

2025 Q4 Investment Letter



DEIYA PERNAS, CFA / JANUARY 20, 2026

	QTD	YTD	*ITD
Pernas Portfolio*	4.8%	54.3%	31.3%
S&P 500	2.7%	17.9%	15.1%
Russell 2000	2.0%	12.8%	8.3%
DJ Industrial Average	4.0%	14.7%	12.6%

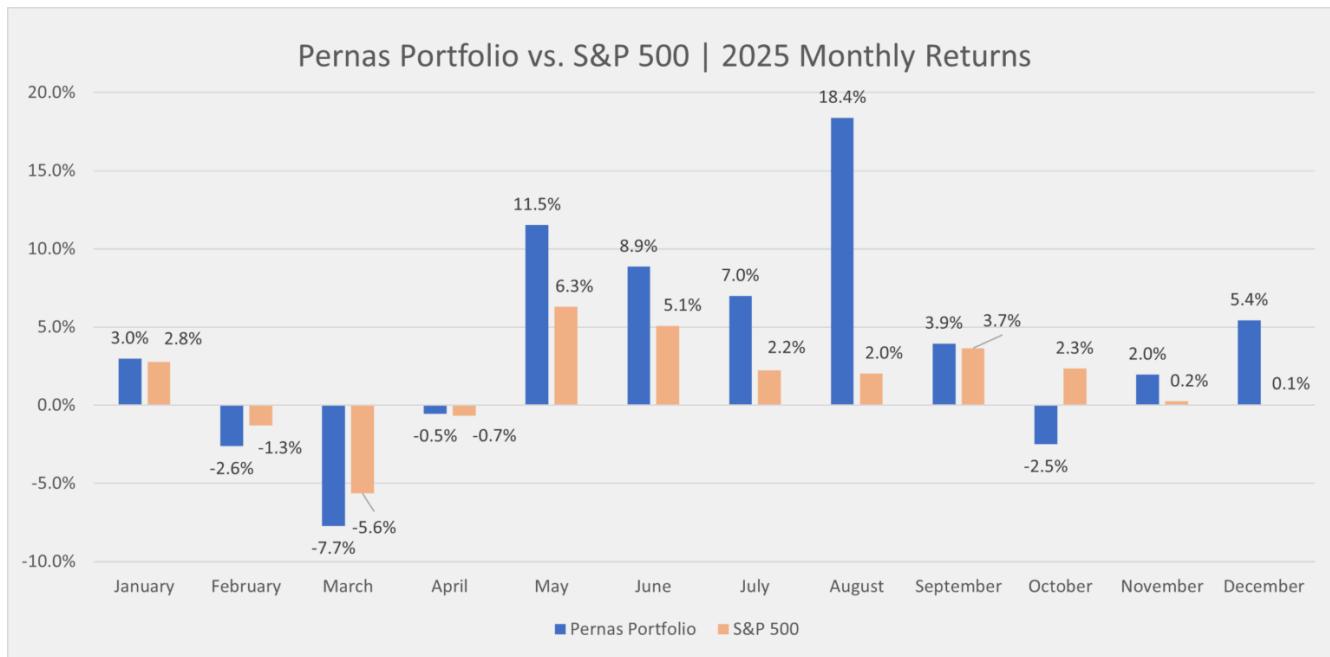
*The "Pernas Portfolio" is a private account managed by Pernas Research LLC. Performance inception date is 01/01/2017. Periods longer than a year are annualized.

Tear Sheet

For the full year, Pernas Portfolio significantly *outperformed* the S&P 500 by 36.4%. Performance participation was broad across the portfolio. Some of our top performing closed positions: APLD 168%, SEMR 68%, STX 53%, CELH 38%, META 32%.

2025 was one of the most volatile, dislocating, and ultimately instructive years of our investing careers. The year began with the California fires raging close to home, and shortly after those fires went cold, capital markets caught on fire following Trump's "Liberation Day" announcement. We were caught completely flat-footed. After reading the paper from his economic advisors, we quickly decided to raise significant cash in the portfolio (~30%). We did

not pretend to know whether Trump was bluffing. We understood there was a probability, p , that he was, but we had no idea what p actually was. What we did know was that if he was not bluffing, the consequences for markets would be catastrophic. At the bottom, our portfolio was down 22% (vs. 19% S&P 500 drawdown), proving the timeless principle that nothing in equity markets is immune from sharp sell-offs. Much of our gains from 2024's post-election melt-up had been wiped out, and needless to say our expectation of a pro-business administration (along with our naïveté in believing DOGE would be allowed to unlock efficiency through cuts and deregulation) was not panning out. Once the market internalized the existence of a "Trump put," our portfolio was positioned overly conservative as the VIX collapsed from 50 to 16 and markets rebounded sharply. Although the cash drag detracted from performance, we added back equity exposure, and as the year progressed and AI momentum accelerated, our stock selection generated outsized alpha.



Lessons

We did have a couple positions go south, and Card Factory was one such example. We were overly optimistic in trying to play the trade-off between structurally lower margins and expected market share gains. The real mistake, however, was that even as management began to misstep, we chose not to act. That hesitation was likely influenced by the fact that Card Factory was, up until it dropped 27% in a single day following a trading update, one of the least volatile names in the portfolio. Unfortunately, we were lulled into inaction by a false sense of stability and a nice dividend.

Paysafe is down roughly 60% since we initiated the position in February of last year, and in hindsight we were slightly aggressive with the initial sizing given the high leverage in the name. Although a relatively small error, this is a lesson we have had to relearn. Overly leveraged positions are always difficult to size. It's important to size initially smaller than one would like and be prepared to add if there is a large selloff (provided the thesis is intact and $p(\text{default})$ has not increased), and be further prepared to add again. Investing is difficult, and when you choose to invest in leveraged names it becomes ten times more difficult. We still view Paysafe as a potential multi-bagger going into 2026, which explains its continued positioning in the portfolio.

More is Different

I am fortunate that my financial career has unfolded in an era where most so-called experts are wrong with striking regularity. As a result, I have approached investing with a curious combination of humility and irreverence (one that I believe is foundational to generating alpha). As we wrote in our last letter: "Nearly every economic forecaster has been wrong. Popular leading indicators such as yield curves, purchasing manager indices, consumer sentiment surveys, and the Sahm Rule have all failed to provide reliable guidance. Yield curves remained inverted for extended periods without recession, PMIs oscillated around contraction zones without direction, consumer sentiment decoupled from actual spending, and unemployment trends proved largely trendless."

Our conclusion is that today's economy is fundamentally different, and that frequentist approaches which derive heuristics from historical data and apply them mechanically in order to gain insight into the future are increasingly flawed. This reflects the idea that *more is different*, articulated by Philip Anderson, the Nobel Prize-winning physicist, who observed that:

"At each level of complexity, entirely new properties appear, and the laws governing them are not deducible from the lower levels...Psychology is not applied biology, nor is biology applied chemistry."

The Decade That Killed Mean Reversion

What is true at the macro level is also true at the micro level. Investment philosophies that lean on mean reversion are particularly susceptible to severe underperformance. Mean

reversion can be thought of as a form of reverse extrapolation: instead of assuming that current trends will continue, it assumes the opposite, that poor performance is likely to reverse simply because it has deviated far enough from the norm. Many value investors are in fact just mean reversionists. They look for a company that has lost its way or is unloved and have a simple justification for buying: the market is likely extrapolating bad news indefinitely, and when the company starts to turn, the market will realize the pessimism was an overreaction and the price will re-rate higher. For example, take Nike. The company has lost share to competitors and many value buyers of the stock are betting on Nike to gain that share back, often without concrete evidence that this will happen, relying instead on a generalized, faith-based belief in mean reversion. The assumed “temporariness” of problems is a central foundation to a wide range of investment philosophies.

Before further critiquing mean reversionists, it is important to state that this philosophy can absolutely work wonders in environments that are relatively stationary. When inflation is low and stable, consumer budgets are predictable, and technology evolves incrementally rather than abruptly, betting on mean reversion can pay off. If a business stumbles, there is often a decent chance it recovers once the cycle turns or management changes. In this type of environment, more often than not, temporary problems are in fact temporary.

This investing epoch, however, is anything but stationary. Many everyday expenses like healthcare and shelter have materially outpaced wage growth, leaving materially less discretionary capacity than in prior cycles. As a result, certain categories of spending have reset lower or are in the process of being squeezed out entirely (e.g. movie theaters, casual dining, alcohol etc). At the same time, AI represents a consequential technological shift that is reshaping both business and consumer behaviors, with enterprises reallocating spend toward automation and productivity tools, often at the expense of labor and traditional software, while consumers change how they search, shop, and consume entertainment. Even outside of technology, breakthroughs such as GLP-1 drugs are already altering consumer behavior in meaningful ways.

Central banks are also far more powerful than they were twenty years ago, and that power is increasingly called upon for deployment. There is a growing belief that few economic disruptions exist that policymakers cannot attempt to smooth or offset, a sharp contrast to prior eras when central banks operated with a far narrower toolkit. This matters for investors because it alters the adjustment process itself. When normal business-cycle fluctuations are routinely managed and crises are never allowed to force liquidation, price signals become

distorted, excesses persist longer, and the path back to historical norms is warped and far less predictable.

These forces create an environment where past behavior patterns are far less likely to reassert themselves. Here are a few hard-to-answer questions about the behavior of consumers and businesses moving forward:

1. Will businesses continue to allocate the same % of spend to software?
2. Will consumers return to casual dining restaurants, will alcohol consumption return?
3. Will homebuying return to levels in 2018 when/if rates fall?
4. Will consumers prioritize goods over experiences again, or the shift structural?
5. Will gym visits be structurally lower as a result of GLP1s?
6. Will businesses spend less on SEO and will commercial search intent move from SEO to LLMs?
7. Will businesses allocate more budget % to cyber security?
8. Will commercial travel go back to pre COVID levels?
9. Will U.S. convenience stores regain their former footing when/if inflation and shrink pressures stabilize?
10. Has white collar headcounts structurally slowed?

The Need for Investor Education to Evolve

This also implies that investor education itself has to evolve. Frameworks like Michael Porter's Five Forces train analysts to study competition within a fixed industry boundary, implicitly assuming that the industry is the correct unit of analysis. In an environment where industries themselves are being reshaped or rendered obsolete, that starting point is increasingly fragile. The more important work now happens one level earlier. In practice, this means we approach every company (and even some industries) with a degree of skepticism about its right to exist in its current form. We start by asking whether the problem it solves still matters, whether it is being solved in better ways elsewhere, and whether this company remains a necessary part of that solution set.

It becomes less about mechanical analysis and more about developing an evolving conceptualization around technology, behavior, and social change. Much like Ben Bernanke's admission that despite their quantitative tools, "2008 was a failure of imagination," investors

need to couple the quantitative with the creative when attempting to understand how the future may look different from the past.

Final Thoughts

As we laid out in our last letter, we believe the AI-driven capex cycle is likely to persist over the next 12–16 months, and that comparisons to the dot-com or telecom boom/bust are highly misplaced. Over the current period, we expect a large portion of our portfolio to remain focused on what we believe is one of the most attractive barbell opportunities we have seen in a long time: owning clear AI winners alongside companies that have been mislabeled as AI losers. Some SaaS companies will struggle in an AI-driven world, while others will survive and emerge much stronger. Four months ago we invested in Semrush as an example of a company we believed would be an AI winner despite the market aggressively selling the stock on AI fears. Shortly thereafter, the company was acquired by Adobe at a 78% premium to bolster its AI capabilities, validating that view. We are currently undergoing review of a large list of "AI losers."

Thank you for reading, and we wish you a successful investing year, in returns and in learnings.

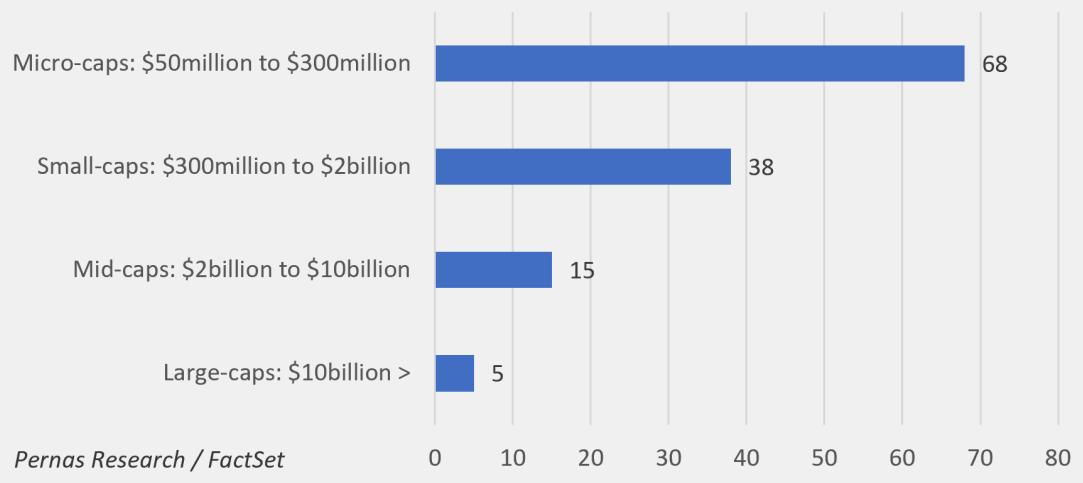
-Deiya Pernas, CFA

Appendix: Themes

- We are in a period of rapidly increasing dynamism. The future for most firms will not resemble their past.
- In this environment, smaller-cap companies that can pivot quickly offer outsized opportunity. Over the past two years, the number of multi-baggers among smaller-cap names has been roughly double the 20-year average. Their smaller revenue bases and organizational flexibility allow even modest industry shifts to translate into large demand inflections, enabling them to capitalize on emerging opportunities faster than larger peers.

Number of multibaggers on U.S. exchanges in 2025

of stocks that returned >200% was more than 2x the 20-yr avg



- The persistent underestimation of the economy's strength points to a deeper, underappreciated momentum that is likely to continue. Our belief in sustained AI capex momentum underpins this view (see our last quarterly letter for the full rationale).
- The peace dividend and security provided by Pax Americana are eroding. Global norms once upheld by U.S. leadership, through institutions such as NATO, the WTO, and the UN, are losing influence.
- The definition of defense is expanding. Robotics, AI, cybersecurity, and data infrastructure are now central components of national security.
- De-globalization shocks are becoming the norm rather than the exception.
- *Black swan risk has increasingly migrated away from the market's reaction to events toward the underlying events themselves.* Through quantitative easing, expanded mandates, and increased fiscal dominance, central banks have learned how to provide liquidity and contain deep market scares. While shocks still occur, the risk of cascading failures, such as banking crises or forced deleveraging (i.e. contagion), has been materially reduced.

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