VOSS CAPITAL

Voss Value Fund, LP

Investor Letter

Q3 2018

Dear Partners,

In Q3 2018 the Voss Value Fund, LP returned 9.13% to investors net of fees and expenses, compared to a 3.58% total return for the Russell 2000 and a 7.71% total return for the S&P 500. The Fund's total gross exposure stands at 120.6% and the beta-adjusted net long exposure is 45.5%. Our top 10 longs have a 64.3% weighting and our top 10 shorts have a gross weight of -12.8%.

**Voss Value Fund, LP**

| ESTIMATED NET MONTHLY PERFORMANCE \| 2018 | | | | |
|---|---|---|---|---|
| **PERIOD** | **VVF (Net)** | **VVF (Gross)** | **Russell 2000 TR** | **S&P 500 TR** |
| JANUARY | 0.61% | 0.85% | 2.61% | 5.73% |
| FEBRUARY | 1.49% | 1.94% | -3.87% | -3.69% |
| MARCH | 1.84% | 2.37% | 1.29% | -2.54% |
| 1st QUARTER | **3.99%** | **5.25%** | **-0.08%** | **-0.76%** |
| APRIL | 0.67% | 0.91% | 0.86% | 0.38% |
| MAY | 3.40% | 4.28% | 6.07% | 2.41% |
| JUNE | 5.90% | 7.32% | 0.72% | 0.62% |
| 2nd QUARTER | **10.22%** | **12.93%** | **7.75%** | **3.43%** |
| JULY | 3.48% | 4.31% | 1.74% | 3.72% |
| AUGUST | 6.45% | 7.84% | 4.31% | 3.26% |
| SEPTEMBER | -0.93% | -1.03% | -2.41% | 0.57% |
| 3rd QUARTER | **9.13%** | **11.33%** | **3.58%** | **7.71%** |
| OCTOBER | | | | |
| NOVEMBER | | | | |
| DECEMBER | | | | |
| 4th QUARTER | **0.00%** | **0.00%** | **0.00%** | **0.00%** |
| YEAR TO DATE | **25.09%** | **32.33%** | **11.51%** | **10.56%** |

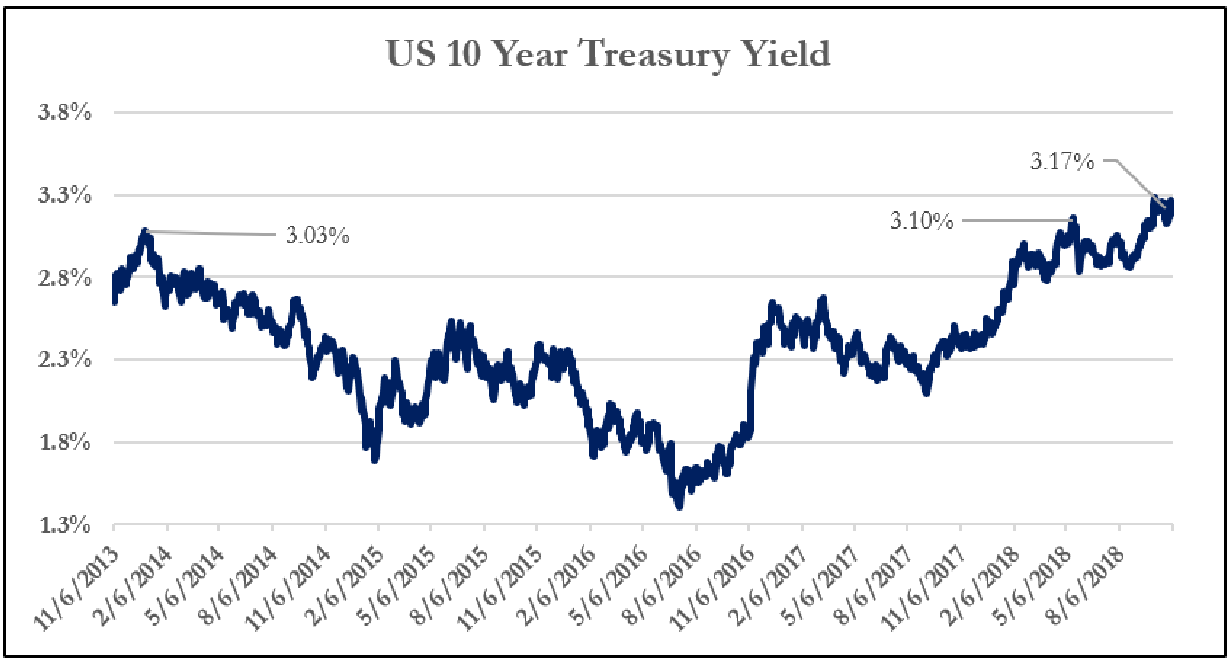
The table below shows the Voss Value Fund's Net Returns compared to some of the relevant indices:

| Net Return Comparison as of September 30th, 2018 | | | | | Compound Annual Growth Rate | | |
|---|---|---|---|---|---|---|---|
| | **1 Month** | **3 Month** | **YTD** | **1-Year** | **3-Year** | **5-Year** | **ITD** |
| **Voss Value Fund, LP** | **-0.9%** | **9.1%** | **25.1%** | **23.6%** | **19.7%** | **17.3%** | **18.9%** |
| S&P 500 | 0.6% | 7.7% | 10.6% | 17.9% | 17.3% | 13.9% | 16.9% |
| Russell 2000 | -2.4% | 3.6% | 11.5% | 15.2% | 17.1% | 11.1% | 16.4% |
| Russell 2000 Growth | -2.3% | 5.5% | 15.8% | 21.1% | 18.0% | 12.1% | 17.5% |
| Russell 2000 Value | -2.5% | 1.6% | 7.1% | 9.3% | 16.1% | 9.9% | 15.3% |
| HFRI Equity Hedge Index | -1.6% | -1.7% | -1.1% | 2.3% | 6.4% | 4.5% | 5.9% |

All performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Kelli Walter, Chief Operating Officer of Voss Capital, LLC, with any inquiries.

Economic growth and corporate earnings remain robust. The earnings growth rate on the S&P 500 for Q3 is 24.9% and is the third straight quarter of over 20% growth[5]. All 11 GICS sectors will report positive earnings growth, with 9 of the 11 having double digit growth. The forward P/E on the S&P 500 has fallen from 18.5x in January of this year to 15.6x on November 2nd. The line between "growth" and "value" is as blurred as ever as the Russell 1000 Value Index currently has faster forecasted earnings growth than the Russell 1000 Growth Index over the next twelve months[1], with 19% earnings growth forecasted for small caps overall in 2019. Financial sector debt is at a 20-year low, while non-financial debt is matching a previous cycle high. 90% of non-financial debt is fixed rate and only ~11% matures in the next two years. Interest coverage ratios in the high yield bond market are at a 25-year high. On the consumer side of the equation, debt service ratios are still hovering at 20-year lows. While we don't focus on macro forecast whatsoever, we are constructive on the economy and corporate health overall. The only worry may be that this is nearly as good as it gets.

There is a renewed panic over rising interest rates, although they aren't exactly sky-rocketing to induce this fear. In the first week of October, the US 10-year treasury yield hit 3.195%. Prior to this rise, the highest yield this year was 3.105% in May, so it took a full five months for yields to rise just nine basis points and rates are now just slightly above where they were in 2014. By historical comparison, in the 90s bull market bull market, interest rates ranged from 5% to 9%.




While October delivered a sharp correction in many technology stocks, many egregiously priced "growth" stocks have barely corrected, while growing yet "deep value" stocks have been crushed and many are down to extremely low absolute valuation levels. Lately there seems to be a burst of corporate actions that is turning up many opportunities and keeping us busy. Because of the ongoing valuation dispersion and general chaos under the surface of the market, the opportunity set for a value-oriented, long/short equity fund is seemingly the best it has been in many years, which hopefully bodes well for our future returns.

The alpha of the market is squeezed from arguments and viewpoints that don't seem obvious. To act with conviction on an individual stock we need either:

- an informational advantage over others, knowing something others don't
- an analytical edge—processing known information differently and more accurately, or

- a behavioral edge—acting when others won't. There is a distinction between knowing something other investors don't and doing something they won't, e.g. acting on the known information (or refraining from action). This is a behavioral edge.

An investor is best served focusing time and effort on situations that have some tension where a variant view from the crowd can be derived.. One can also try to find a situation that is so under the radar where there is no obvious consensus narrative, in this case, other investors simply discovering the situation themselves and the stock's liquidity improving over time can serve as the catalyst.

***New core long investment: Rimini Street***

One stock we believe we have a variant view on that is also flying way under the radar is Rimini Street (RMNI). RMNI is a bargain priced, secular growth company with 100% subscription revenue, high margins, and high free cash flow conversion. At our cost basis of $6.28, we bought shares at just 1.1x our 2020 end of year estimate of recurring revenue, 2.2x EV/2020 Gross Profit, and ~9.6x 2020 free cash flow.

RMNI is disrupting the traditional enterprise software support market by offering outsourced support for on-premise software at a 50% discount to the OEM software vendor's pricing along with superior customer service. They mostly support database and ERP platforms from Oracle and SAP, but they also now have a partnership to offer support services for Salesforce and Workday cloud-based products, Microsoft products, IBM database products, and others. RMNI's offerings currently cover >80% of the total database market. RMNI has carved out unrivaled market dominance within this market niche as they are approximately three times larger than the closest competitor, Spinnaker Support.

RMNI offers an undeniable value proposition for their customers with a dedicated primary support engineer assigned to each account with a guaranteed 15-minute response time. Their engineers are experts with an average of 15 years of product experience. They mostly consist of former Oracle or SAP engineers who helped design the products and wrote the original software code. Support cost for on-premise software is typically ~22% of the software license purchase price, which compares to RMNI's cost of ~11%. In addition to the base ~22% annual maintenance fee, the contracts typically contain an annual 2-4% cost increase tied to inflation rates. Over a ten-year ownership lifecycle, a $1 million on-premise license expense can have cumulative maintenance fees that exceed $2 million. RMNI's support offerings provide meaningful savings to their clients, not only from discounted maintenance fees, but also by 1) allowing the customer to avoid costly and unnecessary upgrades, 2) not having to pay for customization, and 3) freeing up IT staff to focus on other projects.

The idea of outsourced software support is still a nascent concept that Rimini is pioneering. On-premise software maintenance contracts usually include the rights to software upgrades, technical support services, and tax, legal and regulatory content updates. While the latter can be handled by a third party, software customers have been conditioned to pay for the upgrade rights and technical support as part of a bundled maintenance contract from the vendor. This has given vendors a monopoly on providing support to their ecosystem. This is precisely what we love about the software business model — the high margin, recurring maintenance component. However, Rimini is rocking the boat and disrupting this highly profitable cash flow stream for some large software vendors who book their maintenance revenues at 95%+ gross margin.

***RMNI's Growth Potential***

RMNI has a trailing 5-year sales CAGR of 37%, with a long runway for continued 20%+ sales growth. We estimate RMNI is still less than 2% penetrated within their potential addressable market of Oracle and SAP clients (using a Total Addressable Market of ~40k on-premise ERP SAP clients and >20k ORCL EBS and PeopleSoft clients that are users of software supported by RMNI). While still in the early innings, RMNI has already gained enough traction to hit critical mass ($250 mm in Annual Recurring Revenues) and demonstrate operating scale with solid positive cash flow. We have been impressed with how RMNI's co-founders have been able to bootstrap their way to a ~$250 million revenue company despite ongoing litigation and smear campaign by industry giant Oracle (details below). Several customers we spoke to have alluded to gaining comfort with Rimini once they see other large companies joining, giving credence to the idea of hitting critical mass and providing further momentum due to the social proof.

Many CIO's and CFO's across the globe are plotting how to move away from Oracle and RMNI will be a beneficiary of this palpable and near universal dislike of Oracle. 75% of ORCL database customers are on versions that are 6+ years old. Customers don't need to be on the latest and greatest version, as the cost and disruption of switching would likely exceed the value they derive from upgrading. A survey by Rimini Street found that 74% of Oracle Database licensees have database versions that are no longer fully supported by Oracle, yet they are still paying full annual maintenance fees. Furthermore, as Oracle and SAP shift their sales and R&D efforts to focus on the cloud, their legacy on-premise products receive less and less attention and investment dollars which makes the value of their bloated maintenance payments even less compelling and more likely to turn customers over to Rimini.

One obvious worry is the ongoing shift to cloud-based software and away from on-premise. While many of our other software investments are benefitting from this cloud adoption trend, RMNI focuses on the stickiest on-premise applications that are not shifting to the cloud as quickly. Applications that require significant amounts of customization are especially slow in their rate of cloud adoption. Gartner estimates that by the end of 2021, 86% of Database software spending will still be for on-premise and 81% of spending on Financial Management Systems will still be on-premise. Cloud adoption for RMNI's end markets is increasing at roughly 1.5% per year and cumulatively their total addressable market still adds up into the tens of billions of dollars.

After speaking with customers and former sales people, we believe recessionary economic conditions would actually help accelerate the adoption of RMNI's services. Normally in a recession a software firm's sales cycle may get elongated as large purchase decisions are put off. However, in the case of RMNI, the value proposition is very clear-cut as the cash savings come immediately--within 90 days of the implementation period or sooner (a 30-day written notice is typical to notify Oracle that a customer will no longer be using their support). For RMNI customers, the switch requires little upfront investment, has a short and smooth implementation process, and provides immediate cash savings. For a company paying Oracle $1 million a year in maintenance, switching to Rimini literally will save them $500k in cash that can be deployed immediately elsewhere or saved for the corporation.

Another area for growth is geographic expansion. RMNI has successfully executed a launch into Japan and will try to repeat their playbook in Korea. RMNI will land a contract with a large well-known company and then rapidly win new business on the back of this cornerstone customer.

***Oracle Litigation***

A major source of uncertainty around Rimini's future has been a prolonged legal courtroom battle with Oracle over the legality of the entire business model. Oracle's legal challenges of the legitimacy of outsourced third-party software support predates the creation of Rimini Street. Oracle once sued a company called TomorrowNow, which was also co-founded in 2002 by Rimini's current CEO and co-founder Seth Ravin. TomorrowNow was subsequently acquired by SAP. Oracle then continued its litigation with Mr. Ravin's new company (RMNI) starting in January 2010 (Oracle I, Case No. 2:10-cv-0106). In the lawsuit, Oracle claimed that Rimini Street committed copyright infringement among other business torts based on the process that Rimini used to provide support to Oracle's customers and the way in which Rimini accessed and preserved copies of Oracle's software source code. In February 2014, the district court granted partial summary judgement to Oracle, agreeing some of Rimini's business practices engaged in "innocent copyright infringement." As a result, Rimini changed the manner in which it accessed its customers' software and its service processes. In October 2014, Rimini initiated a new lawsuit against Oracle seeking a declaration that its new processes did not infringe on Oracle's copyrights. This second lawsuit ("Oracle II") has just finished the discovery phase and recently held hearings on discovery motions.

In October 2015, a jury returned a verdict and found in favor of Oracle on its remaining copyright claims and claims under the California Comprehensive Data Access and Fraud Act ("CDAFA") and Nevada Computer Crimes Law ("NCCL"). Based on the jury's determination they awarded damages in the sum of $50 million. With prejudgment interest and attorney's fees added, the total monetary judgment was $124.3 million. Additionally, the district court issued an extensive permanent injunction against Rimini.

In October 2016, RMNI filed two appeals—one challenging the court's judgment after the jury trial and one challenging the injunction. Rimini ask the Ninth Circuit to decide if the damages ($14.4 million of "lost profits", $46 million of attorneys' fees) were warranted and challenged the copyright judgment. In January 2018, the court affirmed in part and reversed in part, but the one important conclusion from the ruling was what Rimini is doing is within the confines of legal competition and thus the removed the existential risk:

> "Oracle licenses its proprietary enterprise software for a substantial one-time payment. Oracle also sells its licensees maintenance contracts for the software that are renewed on an annual basis. The maintenance work includes software updates, which Oracle makes available to purchasers of the contracts through its support website. ***At all relevant times, Rimini Street, Inc. provided third-party support for Oracle's enterprise software, in lawful competition with Oracle's direct maintenance services.***"

Rimini has continued to appeal the district court's decisions and filed a petition for a hearing with the Supreme Court over the damages.

This litigation has been a major expense for Rimini, costing them about $20 million annually, and it is likely to continue in the lead up to the hearings for their counter suit. We view this high annual legal bill as an expense necessary to build up a business of scale, in lieu of traditional R&D needed to build most large recurring revenue businesses. In the late 2019/2020 timeframe, this litigation cost will fall considerably in absolute dollar terms and will continue to fall as a percentage of revenue as Rimini compounds the top line at a high rate. We think the worst of this overhang has passed and there is ultimately no existential risk to Rimini, with the courts confirming that their business of providing third party software support is entirely legal (see our emphasis of the bolded quote in above court ruling). With Rimini now on the offensive with the second lawsuit, **it is possible the litigation goes from largest overhang to potential catalyst**.

Oracle has a long history of bold attack ad campaigns that smear the competition combined with aggressive litigation tactics. Rick Bennett, Oracle's former ad man describing Larry Ellison said, "Larry played a zero-sum game. You have to destroy your competition. It's quite Darwinian. The concept of firing a token shot is alien is Larry's mentality. If he's going to take a shot at you, he's going to go for the heart, or the head, or the dick." When competitors wrote letters complaining of Oracle's advertising campaigns that contained falsehoods about the competition Ellison once said, "Hey, I'm paying for a litigation department. Let 'em litigate!"[4] When you study Oracle's history and come to the realization that this has been their modus operandi since inception, it helps put into context the lawsuits between Oracle and Rimini Street. Oracle goes after everyone even if there is not a legitimate reason for litigation.

Paradoxically, Oracle's high-profile litigation with RMNI has potentially been a major factor in staving off competition for a few years and locking Rimini into a solid leadership position due to the lawsuit and exorbitant legal costs scaring some smaller players from even attempting to enter the market.

### ***Why the Opportunity Exists***

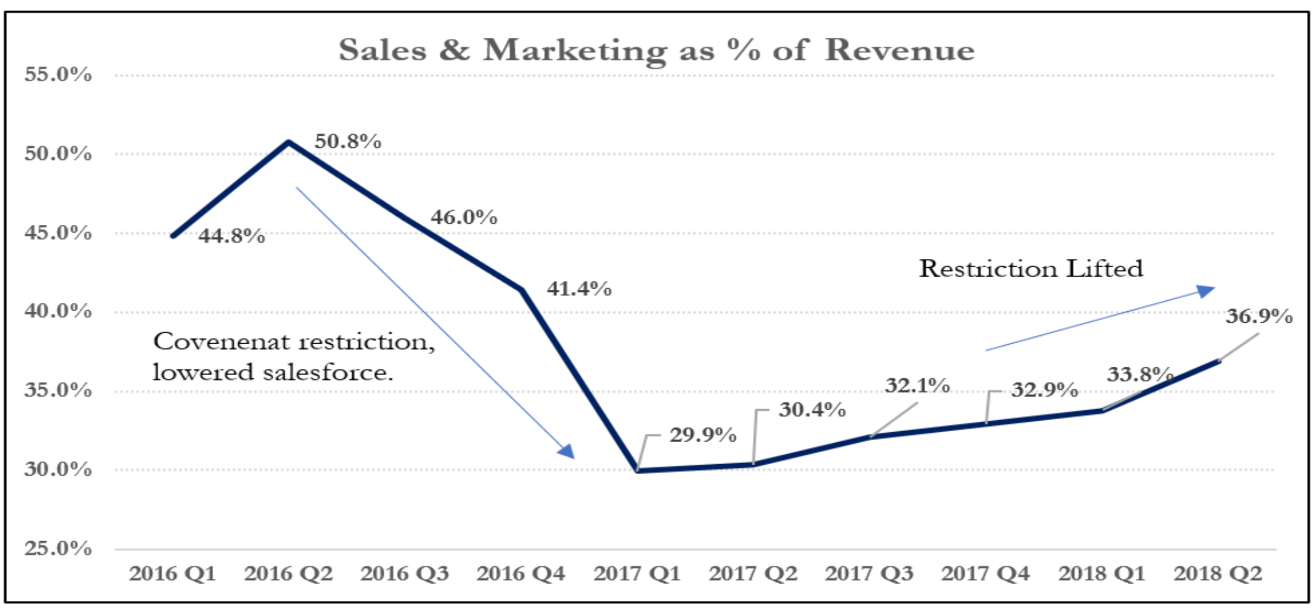
Like many other companies recently, RMNI came public through a Special Purpose Acquisition Company (SPAC). The sell side admits the long-term secular growth story and valuation are attractive, but they are waiting to get bullish due to uncertainty around near-term revenue and "remaining legal uncertainty." (Citi report, October 1st, 2018: Blazing the Trail Has Its Opportunities and Challenges) We believe this depressed sentiment and "wait and see" attitude adopted by investors has created the attractive buying opportunity for longer term oriented fundamental investors.

We believe some of the perceived negativity around the name have unappreciated positives associated with them that the market will come to recognize in time as billings growth reaccelerates and market awareness builds.

| Perceived Issue | Voss's Variant View |
|---|---|
| Lower Level Employee Lockup | Insider lock-up expiration has allowed some insider selling and technical suppression of the stock price, but in the long term is adding to the float of tradeable shares. |
| Legal Issues | The lengthy Oracle lawsuit has been a double-edged sword in that it distracts management and scares potential customers and puts uncertainty into the stock, but we believe it has also kept competition out of the market. Litigation could now be flipping from massive overhang to potential catalyst as RMNI's counter-suit against ORCL plays out. |
| Low Float/Liquidity | We believe this will be solved over time as the float slowly rises, more analysts pick up research coverage on the stock, and the company executes and continues its quick pace of growth. |
| Revenue Guide Down | The decline in salespeople due to debt covenant restrictions clearly has been hurting RMNI. We had predicted a revenue slow down but were surprised at how hard it hit the stock after the Q2 announcement. Our modeling suggests billing growth should trough in Q3 and begin accelerating for the next several quarters as more new salespeople get up to full productivity. |
| Move to Cloud | There is a gigantic on-premise market that will last for many years to come. Oracle and SAP are focusing on cloud and thus are neglecting their customer base who doesn't want upgrades or wants to save money. The cost/benefit analysis of paying Oracle/SAP full price for stable software is at an all-time low (50-60% of software spend goes to maintenance and support). |

***Potential for Accelerated Growth***

One thing holding RMNI back has been certain debt covenants. In the last few years, Rimini had to raise debt capital on onerous terms. As part of their debt arrangement, Rimini had covenants limiting the percentage of revenue they could



spend on sales and marketing. Due to this limiting factor, Rimini's number of sales reps declined in 2017. Now that the covenant has been lifted they are planning to aggressively ramp up sales rep hiring.

It will take time for the young sales force to become productive but we believe the stock will rebound to all-time highs after billings reaccelerate due to an increase in sales & marketing new hires that began in Q2 (the growth will lag the hires by ~3 quarters). They will add ~20 new sales reps over Q3 and Q4, and if they come close to hitting their sales quotas, annual revenue will increase by ~$50mm in 2018 over 2017, which is 25% growth. Below is a sensitivity table showing potential <u>incremental</u> bookings based on new sales reps and a $2,000,000 annual sales quota that the company imposes.

| Quota % | Productive Sales Reps: 50 | 60 | 70 | 80 | 90 | 100 |
|---|---|---|---|---|---|---|
| 60% | $ 60,000,000 | $ 72,000,000 | $ 84,000,000 | $ 96,000,000 | $ 108,000,000 | $ 120,000,000 |
| 70% | $ 70,000,000 | $ 84,000,000 | $ 98,000,000 | $ 112,000,000 | $ 126,000,000 | $ 140,000,000 |
| 80% | $ 80,000,000 | $ 96,000,000 | $ 112,000,000 | $ 128,000,000 | $ 144,000,000 | $ 160,000,000 |
| 90% | $ 90,000,000 | $ 108,000,000 | $ 126,000,000 | $ 144,000,000 | $ 162,000,000 | $ 180,000,000 |
| 100% | $ 100,000,000 | $ 120,000,000 | $ 140,000,000 | $ 160,000,000 | $ 180,000,000 | $ 200,000,000 |

Note that sales reps $2 million annual sales quota does not include contract renewals, thus the table highlights the potential for incremental sales growth. Their sales pipeline is robust and the number of new clients being added accelerated in Q2. We gain additional comfort from RMNI's demonstrated ability to generate substantial free cash flow when growth slowed down due to restrictive covenants.

### *Trading Comps*

The churn of RMNI's customers is fairly low, about 10% annually with revenue retention closer to 94%, thus the revenue stream is sticky and we think undervalued by the market as it should be valued more like a SaaS revenue stream. A RMNI customer will rarely leave the service once they are on board, but one of the main reasons they would leave is they are simply sunsetting the product that RMNI was supporting. Trading comps for both software and service companies are shown below.

| | | | | 2020 Sales | 2020 Multiples | | |
|---|---|---|---|---|---|---|---|
| | **EV** | **MC** | **Gross Margin** | **Growth** | **EV/Sales** | **EV/GP** | **EV/FCF** |
| EPAM | $ 7,235 | $ 7,407 | 35.8% | 21.3% | 2.7x | 7.5x | 24.6x |
| GLOB | $ 2,142 | $ 2,134 | 39.4% | 21.3% | 2.8x | 7.2x | 45.6x |
| VRTU | $ 1,892 | $ 1,688 | 30.2% | 8.9% | 1.2x | 4.1x | 22.5x |
| QTWO | $ 2,694 | $ 2,815 | 54.0% | 21.0% | 7.5x | 14.0x | 78.5x |
| APPF | $ 2,989 | $ 2,981 | 62.4% | 22.8% | 10.5x | 16.8x | 49.2x |
| APPN | $ 2,099 | $ 2,231 | 67.2% | 17.7% | 7.2x | 10.8x | -388.8x |
| FIVN | $ 2,694 | $ 2,781 | 64.0% | 17.4% | 8.0x | 12.4x | 71.5x |
| **Services Median** | **$ 2,142** | **$ 2,134** | **35.8%** | **21.3%** | **2.7x** | **7.2x** | **24.6x** |
| **Software Median** | **$ 2,694** | **$ 2,798** | **63.2%** | **19.4%** | **7.8x** | **13.2x** | **60.4x** |
| **RMNI** | **$ 543** | **$ 503** | **58.0%** | **23.7%** | **1.5x** | **2.6x** | **10.4x** |
| *RMNI Delta from Services Median* | | | 22.2% | 2.4% | -1.2x | -4.6x | -14.2x |
| *RMNI Delta from Software Median* | | | -5.2% | 4.3% | -6.2x | -10.6x | -50.0x |

Sell side analysts appear to be incorrectly lumping in RMNI with only IT service companies that have ~30% lower gross margins and less than half the growth rate of RMNI. The trading comps we use for RMNI are a mix of faster growing IT services companies and mid-tier growth software companies (17% - 23% growth) and 55% - 65% gross margins. Note that even though these services companies have >20% lower gross margins, slower sales growth, and lack a pure recurring subscription revenue model, they still trade at a meaningful premium to RMNI measured on all relevant valuation metrics.

RMNI shares would have to rise by ~90% just to trade in-line with these lower margin, slower growth service peers on an EV/forward sales basis. When the company gets past their insider lock-up expirations and the ORCL distraction diminishes over time, we believe investors will come to realize RMNI is a secular growth story at well below market comps.

***Summary***

After many channel checks and discussions with former employees and current customers, it is hard to find someone who has anything negative to say about the company (except for Oracle personnel, of course). Even people who left the firm have high praise for the culture of the firm and have deep respect for the company's executive officers, both as leaders who run a tight ship and as high character individuals. All signs point to growing interest in and adoption of third-party enterprise software support services. RMNI's niche is growing quickly and is still only in the early innings of a long secular growth trajectory. RMNI is setting up well for accelerating growth and expanding margins over the next few quarters and years. This combination is the "Voss Sauce" and Holy Grail of SaaS-like businesses which can lead to multiple expansion on top of brisk growth—a delicious brew that can drive long-term multi-bagger potential in the stock. Many of the Fund's largest historical winners had this same "Voss Sauce" set-up. If RMNI's sales CAGR over the next few years moderates to 25% from its historical 37% growth rate and the multiple of recurring revenue expands to just 3.0x (about in-line with the lower margin, slower growth service comps), the stock will triple in three years' time. While not part of our investment thesis in the immediate future, we think eventually a larger IT services firm would like to acquire RMNI.
According to population/demographics expert Dr. Paul Ehrlich in the 1980 edition "Book of Predictions," we should have long ago entered a dystopian landscape where survivors envy the dead. Also of note, not a single forecaster that year featured in the book thought the Cold War would be resolved without the detonation of nuclear weapons.

I want to share a short poem called ***Brief Reflection on Cats Growing in Trees***[3].

> *When moles still had their annual general meetings and when they still had better eyesight it befell that they expressed a wish to discover what was above.*
>
> *So they elected a commission to ascertain what was above. The commission dispatched a sharp-sighted fleet-footed mole. He, having left his native mother earth, caught sight of a tree with a bird on it.*
>
> *Thus a story was put forward that up above birds grew on trees. However, some moles thought that this was too simple. So they dispatched another mole to ascertain if birds did grow on trees.*
>
> *By then it was evening and on the tree some cats were mewing. Mewing cats, the second mole announced, grew on the tree. Thus an alternative theory emerged about cats.*
>
> *The two conflicting theories bothered an elderly neurotic member of the commission. And he climbed up to see for himself. By then it was night and all was pitch-black.*
>
> *Both schools are mistaken, the venerable mole declared. Birds and cats are optical illusions produced by the refraction of light. In fact, things above were the same as below, only the clay was less dense and the upper roots of the trees were whispering something, but only a little.*
>
> *And that was that.*
>
> *Ever since then moles have remained below ground: they do not set up commissions or presuppose the existence of cats.*
>
> *Or if so only a little.*

Much like the moles of the poem, market participants can look at the same set of circumstance and data and come to completely different or even opposite conclusions. Everyone's perception of reality is based on their own pre-conceived notions and biases. If you think about a more simple and modern issue of perception, "is the dress blue or gold?", you can "see" how people view the same things differently. Now imagine such perceptual discrepancies across millions of people who interact with the market, with widespread active misinformation campaigns by management teams and investors, unlimited global datasets to cherry pick and extrapolate from (or ignore), echo chambers developed on social media, etc. and it is not inconceivable that investors take diametrically opposed viewpoints on the same investment opportunities.

Given the sheer amount of noise we are bombarded with every day as is, we favor empirically driven micro arguments over macro abstractions, though some abstraction in the marketplace is necessary and unavoidable. The information that we currently have to make an investment decision is not *all* of the information that will ever be available, thus we must monitor relevant data points on an ongoing basis and actively seek disconfirming evidence. No stock market scenario is inconceivable. Some simply have higher probabilities than others based on history. It is possible our perception of present situations may seem ludicrous in retrospect. The best thesis or hypothesis is one in which we accept its potential to be completely wrong, thus we remain open to changing our minds--or if so, only a little.

To Continued Alpha,

Voss Team

**Citations:**

1: Morgan Stanley equity research October 22nd, 2018

2: https://www.riministreet.com/product-support-services

3: In *On the Contrary and Other Poems* by Miroslav Holub (Newcastle-on-Tyne: Bloodaxe Books, 1984 – translated from Czech by Ewald Osers

4: From the biography of Larry Ellison titled: *What's the Difference Between God & Larry Ellison? God Doesn't think he's Larry Ellison*

*5:* Earnings data from Factset, through November 2nd, 2018. 74% of the S&P 500 companies had reported as of November 2nd.

**Disclosures and Notices:**