JDP
CAPITAL MANAGEMENT

**Survivor & Thriver Fund, LP**

1Q 2025 Investor Letter

"When everybody goes insane, staying sane is your competitive advantage."
*— Charlie Munger*

Dear Partner,

In 1Q 2025 the Survivor & Thriver Fund was down 2% net to investors. This compares to a loss of 4.2% for S&P 500 including dividends. Individual performance may vary based on subscription timing.

## Overview and Outlook

The uncertainty around the impact of tariffs on corporate earnings has created extreme volatility in individual stocks. Since "Liberation Day" in March we have had positions violently whipsaw up and down 5% and 25% on White House headlines.

The first week of April was pretty crazy:[1]

- S&P 500 was down 12.5% over 4 trading days which is the 4th biggest decline since 1950, only slightly behind peak Great Financial Crisis and the first week of COVID.
- DOW fell 9.3% over 2 trading days which was the 20th worst 2-day decline in the history of the index going back to 1896,
- Crude Oil fell 13.6% had the biggest 2-day decline in history,
- US indexes swung by $7 trillion in 30 minutes on April 7 because of a White House headline that turned out wasn't true
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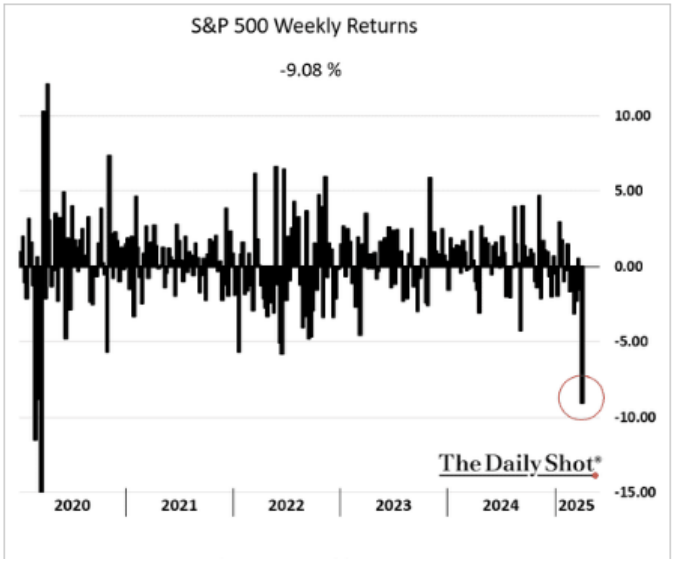
S&P 500 weekly drawdown almost as bad as early COVID




[1] The Week in Charts / Creative Planning, Yahoo Finance, The Daily Shot, JDP estimates

The only question that matters *(for us)*

The only question that matters for us is: what is the effect of the 2025 Tariff Tank on the structural earnings power of our companies and their end markets?

We should then ask:

What is the probability that we will look back in 1, 3 and 5 years and regret adding to our best ideas during the turmoil?

Will Spotify subscribers now listen *less* to music podcasts and audio books?

Will the world stop transitioning from cable TV to streaming movies and shows?

Will AWS lose its scale, dependability, market dominance in enterprise cloud and AI because of nationalistic rhetoric in certain countries?

Will the trajectory of online gaming legalization in the US suddenly stop?

Is the transition to self-driving vehicles in North America still worth many trillion of dollars over the next decade? Will the Chinese now be able to sell connected, self-driving cars in North America anytime soon (assuming their technology can eventually catch up)?

***Uncertainty cubed***

While others might be forced to sell stocks based on headlines in the name of "risk management", secular tailwinds, growing earnings power and resiliency of our companies make a strong case for holding tight.

Looking back at the generational market opportunity created by early COVID, GFC, the Cuban Missile Crisis, Y2K, or any crisis, it seems irresponsible to have panic-sold stocks just because they were going down. What these past crises had in common with the tariff war today is that markets could not look back at a modern historical example to help predict an outcome.

Without a reference, markets take the perceived worse-case scenario, moment-by-moment, and extrapolate it over the foreseeable future. The MAGA bear vs bull debate is also uniquely partisan and viciously divided. The result is that investors just panic sell.

In the name of "uncertainty" selling is then compounded by not buying back in on time and missing out on the most important days of a mega rebound.

The problem of course is that, just like other elements of life, the intersection of economics and politics are very fluid, highly emotional and unpredictable.

Howard Marks points out in his April 9, 2025 memo Nobody Knows (Yet Again) that the phrase “analyze the future” is one of the great oxymorons. He says:

"The future has not yet been created, and it’s subject to millions of complex, unquantifiable, and unknowable factors that will always be in flux. You can ponder the future and speculate

about it, but there's nothing to "analyze" and certainly there wasn't in the early days of the Global Financial Crisis."

Marks goes on to say:

"The problem is that in the real world, and especially in economics, there are second- and third-order consequences that must be considered. If there weren't, economics would be dependable like the physical sciences, as in "if you do A, then B happens." As theoretical physicist Richard Feynman said, "imagine how much harder physics would be if electrons had feelings." Well, economies and markets are made up almost entirely of people, and people do have feelings, rendering reactions unpredictable."

Instead of trying to predict the ultimate outcome of Trump economic policy on our stocks, it seems more grounded to apply first principles thinking to the extreme MAGA bear vs bull cases ripping apart the market today. Bear vs Bull Tug-of-War:

Bear case

- MAGA is horrible for US business because the goal is to re-distribute corporate earnings from owners to employees. This is done with import tariffs that essentially nationalize chunks of US gross profit either directly (tariffs + forced onshoring) or indirectly through high price demand destruction. Trump believes he was saved from an assassination attempt by God in order to re-shape the global economy in favor of US labor and cannot be stopped. The war-time executive powers Trump is leveraging, a loyal-to-the-death cabinet and a majority Republican House and Congress, will allow The President to burn down the economy. Businesses will be forced to make TVs, toasters and sneakers in America, potentially with union labor, leading to a big jump in inflation, high interest rates and low growth.

Bull case

- MAGA is ultimately a big tailwind for business, we need to take a little pain now for a big future gain. The US deficit will largely be eliminated, Trump 1.0 tax cuts will be made permanent, and mass deregulation across everything from M&A to oil will spark a new era of prosperity. Borders are secured and protected; organized crime declines along with drug abuse which is positive for productivity. Tariffs are just a negotiating tactic largely focused on declawing China and restructuring US defense spending in Europe. The overall result will be US borrowing costs come way down, along with inflation, unlocking the frozen housing market and sparking an economic super-cycle.

First principles say the ultimate outcome is somewhere between the bear and bull cases, and likely not as disruptive as either side would like. It is hard to imagine that America would allow its government to purposely nuke the economy in the name of some Holy Vision. It is also unlikely that the Trade War will result in a multi-generational win for "Made in America".

The leash on this man-made turbulence we are experiencing is also limited by bond yields getting out of control and business leaders will call *Uncle* if the trade war does not de-escalate.

**Portfolio Update - A Few Honorable Mentions**

Given that we have owned the majority of our positions for multiple years, there is not always investment thesis-related news worth discussing every three months. However, there were a few notable developments in the portfolio worth sharing since the last letter:

**ENDI** - On April 6, 2025, Endi Corp announced the sale of a 25% stake in its bond fund subsidiary CrossingBridge for $25.6 million. This implies a non-control valuation of over $100 million for CrossingBridge compared to the entire company's pre-deal valuation of about $60 million. The reason for the 25% sale is unclear but my guess is that founder David Sherman wanted to raise growth capital without diluting ENDI stock. According to the company's website, CrossingBridge's assets under management were $3.8 billion as of March 31, 2025, up from $3.6 billion in February, the previous month. CrossingBridge is growing like a weed and benefiting from strong demand for its global credit products from institutions seeking yield. Prior to the sale ENDI had $20 million in shareholder equity comprised of mostly cash and investments as of December 31, 2024. Although ENDI is up over 30% YTD the stock remains undervalued based on earnings power with EBIT that could reach $20 million within three years and a fortress-like balance sheet to fund growth.

**CZR** - In terms of upside it is not hard to see $80 or $90 per share for CZR in present value using a simple breakup value analysis (200% to 300%+ upside) from today's $25 price. Although Vegas and regional brick and mortar casino revenue declined by 1% in 2024, we are invested in CZR for the unrecognized earnings power of the high margin, high return on capital online gaming business. As the largest and arguably most investor-friendly gaming and hotel business in the US, CZR is benefiting from state-by-state legalization of online gaming. In 2024 CZR's online gaming business (Caesars Palace and Horseshoe Apps) grew 20% to 1.2 billion with EBITDA up 207% to $117 million over 2023. In 4Q 2024, iGaming revenue grew 65% on top of 54% growth in 2023. Helping to fuel 2025 online gaming growth, Caesars is launching a live, iCasino in-app product in Michigan and New Jersey following legalization in those states. CEO Tom Reeg is confident that the online gaming business is on track to achieve $500 million in EBITDA as planned. Once achieved, the online business would be worth well in excess of the entire company current market cap of $5 billion. Setting aside this potential, CZR should earn over $1 billion in after-tax free cash flow in 2025 implying a 20%+ equity yield on the stock today. Caesars recently expanded its board to include two Carl Ichan-appointed members. The stock was down over 25% in the first quarter.

**SPOT** - Spotify remains our largest position. In the fourth quarter the company's free cash flow was up 123% over last year resulting from strong operating leverage that the market had not priced in the valuation. Spotify ended 2024 with 675 million subscribers between paid and ad supported. Spotify and YouTube are the primary beneficiaries of the mega trend shift from linear media to podcasting.

One area of disappointment, and an area for possible concern, is the company's challenges to grow advertising revenue and profitability. Advetising is an important component to the next leg of the company's profitability inflection and ability to achieve management's goal of €20 billion in future operating profit. The market has thus far been willing to ignore lagging advertising revenue because of continued growth in paid subscriptions and ability to sustain price hikes. In 2024 advertising only grew 7% representing about 12% of total revenue. Spotify is still struggling with targeting and performance advertising metrics that can compete with other scaled players like YouTube or Instagram. Although not yet alarming to the

investment thesis, the lack of advertising revenue growth is something we are watching closely as the economy softens. The stock was up about 20% in the first quarter.

**China Basket** - Our China basket strongly outperformed the S&P 500 in 1Q and offset declines in other parts of the portfolio. We own large, China-centric tech infrastructure-like stocks that do not depend on exports to the US. Our two largest positions in the basket had blow-out earnings that included increased share buybacks. Despite stock prices that have moved up 30% to 50% recently, our basket remains very undervalued with an equity yield over 10% and growing at a rate of double GDP. It is noteworthy that the Chinese 10-year government bond yield has declined to about 1.6%[2] making large cap Chinese tech valuations especially attractive.

**RDFN** - In December 2022 the fund took a small position in the real estate brokerage firm Redfin at a cost of $4.5 per share. In April 2025 Redfin announced it was being acquired by the leading brokerage firm Rocket Companies (RKT) for $12.50 per share in stock. The transaction makes a lot of sense because RDFN will be stronger and more profitable as a customer acquisition service for a much larger and well capitalized national mortgage player. After the transaction closes in 2Q we plan to keep our RKT stock as the business is better positioned than Redfin to benefit from even a slight recovery in the housing market.

## Closing remarks

Would you fire-sell your home or family business because someone drove by and offered a price far below its value? This is exactly what happens in the market every day, but with the additional caveat that the cheaper stocks get, the harder it is for most investors to buy back in.

I have no idea when the 2025 Tariff Tank will be behind us. What matters is that the earnings power of our portfolio is strong and attractively priced, especially compared to the opportunity cost of cash or bonds.

While I fully expect S&P 500 earnings to be revised down over the next quarter or so, the products and services our companies provide are positioned to be beneficiaries of a flight to quality.

In the event that the economy is more resilient than is being priced in today, I expect our portfolio to be an outsized beneficiary of a market recovery.

The next opening to add capital to the fund is April 30 for a May 1 start date. The minimum investment is $25,000 for existing investors and $250,000 for new investors.

The majority of my family's net worth is invested alongside yours. Thank you for your trust and support.

Sincerely,

Jeremy Deal

[2] https://tradingeconomics.com/china/government-bond-yield