

Patience Pays

“When attractive prices emerge, patience becomes purchasing power.”



ECONOMIC AND MARKET OVERVIEW

In an October 2019 episode of the Value Investing with Legends podcast, Summit Street Capital Management’s Jennifer Wallace offered an astute description of the value investor’s task: “That’s what you pay your value manager to do, which is to hold onto discipline, with their fingernails if necessary, during times where it would be much easier to throw in the towel and go with the flow.”¹

Ms. Wallace captures one of the central truths of value investing: discipline matters most when prevailing prices and sentiment make it uncomfortable to maintain. Long-time clients of Global Value Investment Corporation will recognize this principle in our work. Over the years, we have described it in different ways—patience, contrarianism, a focus on reversion toward normalized conditions, and an insistence on a margin of safety—but each expression points to the same underlying behavior: applying a consistent investment process throughout market cycles.

That discipline is most visible during

periods of elevated emotion. In the closing weeks of March 2020, as markets reeled from the developing implications of the Covid-19 pandemic, more than one client told us that we must have “stomachs of steel.” A few months earlier, when markets seemed capable only of advancing, others questioned the wisdom of holding an unusually large cash balance. In both instances, our positioning ran against the prevailing current. It did not reflect unusual courage or an ability to predict what would happen next; it reflected an investment process developed and tested over more than three decades of weathering market cycles.

We find ourselves in a similar position today. Client portfolios generally hold elevated cash balances. This is not a top-down market forecast or a predetermined asset-allocation target; it is the result of applying our investment process very selectively, security by security. As prices rise toward or above our appraisals of value, we sell. When prices fall significantly below our assessment of a company’s value, we buy.²

We have previously discussed today’s elevated equity valuations and the challenging macroeconomic backdrop (themes that we will not rehash in this letter).³ Recent equity market performance nevertheless makes the practical consequence clear: this has not been an environment in which our value discipline has produced a large number of attractive investments.

One development over the past several quarters has materially improved that position. During a period in which appreciated holdings have generally produced more sales than purchases, rising interest rates have increased the income earned on undeployed capital while also raising the return investors can demand from competing assets. The same development that makes patience more rewarding can therefore help create the lower prices at which we are prepared to invest.

The yield on the 10-year U.S. Treasury note rose from 4.18% on December 31, 2025, to 5.29% on September 30, 2026—the highest such level since May 14, 2002.⁴ That comparison is notable

¹ <https://valueinvestingwithlegends.libsyn.com/jenny-wallace-identifying-value-at-the-summit>

² This statement is, of course, reductive. In practicality, we weigh the merits of each potential new investment carefully, and not on price alone.

³ See our Q3 2025 letter (<https://gvi-corp.com/the-more-things-change-the-more-they-stay-the-same/>) and Q2 2026 letter (<https://gvi-corp.com/the-only-certainty-is-that-nothing-is-certain/>)

⁴ <https://fred.stlouisfed.org/series/DGS10>

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because Treasury yields remained below this level even during much of the 2007–2009 Global Financial Crisis and the Covid-19 pandemic, two of the most economically disruptive periods of this century.

The significance extends beyond the income that can be earned by investing in U.S. Treasury securities. Many valuation frameworks begin with a risk-free rate of return and add compensation for the risks associated with the security being evaluated. Consider a simplified equity valuation model: applying a 9% equity-risk premium to a 5% risk-free rate of return produces a required return of 14%. In this example, the sum of the risk-free rate of return and the equity-risk premium is the “discount rate.” The price an investor would pay depends on the stock’s expected cash flows and terminal value, discounted to the present at that rate. Although the precise inputs vary by investor and security, the relationship is consistent: a higher discount rate reduces the present value assigned to future cash flows.

All else equal, an increase in the risk-free rate of return raises the discount rate and lowers the present value of future cash flows. At a 14% discount rate, \$100 received five years from now is worth approximately \$52 today. At a 16% discount rate, the same \$100 is worth approximately \$48. The difference may appear modest in a single example, but its effect becomes meaningful when applied across many years of projected cash flows or to securities whose valuations depend heavily on outcomes far in the future.

We believe recent equity market performance is partially attributable to this dynamic. As the risk-free rate of return—approximated by yields on U.S. Treasury securities—has risen, the present value of future cash flows—

represented by the price of common stocks—has declined. This pressure on equity valuations may lead some owners to sell, and securities that previously offered insufficient prospective returns may approach prices that meet our standards.

Higher yields on U.S. Treasury securities provide a second benefit: portfolios earn an increasingly meaningful return on cash-equivalent investments. We routinely invest in 13-week U.S. Treasury bills in client accounts, allowing us to preserve liquidity while earning an acceptable return on funds that remain available for future investments. At the same time that higher required returns may bring prospective investments closer to our appraisal thresholds, Treasury-bill income reduces the opportunity cost of waiting. In that literal sense, patience is paying.

Needless to say, we like this combination. We cannot predict how the next several months or quarters will unfold; markets could experience a sharp decline, a soft landing, continued gains, or an outcome that does not fit any familiar historical pattern. Our responsibility is not to forecast; it is to remain informed about relevant developments, maintain the operational flexibility to act, and preserve and grow the capital entrusted to us over a long period of time.

“Calm, alert, and opportunistic” is an internal mantra repeated frequently within our research group.

Calm reminds us not to confuse activity with progress.

Alert requires us to continue testing existing holdings and researching new possibilities.

Opportunistic means being prepared to act when price and value diverge sufficiently.

In today’s market, all three depend on the discipline Ms. Wallace described. We intend to keep clinging to it—with *our fingernails, if necessary*.

PORTFOLIO UPDATE

Patience is often described as the willingness to do nothing. In portfolio management, however, it is better understood as the willingness to wait while continuing to prepare. During the third quarter, the Federal Reserve raised the federal funds target range by 0.25 percentage points, to 3.75% to 4.00%, citing elevated inflation, resilient spending, and a stable labor market. Higher rates generally raise the return investors require and place the greatest pressure on securities whose prices depend on distant or optimistic outcomes. Our own return requirement does not change with interest rates; as prices adjust, however, more securities may move within reach of our standards.

With regard to cash in client portfolios, we want to be clear about its function. It is neither a market call nor an allocation decision in its own right. Cash is what remains when our research does not identify securities trading at a sufficient discount to our appraisal of value. We continually review new investment ideas, and we have recently identified several additional companies with attractive businesses, but their shares do not yet trade at prices that provide an adequate margin of safety. The waiting period, however, has become more rewarding. Yields on three-month U.S. Treasury bills rose from roughly 3.70% in July to more than 4.00% by late September, allowing uninvested balances to earn a meaningful return while our search continues. This income does not change why we hold cash, but it lowers the cost of patience.

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Patience does not mean inaction. In early September, we initiated a position in the common stock of Kyndryl Holdings, Inc. (KD), complementing our existing position in the company's 6.35% senior unsecured notes due 2034, which we purchased in the second quarter. Spun off from IBM in 2021, Kyndryl is the world's largest IT infrastructure services provider, managing mission-critical systems for many of the world's largest enterprises. Since the spinoff, the company has deliberately reduced its exposure to low-margin revenue attributable to IBM pass-through contracts, from roughly \$4.0 billion to about \$2.0 billion. As a result, a decline in consolidated revenue has masked a meaningful improvement in business quality: gross margin expanded from 14.8% in 2023 to 21.8% over the trailing twelve months ended June 30, 2026. We believe the market has not fully recognized this improvement, creating an attractive entry point and prospective investment return.

Our September conversation with Kyndryl reinforced our thesis. Management described a "very sticky" customer base built around systems that customers cannot afford to see fail—as they put it, "for Kyndryl, complexity is our friend." Management also emphasized the importance of its investment-grade credit rating to customers and identified repayment of its long-term notes as a priority, temporarily pausing share repurchases to more aggressively manage financial leverage. As holders of both the company's debt and equity, we view that restraint favorably.

Kyndryl's focus on its balance sheet is not unique. Across our recent management conversations, several broader themes have emerged. First, balance sheet strength is taking precedence over shareholder distributions. Several management teams have told us that debt reduction is the preferred use of

excess cash, and that share repurchases have taken a back seat in their capital-allocation frameworks. Even when repurchases remain in consideration, one management team emphasized that they would occur "not at any price." That is the same price discipline we apply to our own investments.

Second, management teams are planning around normalized conditions rather than extrapolating the present or past periods of growth, anchoring capital decisions to mid-cycle assumptions and maintaining defined liquidity reserves. That mirrors how we appraise businesses: on normalized earning power rather than any single quarter's results.

Third, financial strength itself is a competitive advantage. Customers, suppliers, and lenders all observe a company's financial condition, and a strong balance sheet can win business as surely as a strong product.

Finally, some management teams are deliberately shrinking higher-risk or lower-return portions of their businesses. Flagstar Bank (FLG), for example, is allowing maturing commercial real estate loans to roll off in favor of a more balanced loan portfolio. Such choices can reduce reported revenue growth in the near term but often improve the quality and durability of earnings, the same trade-off we accept when we hold cash rather than compromise on price.

Patience pays in two ways. While cash accumulates as our discipline results in more selling than buying, rising short-term U.S. Treasury yields increase the return on uninvested cash-equivalent securities. At the same time, price, value, and prospective return are beginning to move into alignment. We will continue to exercise this patience; when attractive prices emerge, patience becomes purchasing power.

FROM OUR LIBRARY

We recently began reading *1929* by Andrew Ross Sorkin, which provides an in-depth account of the Great Crash of 1929. The following excerpt sparked a thoughtful internal discussion:

We all love a good story, a concise explanation of how the world works. We all love an easy buck. Temptation has driven human folly for centuries, whether the serpent in the Garden of Eden or the market manias of cryptocurrency or artificial intelligence. Each wave seduces us into thinking that we've learned from history and, this time, we can't be fooled. Then it happens again.⁵

As students of both business and market history, we are often reminded that while technologies, industries, and investment themes may change, human behavior rarely does. Investors are naturally drawn to compelling narratives that promise outsized opportunities or a fundamentally different future. In every market cycle, there seems to be a new explanation for why traditional rules no longer apply.

Stories are powerful, but they are not investments; businesses are. Our investment process therefore begins with business fundamentals rather than market narratives. Financial statements provide an objective record of a company's historical economic performance, allowing us to evaluate profitability, cash generation, balance sheet strength, and management's capital-allocation decisions. Most importantly, they help us estimate what a business may be worth independently of whatever story the market is telling.

⁵ Andrew Ross Sorkin, *1929: Inside the Greatest Crash in Wall Street History—and How It Shattered a Nation* (New York: Viking, 2025).

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When analyzing a business, we focus on several fundamental questions:

Is the company *generating consistent cash flow*?

Does management *allocate capital prudently*?

Is the balance sheet *strong enough to withstand adversity*?

Are the economics of the business *durable*?

Does the current market price offer an *adequate margin of safety*?

In our view, financial statements are the scorecard of a business. They provide evidence of what management has actually accomplished rather than what investors hope may occur in the future.

This does not mean stories are irrelevant. Every successful business has a story. The key distinction is that we seek confirmation of that story in the numbers. When a compelling narrative is supported by strong economics and sensible valuation, an attractive investment opportunity may exist. When enthusiasm becomes disconnected from financial reality, risk often rises.

Sorkin's observation that "*then it happens again*" serves as a reminder that the greatest risk to investors is often not a lack of information, but a willingness to abandon discipline in favor of a compelling narrative. By grounding our decisions in financial

statement analysis, business valuation, and independent thinking, we seek to distinguish between a compelling story and a compelling business. History suggests that this distinction matters most when enthusiasm is at its highest.

FIRM UPDATE

The firm celebrated its 19th anniversary on August 12, 2026. We extend a sincere thank you to all of our clients for your continuing trust in Global Value Investment Corporation. As we have shared in the past, we have a 100-year vision for the firm. We look forward to continuing to work with our clients and future generations alike.

Kathy Geygan and Tom Molosky celebrated their 18th and 12th anniversaries with the firm, respectively, this quarter. Each has played an integral role in the continuous improvement of our public relations and advisory processes. Please join us in congratulating Kathy and Tom!

We continue to selectively expand our client base with investors whose objectives, time horizon, and investment philosophy align with our own. Recent additions include both individual and institutional relationships, and we remain committed to growing thoughtfully rather than rapidly.

As our partnership grows, we welcome the opportunity to meet other investors, families, foundations, and

institutions who share our long-term perspective and commitment to disciplined capital allocation. The most rewarding relationships often begin with a simple conversation.

CONCLUDING THOUGHTS

As trusted advisors and long-term partners, we encourage you to keep us informed of any changes to your financial circumstances, priorities, or objectives. Ongoing communication helps ensure that your investment strategy remains aligned with both your current needs and long-term aspirations, while enabling us to provide thoughtful guidance as those goals evolve.

As always, we appreciate the confidence you place in us as stewards of your capital. Our focus remains unchanged: patiently seeking opportunities where market prices diverge meaningfully from business value while maintaining the discipline that has guided GVIC since its founding.

We continue to work diligently to identify attractive investments in this unusually elevated market environment while remaining "calm, alert, and opportunistic." We are deeply grateful for your ongoing trust and confidence, and we remain committed to being prudent stewards of your capital.

We look forward to reporting on our progress in the quarters and years ahead.

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