst year in more than 40 years, down 18% YTD.[1] The NASDAQ was down 30% in the first half of the year. Fortunately, we positioned our portfolios for inflation, which hit a 41 year high of 8.6%. The Energy sector was the only sector with positive returns in the first half of the year, with a stunning 32% gain.[2] Gold also held its value with a 1% decline.



S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	31.9%	4.4%
Utilities	-3.1%	3.0%
Consumer Staples	-6.7%	6.9%
Health Care	-8.8%	15.1%
Materials	-17.7%	2.6%
Industrials	-17.7%	7.7%
Financials	-18.8%	10.8%
S&P 500	***-19.9%***	-
Real Estate	-21.3%	2.9%
Information Technology	-26.3%	27.0%
Communication Svcs.	-29.4%	8.9%
Consumer Discretionary	-32.0%	10.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Return to Fundamental Investing Rewarded

Over the last ten years, the passive indexes had tremendous performance and stock picking was easy as "a rising tide lifts all boats." During this time, the number of active managers and analysts researching stocks declined. As the army of analysts looking for undiscovered gems dwindled, there became overlooked opportunities. While many investors were chasing expensive growth stocks, we were patiently buying value stocks with high free cash flow yields (cash flow minus capital expenditures/stock price). During the past year, we were able to add two stocks with roughly 25% cash flow yields. This is remarkable as a company generating a 25% free cash flow yield could theoretically buyback all its shares in four years. Imagine if you owned the only remaining share of a company with billions in profits in four years. What would that one share would be worth?

In our January letter, we predicted value stocks (low P/E) were due to outperform growth stocks (high P/E) after years of value underperforming. In the first half of the year, value came roaring back outperforming growth by 14 percentage points.[3] It is important to remember that since 1960 value stocks have outperformed growth stocks by 4.4% per year on average.[4] In fact, the only two periods growth outperformed value were in the 1990's tech stock mania and the past five years.

GREENFIELD SEITZ CAPITAL MANAGEMENT, LLC
1722 ROUTH ST | SUITE 760 | DALLAS, TX | 75201 | www.gscapital.net

At the 2021 peak, the NASDAQ traded at 6x sales, which was wildly expensive compared to the long-term average for stocks of 1.5x sales. There were countless companies that were unprofitable yet had multi-billion dollar stock valuations. This reminds us of a quote from *S*cott McNealy (CEO of Sun Microsystems) commenting on Dot-Com valuations after the 2001 crash.

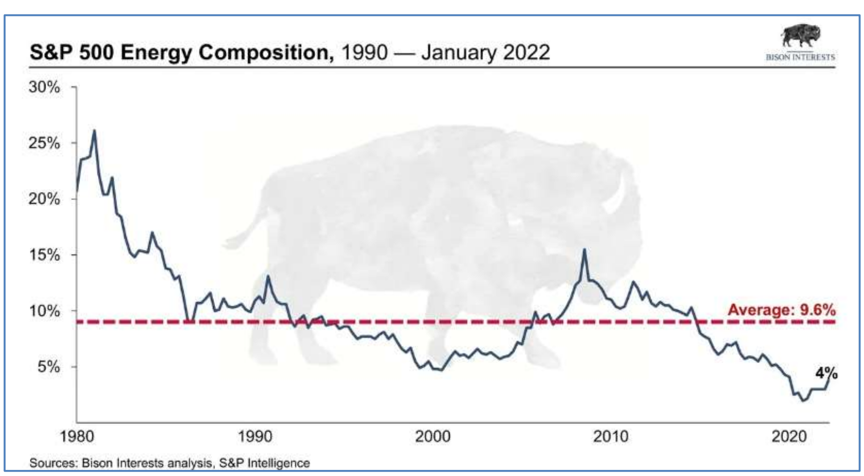
"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?" - Scott McNealy *Bloomberg Businessweek*. March 31, 2002

Inflation

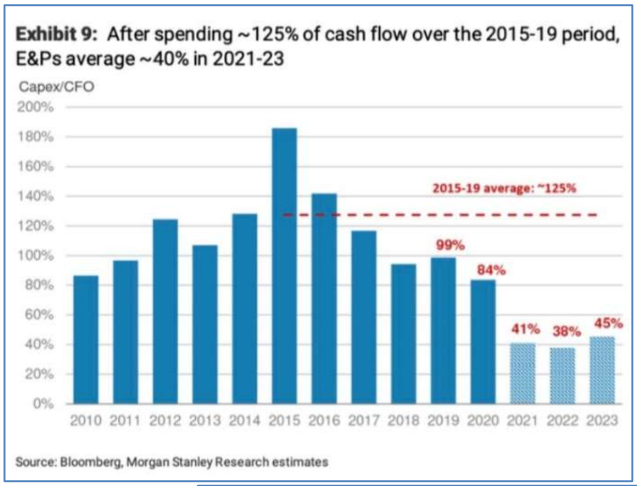
Inflation hit a 41 year high this year with the CPI (Consumer Price Index) hitting an 8.6% year over year increase in May. In hindsight, the Fed essentially doubling the money supply over the past five years seems obvious that it would create massive inflation. We have discussed this for years (GSCM 2017 Annual Letter). Commodity producers, such as oil & gas companies, have benefitted from the highest inflation in 41 years and were very out of favor and cheap when we bought them.

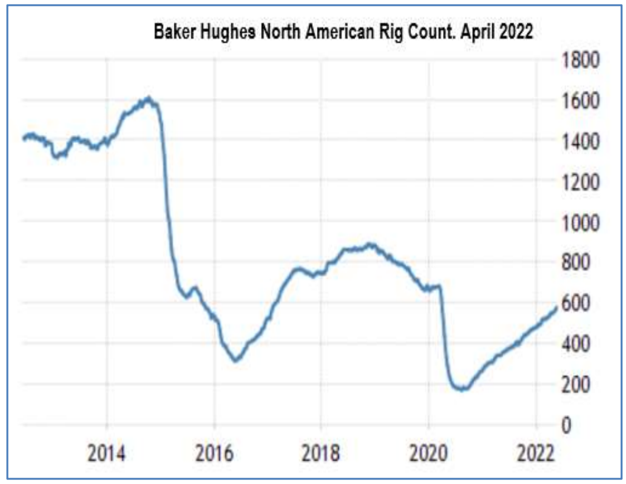
Energy Stocks

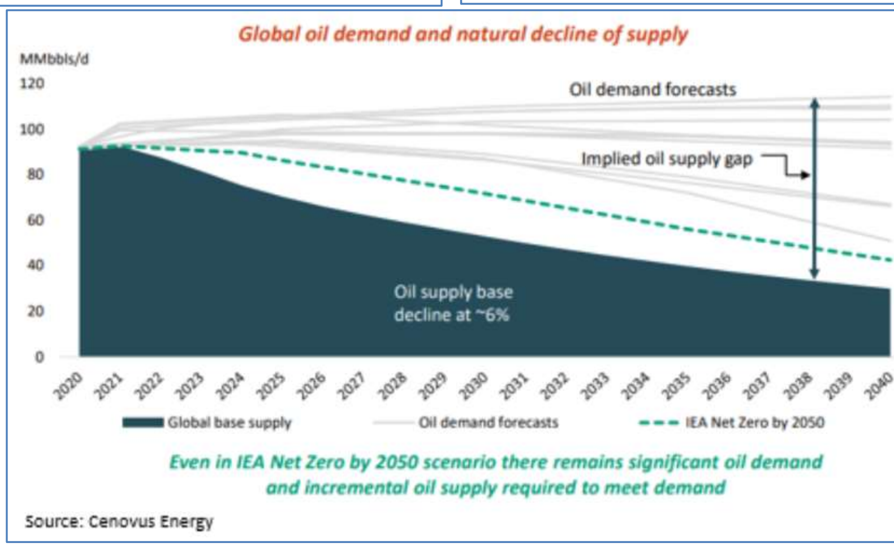
Oil prices fell during the pandemic lockdowns as demand cratered. In 2020, WTI fell from $62/bbl to negative $37/bbl. In response, energy companies slashed budgets and exploration spending. The drop in drilling rigs led to a supply/demand imbalance later when demand recovered with the reopening. The S&P Energy index fell 62% to an all-time low during the pandemic and just a 4% weighting in the S&P 500.



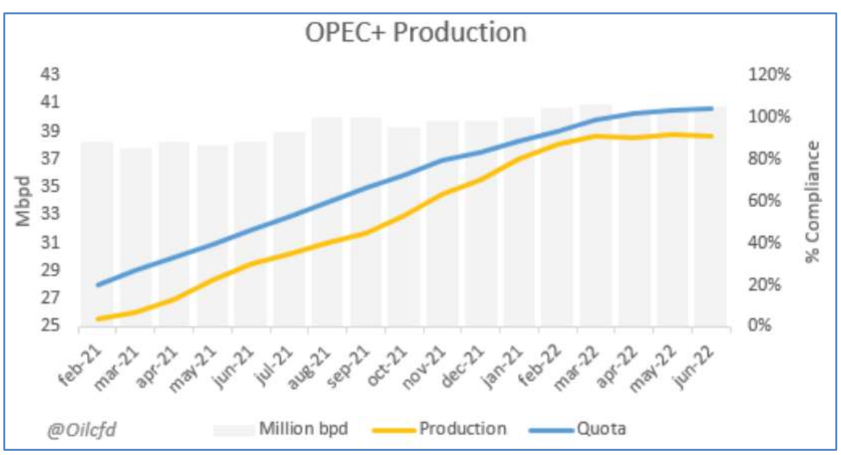
After losing money chasing production in the Shale Revolution, energy companies across the board have found religion and are using their profits for share buybacks and dividends, rather than growing production. This huge decline in exploration spending combined with OPEC+ having its own issues should limit supplies for years.







OPEC+ also underinvested and has recently missed its production quotas for thirteen consecutive months. These countries would love to produce more oil now at $100 WTI, but they simply can't after years of low investment. Russia was the world's 4th largest energy producer but we believe the exit of western companies (Schlumberger, BP, Halliburton, etc) will cause their production to be hurt for years without needed technology, equipment, and capital. As a reference point, Venezuela's oil production dropped 90% since they nationalized their oil industry, and the global majors left.



Lastly, there has been a growing consensus that oil "will eventually go away with the switch to electric vehicles." First of all, electric vehicles (EV) are still powered by the electric grid, which is over 70% natural gas, coal, and oil. We must remind ourselves that passenger vehicles only account for 26% of global oil usage. Petrochemicals (plastics, asphalts, etc), freight, heating, lubricants, agriculture, power generation, jet fuel, and shipping comprise the other 74%.[5] There are about 10 million electric vehicles worldwide which is less than 1% of the 1.4 billion cars worldwide.[6,7] So EV's are less than 1% of cars and cars are only 26% of oil demand. On the flip side, emerging economies are using more oil per capita as they increase standards of living. This should create more demand than any loss from the small percent switching to electric vehicles.

Outlook

Warren Buffet once said, "The number one rule to investing is to never lose money." Limiting losses is critical. For example, a stock that a that falls 50% must gain 100% just to get back to even. With this in mind, we continue to avoid speculative and non-profitable companies. We believe value stocks offer tremendous value here and will continue to outperform, which just started recently. Lastly, the supply/demand imbalance in oil and gas should continue to reward energy stocks with increasing profits.

As long-term investors, we aim to invest in great companies at an attractive price (valuation). This process is determined by current fundamentals, valuations, and the outlook for each company.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 Blooomberg Aggregate Bond Index. July 2022
2 Morningstar. July 1, 2022
3 Barron's. The Value Growth War. Russell 1000 Growth down 25% vs Russell 1000 Value down 11%. June 29, 2022
4 Real Investment Advice. Michael Lebowitz. December 8, 20212 International Monetary Fund. April 14, 2020.
5 IEA. Oil Consumption by Sector. 2016
6 Statista. 2022
7 Ward's Worldwide Vehicle. 2019
All company information is from company filings