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Q1 2025 Right Tail Capital Investor Letter

What will you be doing five years from now?

It's hard to know exactly.

Maybe looking at what we were doing five years ago would be helpful. In the spring of 2020, we were in the early stages of battling the COVID pandemic. Life felt unsettled. The stock market dropped ~34%, including three individual days of 7–13% declines. (Coincidentally, this market turmoil also led to some of the best long-term investment opportunities I've seen in the last decade.)

I'm sure we can all recall the ways our lives and the world have changed over the past five years. Some of these changes would have been incredibly hard to predict.

Bill Gates once said, "We overestimate what we can get done in two years and underestimate what we can get done in ten." For the purposes of this letter, I'd refine that quote to: "Many investors overweight today's news and underweight what great companies can accomplish in five years."

Many overestimate the impact of today's news. Recent headlines have driven stock market volatility.

Today, uncertainty feels more palpable—we face geopolitical conflicts, trade tensions, and market swings. After Trump's election win, the market initially reacted positively but later has had two separate 10% declines, partly due to his tariff decisions.

Often, when things seem stable, the underlying risks go unnoticed. When everything seems bleak, at least some of the bad news is already priced in. In these situations, we may be closer to brighter days than we think.

Investing success does not come from avoiding uncertainty but from navigating it with a steady hand. While short-term volatility creates discomfort, history has shown that patience and discipline are key to enduring success.

Uncertainty is nothing new—it has always been a part of investing, just as it is a part of life. History is filled with moments of uncertainty—economic downturns, political upheavals, and global crises. Yet, long-term investors who stayed the course reaped the benefits.

Warren Buffett has spoken for decades about the same macroeconomic concerns—interest rates, valuations, inflation, and geopolitical risks—yet his advice remains the same: focus on what you can control. We cannot predict market movements, but we can invest in high-quality businesses, manage risk prudently, and let time and compounding work in our favor.



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The Right Tail Approach

I chose five years in the opening discussion because that's the lens through which we evaluate investments. That's the focus of Right Tail.

Right Tail's goal is to compound wealth and generate excellent after-tax returns over multi-year periods. We achieve this by owning a concentrated portfolio of undervalued, high-quality businesses and investing with a long-term mindset. You've heard me say before: I love investing in great businesses that have the potential to double in five years.

At Right Tail, our strategy remains unwavering. We invest in high-quality businesses with the potential to generate superior long-term returns. However, not every quarter or year will be smooth—far from it. We must be prepared for periods of significant market drawdowns, potentially even 50% declines like those seen in the past. We also must be prepared that each downturn might feel different than the last – this makes it harder to stay patient and think long term.

While uncomfortable, these downturns create opportunities. Some of the best long-term investments emerge when markets are at their weakest—just as they did during COVID.

What you can expect from Right Tail is a disciplined approach.

We cannot control short-term market movements, but we can control our behavior. We will study businesses diligently, remain patient and rational, and seek opportunities when others react emotionally.

As the largest investor in Right Tail, I am aligned with you. My commitment is to assess opportunities rationally and ensure that we are always positioned for long-term success.

We can control how we react to the market's opportunities. We'll remind ourselves that things always feel worse in the moment. We'll keep studying businesses, stay disciplined, and put one foot in front of the other.

I want to take this one step further. It's easy to worry about negatives.

Let's also be open to the possibility of positive surprises in our investments. When the news is negative, it can be hard to remember that positive surprises will happen.

I have found great businesses often exceed expectations. Let's look at a few examples among our roster of excellent businesses.

Take Constellation Software. When we invested in 2022, its history focused on acquiring small vertical market software businesses. I would not have placed a high probability on it acquiring two Black Knight businesses from Intercontinental Exchange and deploying \$700M at attractive prices.



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Or consider O'Reilly Auto Parts. In 2020, during the COVID-related selloff, I expected ORLY and its peers (AutoZone and Advance Auto) to gain share from mom-and-pop competitors. Not only did ORLY outperform, but Advance Auto has struggled, and even AutoZone has lagged behind O'Reilly's growth. The company's hard work and commitment to its customers has led to positive surprises that I would not have expected.

Similarly, Copart continues to outpace market expectations. By serving insurance customers efficiently after catastrophes and streamlining salvage operations, it has consistently taken market share from competitors. It continues to provide additional services while also developing new geographies.

What's great about positive surprises is that the market has a hard time planning for them, and they create asymmetric upside. When an investment performs better than expected, it compounds at high rates and for many years—creating substantial wealth along the way. I'm confident we'll pick enough excellent businesses along the way to continue to benefit from these positive surprises.

In closing, the market will always present challenges—unexpected twists, uncertainty, and moments that test our resolve.

But history has shown that patient investors are ultimately rewarded.

Right Tail's greatest strength is our long-term mindset. Your patience allows us to tune out short-term noise and focus on sustainable value creation.

Great businesses compound wealth over time. Our strategy prioritizes holding these companies through periods of turmoil rather than constantly trading in and out. Research remains at the core of our approach, deepening our understanding of industries and identifying investments that drive future returns.

Right Tail is built on a long-term foundation, and our strategy remains unchanged: invest in great businesses, navigate uncertainty with discipline, and let compounding work its magic.

Thank you for your trust and partnership,

Jeremy Kokemor



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