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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending September 30, 2021, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the fourth quarter of 2021. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your overall financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Economic Review and Outlook

U.S. growth slowed considerably to 2.0% annualized for the third quarter[1], down from 6.5% annualized in the second quarter, as the COVID-19 delta variant hit consumer spending and supply chain bottlenecks hit businesses. We believe that many of the supply chain issues which we are seeing are related to a shift from a service-driven economy pre-pandemic to a goods-driven economy post-pandemic, exacerbated by the lean, "just-in-time" manufacturing characteristics of the global supply chain[2].

The inflation debate continues to dominate the national dialogue, and it remains to be seen whether the current cost-push and demand-pull price-related effects which we are currently seeing will turn out to be transitory or long-term. That being said we believe that the probability of Fed rate hikes within the next two years is substantially higher now than it was several months ago[3]. As we stated previously we believe that less interest-rate-sensitive assets such as low-multiple stocks, short-duration bonds, and real assets such as real estate will fare better in an inflationary, rising interest rate environment than more interest-rate-sensitive assets such as long-duration bonds and high-multiple stocks.

[1] As per the initial estimate released by the U.S. Bureau of Economic Analysis on October 28. The Federal Reserve Bank of Atlanta's preliminary estimate released on October 27, 2021 was lower at 0.2% annualized.

[2] As an example, according to recent spending data released by Discover Financial, in Q1 of 2021 retail spending on their cards was up 31% over 2019, while services spending was up only 10% and travel-related spending was down 41%. It appears that the reopening of the economy has disproportionately involved goods over services, putting strain on the supply chain

[3] As of October 28, the 2-year U.S. treasury yield was at 0.50%, up from 0.17% at the beginning of August, which indicates to us that the probability of a rate hike over the next two years has increased. 2-year German Bunds and 2-year U.K. Gilts have experienced similar moves over this same time period

Equity Markets – Recent Performance and Valuation

After a very strong start to the year global equity markets took a pause with the S&P 500 up about 1%, the S&P 1000 index down about 2%, and the Europe, Australasia and Far East (EAFE) index flat for the third quarter. The current year has nonetheless been an exceptional one for equities with the S&P 500 up 23%, the S&P 1000 up 24%, and the Europe, Australasia and Far East (EAFE) index up 12% year-to-date as of the end of the third quarter. Valuations remain historically high with the S&P 500 currently trading at a forward P/E multiple of just over 21 and the Shiller CAPE ratio recently hitting a level of over 38.

Portfolio Management

With valuation levels remaining high and long-term macroeconomic growth levels remaining uncertain, we have found market sentiment to be increasingly irrational and consequently it has been a challenging environment in which to find reasonably-priced stocks. That being said, we believe that the used car retail business, despite being consistently and irrationally despised by Wall Street, contains several attractive opportunities, and in the third quarter of 2021 we initiated a position in America's Car-Mart (CRMT)[4]. America's Car-Mart is an automotive retailer focused on the integrated sales and sub-prime finance segment of the used car market with approximately 150 retail stores located primarily in smaller cities throughout the south-central portion of the United States. The company has a very conservative capital structure[5] and high profit margins compared with its peers[6], and we believe that it has a very credible long-term growth strategy driven by an entrepreneurial culture and a disciplined approach to capital allocation. Over the past ten years the company has grown its revenues at a nine percent annualized rate through a combination of same-store sales growth and new store openings, all while returning capital to shareholders via stock repurchases at an annualized rate of over four percent[7]. At a trailing-twelve-month price-to-earnings ratio of under eight and a price-to-tangible book value of under two we believe that we are getting a solid growth company at a very attractive valuation multiple.

Investment Philosophy

Our portfolio consists of holdings with varying time-frames and investment horizons, as we believe that some companies have the potential to provide attractive returns over many years and even decades, whether in the form of consistent long-term growth of their underlying businesses, in the form of consistently high margins and disciplined return of capital to shareholders, or more commonly through a combination of these two. Needless to say we believe that companies such as Berkshire Hathaway have the potential to be held for many

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[4] The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives, tax situation and objectives, and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.

[5] America's Car-Mart is unique amongst its peers in that it is a hybrid automotive retailer and automotive finance company. Unlike many of its purely retail-oriented peers, America's Car-Mart has substantial finance receivables on its balance sheet. We thus analyze the company balance sheet in a similar manner in which we would analyze a bank balance sheet (in terms of the quality and liquidity of its loan and other assets and the stability of its funding sources), while at the same time we look at the income statement in a similar manner in which we would look at the income statement from of a traditional retail company (in terms of gross margins, SG&A costs, revenue growth, operating leverage, etc.). At a debt-to-equity ratio of just over 64%, the CRMT balance sheet is significantly less leveraged than that of its automotive finance company peers (Credit Acceptance Corp (CACC) currently has a debt-to-equity ratio of almost 200% and Santander Consumer USA Holdings Inc (SC) currently has a debt-to-equity ratio of about 484%).

[6] America's Car-Mart has generated average gross margins of over 48% over the past 10 years. To provide some comparison, competitor Lithia Motors (LAD) had gross margins of just under 16% over this same time period, and Carvana had gross margins of just under 15% for the last fiscal year, up from just over 5% for the fiscal year ending December 31, 2016. Furthermore, SG&A costs at CRMT are competitive, as a significant portion of employee compensation is paid as variable, incentive compensation and lease expenses at company stores are very low. We estimate that lease expenses are about $5K per month per store, or about 1% of revenue. Due to these low overhead costs we do not see internet-based or digital companies posing a significant competitive threat to CRMT.

[7] Our view is that even if the market fails to rerate CRMT stock from its current depressed earnings multiple, we can expect a solid return from growth of the business and return of capital alone

years and even decades[8]. But such companies are rare. The reality is that most companies have difficulty delivering consistently high returns to shareholders over extended periods of time. In some situations we purchase stocks with the belief that they have the potential to be held for many years and even decades, but after several years of watching and observing the company's performance we conclude that we no longer wish to be involved. In other situations we purchase stock in a satisfactory company at a great price and dispose of that same stock a short time (usually several years) later at a much higher price. In an ideal situation we would purchase a great company at a great price and hold it for many years, but such opportunities are very rare. While we believe in buying satisfactory companies at great prices, as a general rule we do not believe in buying great companies at not-so-great prices.

As always, we are available to discuss your investment portfolio, discuss your financial plan, or address any other questions or concerns which you may have. Please feel free to reach out via phone or email if you would like to speak with us.

Sincerely,

Atherean Wealth Management

Atherean Wealth Management, LLC

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[8] In Atherean Wealth Management's seven-year history Berkshire Hathaway is our longest-held individual stock position thus far