

QUARTERLY LETTERS

Middle Coast Investing Q1 2026 Letter: Playing For Time

April 10, 2026

Every historic period feels especially important or special. We want to dramatize our current environment, for one. As the world transforms rapidly, the recent past becomes safer, while the shifting present feels unsteady, shaky. Saying we live in unprecedented times becomes worse than a cliché. The times are always unprecedented, if we pay attention.

The same applies to the stock market. In hindsight, the 2010s look like a serene, rolling and then soaring recovery from the Great Recession. In real-time, market scares abounded, and each climb felt dangerous, too high too fast. When I say in this Q1 2026 portfolio review that the year started weirdly, then, it's with the proviso that, all things considered, it wasn't that wild. It just felt like it.

Q1 wasn't a terrible quarter for the market or our portfolios, but the manner and speed in which the market moved was unsettling. The way new market theses were not just adopted but bought into felt different. Which makes it harder to know how to invest, and more important than ever to remember the key strengths investors have.

Subscribe for future quarterly letters and posts:

Subscribe



The True Meme Market

Meme (n): an idea, behavior, style, or usage that spreads from person to person within a culture — Merriam Webster

Richard Dawkins coined 'meme' in the 1970s. The stock market – as in so many ways, a preeminent place to monetize ideas – has always run on sentiment, ideas, momentum, and thus memes. The idea that we should buy the best big companies (blue chips or Nifty Fifty), that we should only buy big tech companies (the FAANG or the Magnificent Seven), or that certain items have intrinsic value because people say they have intrinsic value (bitcoin and gold). Nothing new under the sun there.

What makes the current environment different, in my view, is the volume of memes that are driving the market, and how quickly the market cycles through one and then the other idea on a given day or week.

The most obvious example of this is the war with Iran, but it's actually an exception. The war has upset key trends and is, to put it plainly, not a good thing for the economy, the market, or just about anything else, but the market was acting funny before then. And the market reaction to the war has been muted; investors have not extended the risks of war to their logical endpoint yet. We have been conditioned by TACO – the idea that Trump Always Chickens Out – and are expecting things to go back to normal. But in miniature, the way one knows what the President is posting on his social network via movements in the stock market, yes, that's a good example of the 'take a fact and price it in immediately' phenomenon.

One Battle After Another

Here are a few market memes from the first quarter of 2026

- Large Language Models (LLMs) and artificial intelligence (AI) will wipe out software businesses, marketplace businesses, financial advisory businesses, and most white collar jobs

- Automated driving will render obsolete car ownership and wipe out or dramatically reshape dozens of industries, from auto insurance to ride hailing/taxis to the auto industry itself
- The economy is going to fall into recession, which could be good because the Federal Reserve will cut rates in time, or bad because recessions are bad
- The economy may see excessive inflation, forcing the Federal Reserve to raise rates, or even stagflation, which would be very bad
- The spike in gas prices is bad for the economy in a number of sectors
- The spike in gas prices will accelerate growth in EVs, renewables, etc., despite the U.S. presidential administration's efforts
- Big tech companies have invested too much in AI and will never get adequate returns, meaning the AI bubble will burst
- Private credit, a less regulated subsector of finance that has grown considerably in recent years but also has had a few big busts, is going to erupt and cause the next financial crisis
- Mexico killed a major cartel leader, causing an eruption in violence that is bad for traveling to Mexico
- The U.S. is a less reliable place to invest (bad for the dollar)
- In times of war, we have to go to the safest bets (good for the dollar, bad for international investments)

Some of these memes contradict each other, and others overlap. Some of them will be right in direction if not also in degree. But either way, they've all taken hold of the market for periods of the last three months. And there's little companies or investors can do to get in the way of the train. Our only hope, as ever, is to ride it out.

The good thing, that's always been the case. Technology seems to develop faster than ever, but human behavior, economic principles, and the way of the world doesn't change. I don't mean that nothing bad ever happens, or there's no possibility that, say, five years from now the world is radically different. That will create winners and losers in the stock market as anywhere else. But the biggest thing for us to do is find companies that provide goods or services that matter to their customers, and that are

available at a fair price, where our risk of things going terribly wrong is lower. Not zero, but lower.

At the end of the day, we're playing for time.

The Time Has Come

Time is the friend of the wonderful business, the enemy of the mediocre — Warren Buffett

It's a cop out for an investor to point to the market and say, 'I'm in it for the long term.' The long term is just a compiled series of short terms, after all. Have too many of them go wrong, and it becomes difficult to recover.

One can't ignore what is happening right now, in front of our eyes. So when I say playing for time, I mean three things, two of which apply to business analysis, and one of which applies to the investing mindset.

First, **how much time does the company have?** Does the balance sheet a) have enough money to make it through bad periods, and b) is the company generating cash (or close to generating cash as the case may be), so that its balance sheet is more likely to improve than deteriorate? If that is true, then the negative periods, whether just in sentiment or in real change, are less likely to be catastrophic for our investments.

I started investing in 2011, in the shadow of the financial crisis. My rule as I was figuring out what I was doing was to look at how bad it got for companies in 2008-2010, and use that as the worst case scenario for those companies going forward. It didn't protect me from all mistakes, but it helped me keep an eye on the potential landmines in a portfolio.

Then, **can the company improve its position over time?** There will be changes that we cannot anticipate in any given industry. How likely is the company to succumb to those changes, vs. how likely will they adapt? If you had to bet on someone figuring it out, who would you bet on?

A Timely Example

Take **Progressive (PGR)** for example. The stock is down 32% from its all-time high last June, for legitimate reasons. Its customer growth – policies in force (PIF) – grew much slower last year than it has for a few years. Its earnings are unsustainable, as it hasn't had to pay out as much in claims as it expected. Natural disasters, auto price inflation, or regulators demanding Progressive give back premiums or lower rates may all crimp that profitability, and meanwhile other auto insurers are doing well too, meaning more competition for new customers.

Bigger picture, what happens to auto insurance if we stop owning cars and use self-driving cars? Instead of finding individual customers, insurers are likely to work with the manufacturers of cars. This shift to business to business would seem to negate PGR's advantages – pricing policies, brand name, and finding customers. This before we factor in that if self-driving cars are safer – and they will have to be to stay on the roads – it changes insurance economics.

I think Progressive is a good bet despite that. The management team seems long-term oriented, even as the company publishes monthly results. Those results show incredible profitability since Progressive raised rates to deal with used car price inflation in 2022. Through February, Progressive has reaccelerated PIF growth and is still improving profitability (if barely). The stock trades at 10x earnings, which is its lowest since 2020, when nobody driving or getting into accidents inflated the company's earnings.

I don't have a sure answer for what Progressive looks like in 2030 or 2040, though, if autonomous driving accounts for 10% or more of the cars on the road. I suspect,

though, that cars will still need insurance. And given Progressive has done a better job dealing with challenges since I started investing in the company in 2019, and since the aforementioned Warren Buffett and his **Berkshire Hathaway (BRK.B)** colleagues have admitted Progressive beat GEICO in growth and building a modern insurance business, there's a good chance Progressive will have a meaningful part of that business. Time should work in the company's favor.

Investing With Time

Our last key point is **do you have time to ride out uncertainty as an investor?** By investing only money that they do not need for the next 3-5 years, if not longer, an investor has a better chance of avoiding catastrophe. I missed the Great Financial Crisis, but I've seen market panics and bear or near bear markets of all sorts over the last 15 years. The debt ceiling fear, the Eurozone crisis, various Federal Reserve related scares, the pandemic, the Covid Hangover, last year's Tariff panic, and now the current moment. We've also lived through many new, hyped technologies or markets, from cloud computing to cryptocurrency and blockchain to cannabis to AI. Some of them stick, and some of them don't.

We are not going to invest based on the latest news about Iran, or what the newest investment in AI is. Each news item matters, but in a longer-term context. As long as we invest in businesses that are not in near-term danger during hard times, and that have a chance to sustain their advantages and build on them, we should do ok, especially if we pay a decent price for shares. Those tenets are simple, though not easy, to follow, but as the market races past us and then doubles back, I can't think of anything other option that works for us.

Q1 2026 Portfolio Review — Performance

	Q1 2026	2025	2024	2023	2022	2021	2020
--	------------	------	------	------	------	------	------

U.S. portfolios	-3.9%	16.9%	15.1%	47.0%	-13.4%	16.8%	12.0%
S&P 500	-4.6%	16.4%	23.3%	24.2%	-19.4%	26.9%	16.3%
Core U.S. portfolios	-4.3%	20.4%	11.2%	47.0%	-13.4%	16.8%	12.0%
Russell 2000	0.6%	11.3%	10.0%	15.1%	-21.6%	13.7%	18.4%
S&P 600	3.1%	4.2%	6.8%	13.9%	-17.4%	25.3%	9.6%
Nasdaq	-7.1%	20.4%	28.6%	43.4%	-33.1%	21.4%	43.6%
European Portfolios	-2.9%	23.9%	10.9%	13.4%	-15.3%	4.5%	18.3%
Euro Stoxx 50	-3.8%	18.3%	8.3%	20%	-11.7%	21.0%	3.5%
DAX	-7.4%	23.0%	18.8%	19.2%	-12.3%	15.8%	-6.3%

Disclaimers and notes:

- See [performance disclosures](#) for more details on performance.

- These results are net of fees and include reinvested dividends or the cash received.
- Core portfolios exclude a portfolio with outsized Amazon and Apple positions.
- All calculations are done by me and subject to error.
- Portfolio performance represents the collective results of Middle Coast Investing equity portfolios. We manage accounts separately, and individual accounts may have slightly different portfolio makeups or objectives.

Portfolio stats

- Our portfolio level price to earnings for trailing 12 months (TTM) was 18.3. This compares to 20.05 P/E at end of Q4. (Note: these calculations are not to be relied upon and are based on best efforts).
- Cash and equivalents (the ETFs MINT, JPST, ICSH SGOV, and BIL, the money market fund SNOXX, and short-term U.S. T-bills) was 15.5% of our quarter end portfolio, with an estimated average yield of 2.1%. This compares to 16.7% of our portfolio and 2.3% yield at the end of Q4. We also had a bond portfolio that accounts for 2.9% of the total portfolio size compared to 3.9% at end of Q4, and a hedge position of 1.4% of the portfolio as compared to 0.9% at end of Q4.
- We bought 35% more equity positions than we sold in Q1.

Our top 15 equity positions as of April 1, 2026:

- **Amazon.com (AMZN)** – 9.7% of our portfolio
- **Apple (AAPL)** – 5.5%
- **Grupo Aeroportuario del Centro Norte (OMAB)** – 5.1%
- **Astronics (ATRO)** – 4.5%
- Progressive Corporation – 3.9%
- **Capital One Financial (COF)** – 3.7%
- **AerCap (AER)** – 2.9%
- **Booking Holdings (BKNG)** – 2.7%
- **Crown Holdings (CCK)** – 2.7%
- **F&G Annuities & Life (FG)** – 2.4%

- **HNI Corporation (HNI)** – 2.4%
- **Everus Construction Group (ECG)** – 2.2%
- **Broadcom (AVGO)** – 2.2%
- **Corpay (CPAY)** – 2.1%
- **Charles Schwab (SCHW)** – 2.1%

Q1 Winners / Losers

Winners	% Gain*	Losers	% Loss*
Astronics	1.2%	Capital One Financial	-1.2%
Everus Construction Group	0.9%	Amazon	-1.2%
Archer-Daniels-Midland (ADM)	0.4%	Lyft	-0.8%
OMAB	0.3%	TripAdvisor (TRIP)	-0.7%
Sonoco Products (SON)	0.3%	HNI	-0.6%

* % gain or loss in this table is of our total U.S. portfolio value (including non-core). Grupo Aeroportuario del Centro Norte rose 5.5% in the quarter, resulting in a 0.3% in total portfolio gains, for example.

Biggest buys

Note: Instead of focusing only on new stocks, I am going to list the eight stocks that we invested the most new money into this quarter, which will include the three new portfolio stocks, and discuss the ones where we have something fresh to say.

Booking Holdings (BKNG)

We've owned Booking shares since 2018. It was one of the first stocks I bought at a full price for what I considered a great company. It took the pandemic sell-off and then revenge travel theme for Booking to deliver market-beating returns, but we got there. And as it reached those higher levels in 2024 and 2025, I did a little trimming, because anything could happen.

A number of things have and haven't happened to the stock. Any economic fears tend to affect travel companies through the view that travel is discretionary. The ascendance of LLMs presented a new middleman for online travel agents to deal with, and a potential existential threat to its business. There have been a number of geopolitical events that disrupt the travel environment. The dollar has weakened, and the U.S. has become less welcoming and less attractive to foreign visitors at just the time where they might take advantage of that weaker dollar.

Booking's share price dropped as much as 32% from its highs of last year, and 25% from the start of this year. But while that did happen, the business has shown no signs of any effect from any of these threats. It is growing faster than its peers (Expedia and AirBnB), it has bought back 27% of its shares outstanding since early 2019, and its guidance for the year ahead is quite good.

There are fundamental advantages to the business. AirBnB is a stand-in for overtourism and housing market pressure, while Booking has taken less heat, even as it has grown its 'alternative accommodation' business to be comparable to AirBnB's. While Booking is a U.S. company (Priceline is the original company), the Booking.com business is based in the Netherlands, making Booking less likely to be picked on in other countries' regulatory backlash. The business is much more exposed to non U.S.

markets – good when the dollar is weak – but also growing share in the U.S. – good if the dollar strengthens.

And I found CEO Glenn Fogel's commentary on why the AI companies won't compete with or replace Booking to be quite compelling. Essentially, it seems unlikely that OpenAI, Anthropic and others would want to be responsible for customer service and being the 'merchant of record', any more than **Alphabet/Google (GOOG)** has wanted to. Reports that OpenAI was abandoning plans to offer a checkout in ChatGPT put in a near-term bottom for the travel agencies, validating Fogel's comments.

But Booking is similar to Progressive for me. Management has proven to be capable, to adjust to new environments (the pandemic) or competitors (AirBnB) well, and focused on the right things. The environment ahead will change. Booking – which boasted on its most recent call that it is actually saving money thanks to AI, one of the rare companies to be able to show a bottom line effect so far – seems like a good bet to me to adapt to those changes.

Gitlab (GTLB)

If AI tools like Claude can write code for software developers, what use paying for expensive software? That's been the market's essential thesis, sending software stocks down by 25% as a sector (represented by the IGV ETF) and worse in some cases, like Gitlab.

A friend pitched this to me, but the idea and us being early so far is my own responsibility. Gitlab has not been a good stock since its IPO during the bubbly 2021 market. It has specifically struggled as two forces combine: the fear that use of Claude and other AI bots will render Gitlab's business – software that enables tech teams to coordinate their development processes – less necessary or reduce the number of developers using the product; and a slowdown in Gitlab's growth for idiosyncratic reasons (the fading effect of a former price increase, management turnover, government shutdowns, etc.).

The stock is not exactly cheap, but is reasonably valued if it continues to grow and or clamps down on share-based compensation. And the use of AI bots means developers are writing more code than ever, even if the software itself is not necessarily better (due to a lot of half-baked code). GitLab should be able to maintain its growth as developers try to harness the bot code, and as businesses switch to the new ultimate tier, or to the Duo Agent platform, which enables more usage of the platform.

Gitlab's value has also dropped to the point where it may be an attractive takeover target for a major player. That said, we're not adding as much as we might when a stock drops 33% after we first buy it, as we'd like to see how the growth story develops this year.

F&G Annuities & Life

F&G usually trades based on its liabilities – i.e. how attractive its annuities and life insurance policies look to customers, and how much pricing leeway that leaves the company to make money on. Where interest rates are set becomes a driving factor.

But more recently, investors are worried about the company's assets. It partners with Blackstone to invest in 'alternatives', and included in alternatives is private credit. There is fear that F&G's considerable book value – \$33.26/share, or \$44.48/share if you include accumulated losses that will not reflect if F&G holds its positions to close – is inflated by bad underwriting. Even if not inflated, the returns on alternatives have been less than F&G expected initially, and it has finally adjusted its expectations.

It's hard to know what's on the company's books as an outside investor. We can see that the company has announced a new, increased buyback program, including a programmatic buying plan, and that its CEO has bought shares (again) recently.

Capital One Financial (COF)

Capital One is a great company but also very sensitive to the economic cycle. Whenever there is fear in the economy, it hits this stock. We bought shares in accounts that hadn't owned Discover Financial (which COF took over a year ago) before, but we were probably early at \$210-\$220. At the same time, this is a very well-run company, and I expect it to come out of the other side fine.

Lyft Inc (LYFT)

No major update since our [Q2 2025 letter](#).

Standard Aero (SARO)

Standard Aero is one of our three new positions, and maybe the one I am most excited about, even though for now the position is small. Aerospace has been a winning sector – as seen in our Astronics position – as the major players, Boeing and Airbus, ramp up production to catch up with gaps from COVID era issues as well as safety problems, such as Boeing's 737 Max. As our other position AerCap reminds us, there is still a years-long backlog in demand for new planes.

Standard Aero's business is to repair and maintain planes. As long as there is demand for planes, the value of currently flying planes will remain high, and thus keeping them working will remain high. On top of that, Standard Aero is certified to work on LEAP engines, a new type of plane engine that should help grow Standard Aero's revenues.

Those revenues have grown by an average 15% the last two years. The growth is forecast to slow this year due to an accounting change, but one which should lead to improved profitability. The shares trade for less than 15x EV/EBITDA, which is significantly cheaper than aerospace peers. As Astronics shares have gotten pricey, we have sold a decent part of our position, and StandardAero is a way to keep exposure to the long-term aerospace cycle, but at a better price.

Duolingo (DUOL)

Duolingo is a language app. Download it on your phone and take gamified lessons in dozens of languages, as well as math, music, and chess.

I am a power user for Duolingo and have been for the past 3-4 years, and I've also followed the company since IPO. Not investing in it in late 2022 was one of my biggest regrets. I believe we are close to a similar opportunity.

The stock has become reasonably priced after soaring to ridiculous levels. The headline reason it has dropped is that, with the LLMs, people feel less of a need to learn a language. Why bother when you can just do this through your phone and your air Pods?

I think this misunderstands why people learn a language – as self-development, to have fun, and because they want to actually be able to do something themselves. If this were purely a bet on whether AI will obviate demand for Duolingo, I would make this a bigger bet.

The company is slowing down dramatically this year, though. They say it's because they want to recalibrate their app to be a little more free and less freemium, so they can gain more users. The company plans to continue to spend heavily, and it makes the future earnings numbers less attractive as a result.

But I have been impressed both as a user and as an investor following the company with how thoughtfully it is run, and how engaging the app is. It does not teach you everything you need to know for a language, but it is getting better. For a motivated language learner, Duolingo can play a valuable part in the process, at a relatively low price (or having to deal with ads on the free product). We'll see how the user growth evolves this year and whether management delivers on its goals over the next few years.

HNI – No major update since last quarter except the price is getting silly based on fear of recession, AI replacing all office jobs, gas prices interfering with return to office plans, or some combination.

Sells

Most of our sells this quarter were profit taking, repositioning, or portfolio specific, so nothing of special note here.

*Interested in more from Middle Coast Investing? Or in talking to us? **Get in touch.***

Please read our full performance disclosures.

Disclosure: I am long all bolded companies mentioned in this letter. I may change positions at any time. I have no immediate plans to make major changes. This is not investment advice. Investing is risky. Any investing decisions are your own responsibility and should be taken after speaking with an advisor or at your own risk. This is not a solicitation to buy or sell anything. Past performance is of course no promise of future results.

Disclaimer: *I calculate performance and all portfolio figures manually, so it may be prone to error. The accounts I manage may deposit or withdraw money over the course of a quarter. I account for that in my calculations by adding/subtracting that money to/from the starting amount at the beginning of the period. This means withdrawals intensify performance and deposits dampen it. For half-year, 9-month, and full-year performance, I multiply quarterly performance by one another to control for deposits/withdrawals.*

[Previous: Middle Coast Investing Q4 2025 Letter: Don't Let Me Explode](#)

Leave a Reply

Your email address will not be published. Required fields are marked *

Comment *

Name *

Email *

Website

Save my name, email, and website in this browser for the next time I comment.

Post Comment

Middle Coast Investing

Investment services to help you secure your long-term financial goals.



© 2023 Powered by [Ona WordPress theme](#)

[Privacy Policy](#) [Terms & Conditions](#) [Contact Us](#)