

Survivor & Thrive Fund, LP

1Q 2026 Investor Letter

"The light bulb was not invented by continuous improvement of the candle."

— **Oren Harari**

In the first quarter the fund was down 15.1% net to investors. This compares to the S&P 500 which was down 4.3% assuming dividends had been immediately reinvested back into the index.

In the 2025 annual letter I described how market sentiment was deteriorating on AI destruction fears and consumer softness. Although some concern was valid, especially around the most interest rate sensitive sectors, 4Q earnings and guidance were broadly strong. For obvious geopolitical reasons sentiment has now moved from cautious to extreme fear, leading to the S&P 500's worst quarter since 3Q 2022.¹

What has not changed is the prospects for durable, growing businesses.

The doomsday narrative today can sound persuasive, but similar to the 20% market drop in early 2025 after the "Liberation Day" tariff announcement, investors once again have an extraordinary buying opportunity.



The first quarter in 2026 began with a continuation of AI-disruption scare that started in software and quickly spread. Investors first sold enterprise software and IT, then moved on to insurance and commercial real estate brokers, data and information services, trucking, media, private credit, shipping, freight and anything adjacent to those sectors. Even Spotify wasn't immune from the selloff even after a very bullish 4th quarter.

Then the war in Iran broke out, oil prices spiked, causing further selling based on a wide range of bearish scenarios.

The Iran war is a far more serious event than tariffs but, does that mean stocks are intrinsically worth less every day that oil trades up?

The structure of both the U.S. economy and the S&P 500 has changed dramatically over the last 50 years. For example, in the 1970s, the S&P was dominated by energy-intensive industrials, autos, and heavy manufacturing with input costs linked to oil and commodities. The US was also dependent on imported oil.

¹ Fundstrat Research, Bloomberg

Today over half of the S&P 500's value is either big technology and / or intellectual-property-driven businesses where the primary inputs are people and compute-related expenses. Even our manufacturing businesses today are much more efficient than in the past.

The U.S. is also now a net-exporter of energy. Higher oil prices drive US energy earnings and spending, which helps offset the impact of higher prices on the economy (Texas booms).

More importantly, in a world of slowing growth, investors will ultimately pay a premium to own secular winners that can keep compounding when most can't.

Our job is to separate what feels scary from what actually threatens long term intrinsic value. To do that consistently we underwrite new and existing investments using what we call the Survivor and Thriver Investment Criteria. This four point criteria acts as both filter and guardrail.

Mistakes are part of investing, but I find that having a North Star helps minimize the distraction from whatever market rotation is fashionable in the moment. The criteria also helps reinforce the conviction to hold, or even double down on our best ideas in rough markets.

The Survivor and Thriver criteria:

1. A business model that is adaptable and relevant in tomorrow's economy.
2. Durable pricing power protected by a growing competitive advantage.
3. Capital allocation and balance sheet strategy that supports and widens the company's moat.
4. Clear alignment of interest between management and equity owners.

Possibly the most impactful criteria on long-term returns might be number 3, **capital allocation and balance sheet strategy that supports the company's moat**. The other criteria are important, but if there is one common link among the highest returning stocks in history there was a strong CEO willing to invest aggressively in growth that catapulted the company's flywheel when it did not make sense to the market.

The ability for a large business to reinvest most of its cash flow at incremental returns above its cost of capital for many years is very rare, and is the most powerful driver of long term value creation.

Companies that are reinvesting aggressively today to meet demand are especially out of favor. Although the market has been skeptical on AI infrastructure spend, growth spending generally is being punished. Amazon is one of the best examples. The stock now trades for the lowest valuation in its history as punishment for announcing an additional \$200 billion in spend supporting AWS, automation and robotics.² Amazon is selling closer to a distressed valuation than a juggernaut positioned to be one of the biggest beneficiaries of AI over the next decade.

There is a big difference between investing to meet high customer demand and spending on maintenance capex to preserve existing sales. All else equal, we would much rather own a company with a long runway to reinvest 100% of its gross profits at high incremental returns than a company with little left to do with its cash other than pay taxes and return it to shareholders.

² JDP estimates, Koyfin, SEC filings

Looking back at many of the most successful businesses in history such as Starbucks, Costco, Apple, Netflix or Nike, you will find periods when management doubled down on growth instead of maximizing after-tax earnings to make the P/E look good, even when the stock was out of favor.

This often resulted in the valuation of these companies looking expensive in terms of screenable financial metrics, but very cheap to the investor who could figure out earnings power.

Conversely, if you look back at many of the biggest stock failures it is common to see management that refused to invest behind change or new demand out of fear of getting fired after a stock price decline, or fear of destroying the legacy cash cow.

In summary, if the economy continues to slow, companies with the most insulated growth runways should emerge even more valuable. From that perspective we are positioned well for a strong recovery once the market gets back to business.

Update on Caesars Entertainment (CZR)

In late March we exited Caesars Entertainment (CZR) after reports that the company is in talks to sell itself to Tilman Fertitta or Carl Icahn for a fire-sale price. Over our fund's history we have had several positions taken from us via buyouts at valuations far below a reasonable valuation. In the case of Caesars, I was especially disappointed after reading that CEO Tom Reeg is reported to be part of the buyout. Reeg is someone I had grown to admire and respect. I had believed he could stick out the stock's drawdown without taking advantage of minority investors.

It is not uncommon to see cheap stocks get taken private especially after long drawdown periods. Late last year a smaller Vegas casino operator stock called Golden Entertainment announced a buyout by its controlling shareholder family. The deal was so egregious it sounds nearly unbelievable if explained out loud. Andrew Walker from the podcast YAV did an episode on the Golden Entertainment buyout titled [Shining a Light on Golden Entertainment's Wealth Transfer](#) that is worth a listen for anyone curious how these things can happen. The Golden buyout set a precedent for an absurdly low Caesars bid that could be accepted by public stockholders. We kept a <1% position in out of the money calls just in case the bid improves before a deal is approved by gaming regulators. Moving on..

New position: Mercado Libre (MELI)

Mercado Libre (MELI) is a classic Survivor & Thriver business but that we rarely see on sale. MELI is the dominant e-commerce, fintech platform and logistics provider in Latin America, ahead of Amazon, Shopee and smaller regional competitors. MELI is run by founder-operators who are aggressively reinvesting in the business for the next decade. Similar to Amazon in the early 2000s, using a P/E ratio to assess MELI's earnings power is a bad idea. That said, at an equity valuation of \$85 billion or \$1,600 per share, we acquired our stake for less than 1x GMV and ~18x estimated 2026 earnings.³ Unlike US or European with a similar valuation and market position, MELI should be able to continue growing north of 25% annually for years ahead, making our entry price very attractive.

MELI is currently in a significant macro-driven drawdown, made worse by Iran war and sell-off in emerging market stocks. Prior to the recent 40% decline, the stock had also not fully kept up with fundamental growth and geographic expansion in my opinion, especially in Mexico.

³ JDP research, company filings

MELI operates across 18 countries with large market share in Brazil (36%), Argentina (55%) and Mexico (27%). MELI is a remarkable success story with revenue having grown over 55,000% since its IPO in 2007. The company is still growing over 30% annually.

The three things that jump off the page for me about MELI are (1) the durability and runway of its ecommerce growth, (2) the profitability trajectory of its fintech business built on top of its ecommerce business, and (3) management's willingness to continue reinvesting for growth years in advance and experiment with new products and offerings.

Highlights from Mercado Libre's FY2025 earnings

For the full year 2025 MELI delivered its 28th consecutive quarter of 30%+ revenue growth demonstrating that its Amazon-like ecosystem strategy is accelerating at scale.

- GMV: \$19.9B (+37% YoY), accelerating for three consecutive quarters
- Items sold: 752M (+43% YoY), fastest growth since 2021 in Brazil and Mexico
- Unique active buyers: 83.2M (+24% YoY), adding 16M buyers in a single year
- NPS leadership: Record Net Promoter Scores in all major markets
- Brazil GMV grew 35% YoY in Q4 yet fewer than one-third of Brazilian adults purchased on the platform.

Mercado Pago, Digital Bank and Credit

- Monthly Active Users (MAU): 77.9M (+27% YoY), 10th consecutive quarter of ~30% growth
- Assets Under Management (AUM): \$18.8B (+78% YoY), up from ~\$2B three years ago
- Credit portfolio: \$12.5B (+90% YoY), up from ~\$3B three years ago
- Total Payment Volume: \$83.7B (+53% YoY)
- Credit cards: \$5.7B (+114% YoY)
- Merchant credit: \$2.0B (+67% YoY)
- Consumer credit: \$4.6B (+76% YoY)
- Asset-backed: \$284M (+106% YoY)

MELI's tailwinds

Ecommerce penetration in Latin America is approximately half the level of the US, UK, and China. I see no reason why the region should not reach similar penetration levels over the next decade. MELI's market has ~650 million people and a median age in the late 20s to early 30s. As this young population moves more of its spending online, MELI is positioned to capture more share across ecommerce and banking.

As we know from a past Brazilian investment, Latin America is generally under-banked and interest rates on credit can be north of 100%. Fewer than 20% of Mexicans and only about 40% of Argentines have a credit card; in Mexico only about half the population has a bank account. In Brazil, four legacy banks still control most of the credit issuance.



Mercado Pago has already become one of the largest digital financial institutions in Latin America. Fintech is MELI's fastest-growing segment, compounding at over 40% with payment volume growing 30%+ annually. Assets under management in savings and investment products more than doubled in 2025 as users move deposits out of legacy bank accounts into Mercado Pago.

MELI's credit business is less known but becoming the company's growth driver. The company uses its consumer database and payment transactions to underwrite risk. In Q4 2025 alone Mercado Pago issued 3 million credit cards.

Credit is only one layer on a broader financial services stack. Mercado Pago offers QR payments at physical merchants, debit and credit cards, consumer and SME loans, buy-now-pay-later, insurance products, wealth management, and payroll tools. Each new product increases revenue per user and deepens engagement. A merchant who adopts MELI for acquiring often takes working capital loans. A consumer who pays with Mercado Pago is cross-sold credit cards, savings, and insurance. The resulting data flywheel feeds back into better underwriting and personalization.

In summary MELI represents a proven compounder operating in a part of the world with strong demographic and economic tailwinds. Not only does the stock seem very oversold, but the company's exceptional quality could lead to it recovering much faster than other emerging market peers.

Closing thoughts

Our goal is to invest in businesses that we would buy more of when they are down, and sell stocks when the valuation far exceeds a reasonable estimate of the business's potential.

I often get questions about the market, especially when it whipsaws as violently as it has recently. Although trying to predict market behavior is a fools game, I thought I would share a few recent charts by Jim Paulson, who I have referred to in past letters.

Jim does a great job of interpreting market cycles and behavior through historical data. I take this stuff with a grain of salt because short term market behavior does not influence our underwriting of individual investments. But I like Jim's work and find some of the data important to understand. The key message today is, markets don't bottom on good news.

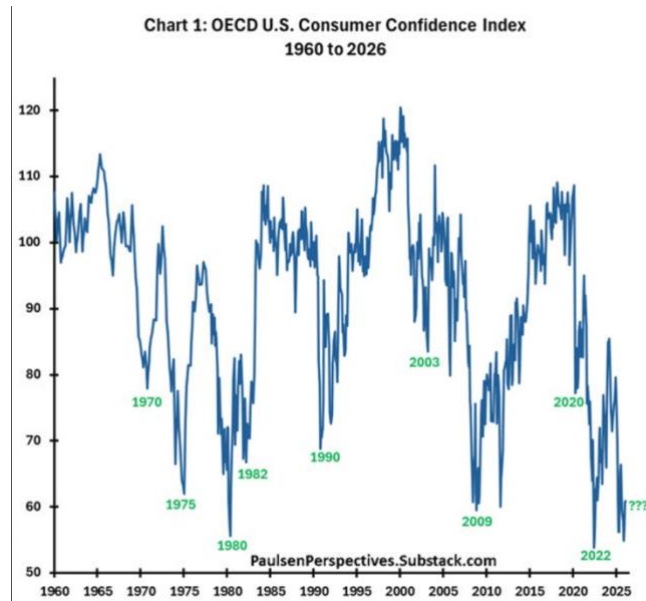
Thank you for your patience and trust. My family and I are fully invested alongside your capital.

Sincerely,

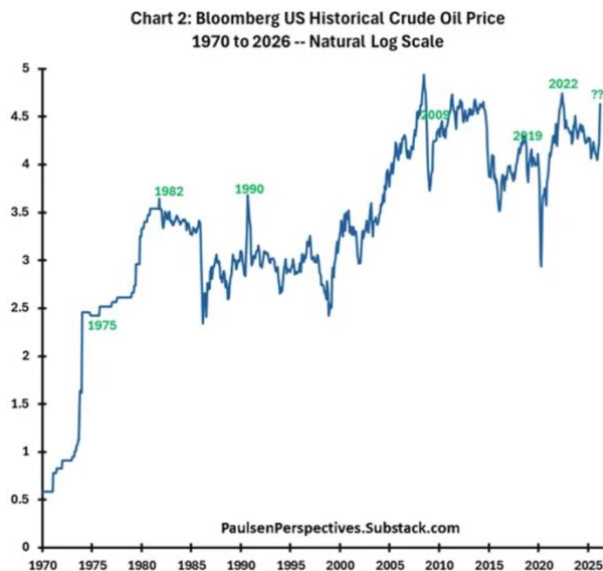
Jeremy Deal

[See below selected charts and commentary from *Paulson Perspectives*, April 2, 2026](#)

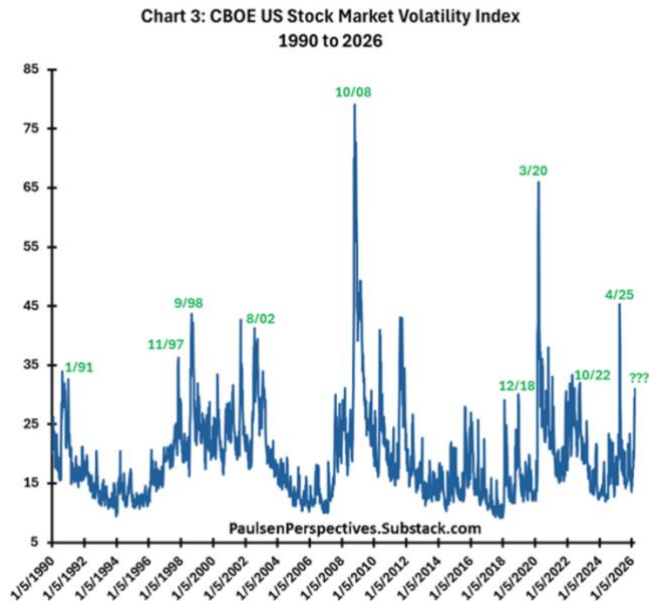
Bears don't emerge when Pessimism is Pronounced, that's when Bulls Begin. The dates shown in green highlight that most bull markets begin when Main Street confidence is low as it is currently. Bears don't emerge when pessimism is as pronounced as it is today – rather this is when Bulls typically dominate.



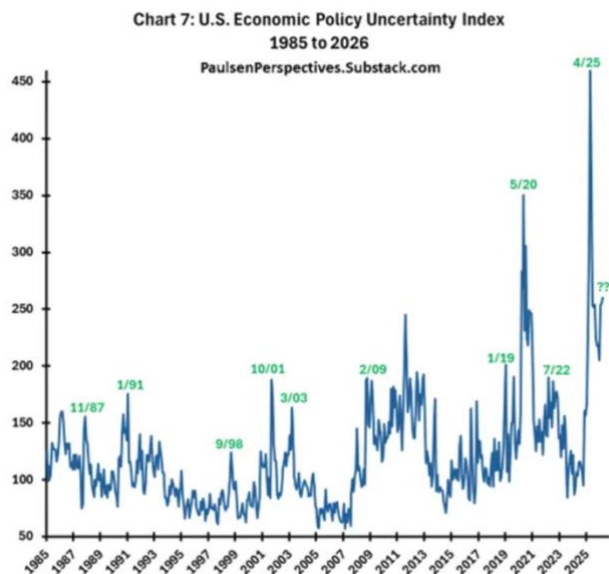
Bull Markets often Emerge once Oil Prices Peak. While markets often struggle as oil prices rise, as shown in chart 2, the start of several bull markets since 1970 have coincided closely with major peaks in oil prices. Oil prices may rise further in the next few weeks, but the peak in oil prices is probably nearing. Do you want to be out of the stock market when oil prices finally peak?



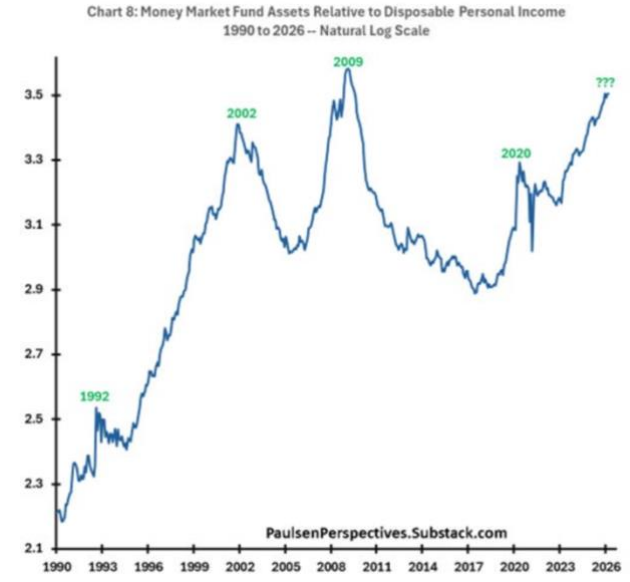
Once Stock Market Volatility Spikes, it's usually a good sign a Stock Market Bottom is Nearing. Chart 3 demonstrates the CBOE Stock Market Volatility Index since 1990. Currently, a volatility level near 30 is comparable to several historical great buying opportunities in the stock market. Sure, volatility could still rise further, but already this market signal suggests the current level of volatility is close to where several past bull markets "emerged". Bears are a risk when volatility is low and complacency is high. Today, the level of volatility argues complacency has evaporated which is often when bulls awaken.



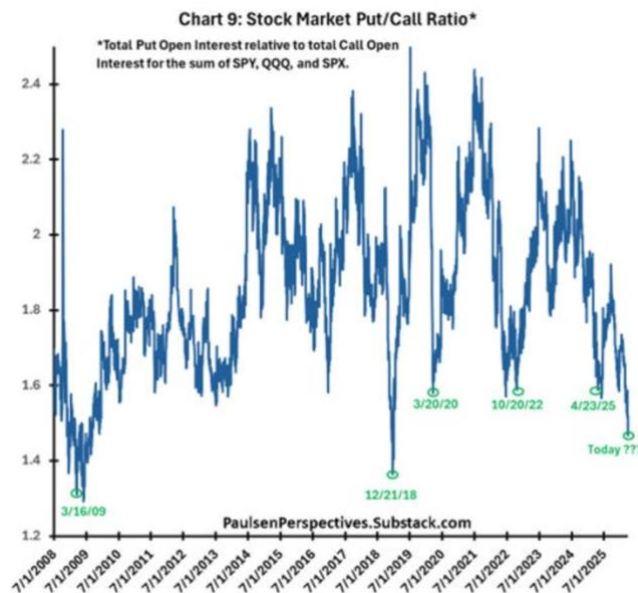
Bulls Climb a Wall of Uncertainty – Bears Prosper with Certainty (Complacency). Since President Trump took office (chart 7), the U.S. does not lack for UNCERTAINTY! Indeed, this President has been a constant "shock & awe". However, as shown in chart 7, some of the best stock market buys during the last 40 years have been when uncertainty rules as it does today. According to this chart, investors should stick with stocks until "calm" returns.



Plenty of BULLISH Cash. As shown in chart 8, major spikes in cash holdings relative to income have generally been a good sign that a bull market is about to emerge. Bulls love untapped buying power and excessive dry powder often keeps the bear quiet! Today's liquidity spike looks similar to the start of the 1992, 2002, 2009 and 2020 bull markets.



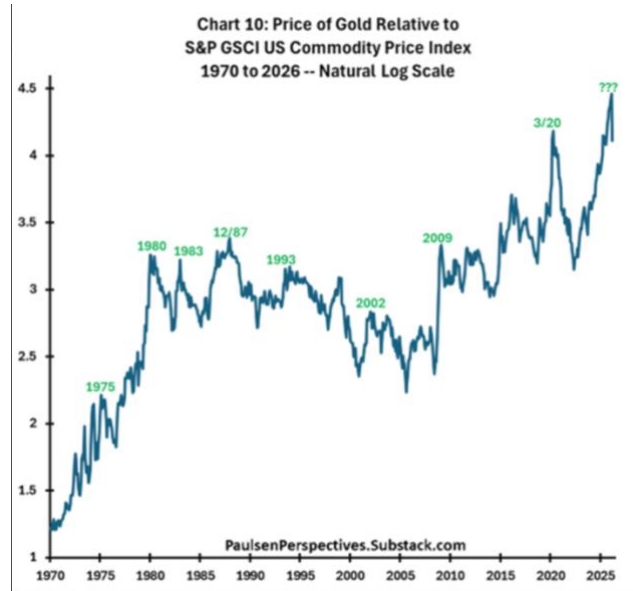
Bulls LOVE Investor Cautiousness. Currently, investors are “protecting” their equity positions – puts far exceed calls (chart 9)! Today's put/call ratio is at or below a level which marked the start great upward stock market moves during the last 20 years. Bulls love to make investor insurance (puts) worthless, and Bears often need more calls before they can bite.



JDP

CAPITAL MANAGEMENT

When Gold loses its luster, the Bull Awakens. Gold runs are not usually good for the stock market. Usually, once gold rolls over, though, the stock market tends to rise. As shown in chart 10, the relative price of gold has collapsed significantly since the Iranian conflict started, and this has historically been a great sign for the stock market. As shown by the green dates in chart 10, a peak in the relative price of gold has often marked the start of bull markets since 1970!



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