



The Holdsworth Group, LLC

Alternative Investments for
High Net Worth Investors

Advisory Services and Capital
for Companies and Family
Offices

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"The future ain't what it used to be"

"We're lost but making great time"

-Yogi Berra

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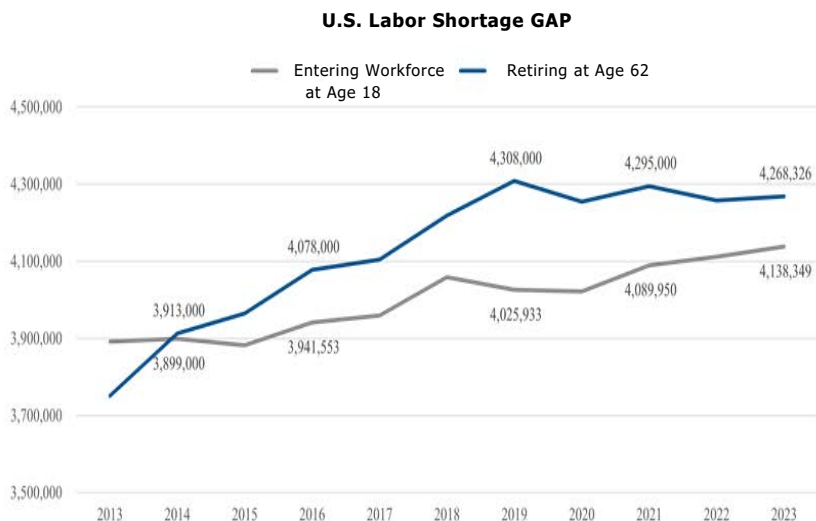
FIRM UPDATE

In general, the pace of activity at THG has increased substantially as valuations fall and companies run out of capital. We recently concluded an assignment advising a public company (that once had a \$1 billion market capitalization) on insolvency issues.



On May 4th (May the Fourth Be With You!) we hosted our Star Wars themed investor day, which was well attended by our esteemed Board of Advisors and Investor-Partners. We explained in detail the coiled spring nature of our portfolio and the plentiful bargains available in public securities today. We continue to be pleased with our strategy and mandate in these tumultuous times. As we discussed in this newsletter last quarter, public securities are among the best source of investments at very low valuations. Bargain shopping is much harder in private investments. According to Rob Arnott, Founder and Chairman of Research Affiliates: "Value stocks are dirt cheap relative to growth, now more discounted than they have been in four-fifths of the time in U.S. stock market history. When inflation has run between 4% to 8% a year, value stocks have outperformed their growth peers by 6 to 8 percentage points annually. Inflation is wonderful for value." On a side note, it is frankly amazing what one can learn from simply reading a company's source documents such as the Annual Report, 10-K, 10-Q and Proxy. It never ceases to amaze us how few people actually read these despite how much valuable information they contain.

THE BIG PICTURE



Recent studies estimate there are currently nearly 10 million jobs open in the U.S. Restaurants, hospitals, and construction sites face particularly acute shortages. An aging population and declining fertility rates add to the problem. We also read that if all currently unemployed workers filled today's openings, we'd still be five million short! Maybe artificial intelligence will help, but this will take time and further retraining of the workforce. So what is the answer? According to Paul Decker, Howard Fluhr, and Camille Olson of Real Clear Policy it's immigration reform, something we've gotten wrong as a country for a long time. "We must recover control of the flow of immigrants and secure our borders and strategically consider how to align admittance policies with labor shortages", the authors explain. Finally a breath of fresh air in a sea of cacophony.

Do young people really want to drive anymore?

I remember going to the DMV on my 16th birthday and getting my driver's license. Everyone did. It was a rite of passage. These days something else is going on. None of my three daughters got her driver's license right away: instead they took several months to do so. Young people today are worried about the environment (rightly so!). They also use the Internet heavily and shop on-line or stream content, so why bother with a car? There is also the rising cost of car ownership, a decline in home ownership and the fact that young people tend to stay in school longer. And then of course, there is Uber and Lyft (e.g. Mom and Dad). It is probably too early to tell for sure, but it sure sounds to us like "peak-car" has arrived.

The High Cost of the California Exodus.

As of this writing, California's budget deficit has swelled to \$31.5 billion. Unfortunately, as the era of free and easy money has come to an end in the capital markets, so it has too for our state government. California's income tax is now the second highest in the nation, below only New Jersey and just above New York. So how can it be that even with this very high tax rate that the state is broke and getting worse? A big part of the answer is that the "one percenters" who pay 50% of the tax are voting with their feet and leaving in droves. IRS data shows that the inflow of new domestic migrants to California making \$200,000 or more per year brought in an adjusted gross income (AGI) of \$7.3 billion in 2018. The outflow of migrants from California in this highest tax bracket took away AGI of \$13 billion in 2018: **the resulting net outflow was \$5.7 billion.** That net outflow swelled to \$20.4 billion in 2021 and its expected to be higher again in 2022 after the final tally is made. And since the loss of AGI is cumulative, the total loss of AGI from 2018 to 2022 is estimated to be approaching \$100 billion! The state of California may finally have to start making some tough choices.

INVESTMENT UPDATE

Real Estate

- Evaluating value-add apartments in Kansas City, Kansas, and Texas.
- Evaluating an industrial building in the Inland Empire of Southern California.
- Invested in an apartment building in Tampa, Florida.
- Continuing to study an industrial opportunity in Utah.

Public Securities

- Studying an agricultural company with land assets that could be worth multiples of the current stock price.
- Making written suggestions to the management team of a business services company that trades for about 4x EBITDA. Considering public action.
- Continuing to source credit instruments and equities with double digit current yield.

Fund, Private Equity and Venture Capital

- Added to a manager with longs and shorts in the smaller cap tech space.
- Invested in an early stage technology and logistics company.
- Added to our position in a provider of educational software.