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Michael Anderson
Chief Investment Officer

CASH IS KING

At Hi-Line Capital Management, our intrinsic-value philosophy and decision-making principles drive how we approach investing and provide guard rails for thinking during periods of extreme uncertainty and volatility. Our piece, *Foundational Decision-Making Principles*, details the seven pillars of our decision-making process and its critical function in long-term success and rationality.

ABOUT HI-LINE CAPITAL MANAGEMENT

Hi-Line Capital Management, LLC (“HLCM”), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission (“SEC”) in March 2010.

Occasionally markets are priced at more extreme levels due to excessive optimism or pessimism. Presently, the excitement surrounding the potential benefits related to Artificial Intelligence (AI) has elevated prices paid for many assets to high levels. Alternatively, as it relates to the bond markets, the potential pessimism towards sovereign debt stability, due to high deficits during an economic expansion, has lowered credit spreads to below “historical average”. Furthermore, the price of gold, which produces no cashflow at all, is at an all time high likely to the concerns involving inflation. And Bitcoin, the ultimate speculative vehicle of choice, also without cashflow, is another illustration of extremes in the markets. How to proceed?

There are two ways to make money in investing:

- 1) lend or acquire a business with cashflow
- 2) experience higher prices as paid by others

Cashflow is king. The intrinsic value of all investments is present value of all future cash flows, which doubles as the investment philosophy successful long-term investors adhere and act accordingly. The alternative is considered the “greater fool theory”, which is hoping to sell at a higher price to someone else. This applies to many speculative opportunities widely available presently like; buying the stock of a money losing AI company, gold, or bitcoin. The returns will be primarily from future price change. Proper investing is the pursuit of business and securities that generate cash and cashflow.



"It's called 'cash' - it's retro."

CartoonStock.com

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CASH IS KING (CONT’D)

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Opportunities Are Abundant.

In the bond market, many credit based securities are priced at spreads relative to Treasury yields that produce attractive income. A number of industries are considered “out of favor” but contain a strong credit profile, conservative financial structure, and cashflow generation ability to ensure credit risk is reduced and eliminated. Enterprise Products, a pipeline company, has a security available in the secondary market with duration of less than 2.0 while paying a variable coupon that presently yields 1.7% over a like treasury. And Enterprise is one of the financially strongest pipeline companies in North America. American Express, a financial services corporation, has a fixed to float preferred security with a duration of less than 1.0 while paying a coupon that presently yields 2.9% over a like treasury. And American Express is one of the biggest payment card networks globally.

In the equity market, many “older economy” based companies exist that are priced well below market averages relative to earnings. Amcor, a global leader in the packaging industry, generates 15% operating profits on tangible assets and priced at 11x net earnings vs 25x net earnings for S&P 500 index. Eagle Materials, a leading manufacturer of cement and gypsum wallboard, generates more than 20% operating profits on tangible assets and priced at 14x net earnings while expected to grow earnings faster than nominal GDP. Charter Communication, the largest broadband network in the world, generates more than 20% operating profits on tangible assets and priced at 7x earnings. Its wired network will always be superior in terms of quality, reliability and throughput relative wireless.

While the world may be providing mixed signals, the ability to find good priced opportunities remain. The speculative crowd may be comfortable buying “hope machines”, rational long-term investors will always sleep better pursuing investment strategies built on “cash machines.”