ACADEMY
CAPITAL MANAGEMENT

January 29, 2021

Enclosed is your statement for the fourth quarter of 2020.

Our fourth quarter letter highlights companies that we have sold during the past year. Our preferred stock holding period is "forever"- or for as long as the underlying company is preserving or increasing its competitive advantage. Low turnover is a hallmark of our portfolios. Last year we sold the unusually high number of six companies. Monetary policy combined with "lockdowns" are accelerating obsolescence as the wealth destruction of malls, small businesses and movie theaters is offset by wealth creation in a variety of new technologies. Given such conditions, we have been reshaping our portfolios with more "irreplaceables" – those companies with enduring dominance.

In March, we sold our position in Heineken (HEIA). As a proto-millennial, Gerard Adriaan Heineken convinced his mother in 1864 that there would be fewer problems with alcoholism in Holland if the Dutch could be induced to drink beer instead of gin. Alcoholism never went away (as one knowledgeable client puts it: "alcohol is alcohol"), but the 22-year-old Heineken went to produce a high-quality beer. We purchased our first position in 2014 but found ourselves in a quandary as the markets fell last March. Rather than continue to own two companies in beer, we made a choice to increase our position in BUD and to eliminate HEIA for two reasons. First, trading in overseas stocks is more difficult. Second, HEIA lacks the scale and breadth of BUD. We took our profit of 25% and put it into more BUD.

In June, we sold our position in Charles Schwab (SCHW). SCHW began in the early Seventies as a discount broker and has innovated to lower investor expenses ever since. We initially purchased SCHW in 2019 based on a stock price drop due its "no commission" strategy. We view SCHW's laser sharp low-cost approach favorably as SCHW is building scale advantages and gaining market share. However, its profitability is based on the spread between short term cash and longer-term US Government bonds. Given our outlook on interest rates as "lower for longer," we sold our position for a slight gain and eagerly await a SCHW stock price more in alignment with our outlook.

During June, we sold our positions in the oilfield services area of National Oilwell Varco (NOV) and Schlumberger (SLB). Both are excellent companies with high grade managements. Even though Academy is based in Texas, we had avoided making an oil patch investment for decades. Commodity-type businesses are simply not in our zone of competence. Our tiptoeing into oil was not our finest moment. Believing that "the best cure for low oil prices was low oil prices," we failed to comprehend the undisciplined nature of production in independent hands. More than any other area, monopolies in oil are necessary to prevent wealth destruction. While “a lesson taught is better than a lesson bought,” this unfortunately was a lesson bought as we were down on these investments by roughly 50%.

In July, we sold our position in Carmax (KMX). Carmax was created in 1993 by executives from Circuit City with an emphasis on “no haggle” selling. We purchased KMX in 2019 at a time of concern over slowing auto sales. KMX is a used car powerhouse as it has gained market share through a combination of more stores and more per store sales. KMX’s high price and dramatically increased online competition caused us to sell our position and take a profit of over 80% in less than 18 months. We have removed KMX from our list of desired companies as we wait for KMX to implement a strategy with compelling advantages in the digital space.

In November, we sold our position in Oracle (ORCL). Oracle is an outstanding company with a stellar founder and leader in Larry Ellison. We had followed ORCL for years and relished Chairman Ellison’s bluntness, concentrated ownership, and competitiveness. Since 2013, we regularly purchased shares of ORCL, but became increasingly uncomfortable with the slow rate of conversion to the cloud as well as gaps in leadership after co-CEO Mark Hurd passed away. While we continue to see strength in its markets, ORCL is losing overall market share and would likely absorb cash in a downturn that we would prefer to allocate elsewhere. As a result, we sold for a gain of roughly 100%.

Academy Capital Management