



**DEAR FELLOW PARTNERS & FRIENDS,**

Over the third quarter, we continued to watch the path of the economy unfold before us in the face of persistent warnings of a recession. Undoubtedly, enough time has passed for many to consider alternate scenarios such as a soft landing or even a false signal from previously reliable tools such as the yield curve and the index of Leading Economic Indicators, as illustrated on the following page. From where we stand, the jury is still out and there is not enough evidence to suggest that “this time is different.” The confusion may lie in the latency, rather than the reliability, of time-tested indicators in the wake of a highly unusual economic cycle.

As an example of this dichotomy, note two recent Wall Street Journal headlines that both appeared on August 31st: *Summer Spending Surge Shows Consumers Driving Economic Growth* and *Dollar Stores Flash Warning Signs on Consumer Spending*. These apparent twilight moments have recurred many times over the years and take me back to the debates between two of the most influential schools of economic thought of the 20th century.

In the early 1900s, Ludwig Von Mises gave voice to those who believed in the “laissez-faire” model of economic management. As it sounds, Mises believed that economic cycles were naturally occurring and should be left alone to develop without interventions from policymakers. His major contribution was to describe the relationship between artificially enhanced credit expansion and its consequences. He posited that interfering with the natural processes via excessive and induced credit expansion eventually led to inflation and/or malinvestment and that subsequent recessions would lead to larger interventions over time. One does not need to look far into the past to find real-world examples of this.

That said, members of democracies do not tend to have the patience to do nothing when faced with the other side of an economic expansion and thus emerged John Maynard Keynes. Keynes believed that it was the government’s role to manage the economic cycle. His thoughts on the matter were shaped by his experience during the Great Depression and conveniently emerged as the United States developed its “New Deal” social programs which required deficit spending to pay for the nascent social support. Ever since that moment, for nearly 100 years, the world has lived under the sway of Keynesian thought and developed even beyond it. However, towards the end of his life he began to consider that government intervention alone was not the answer. I find that interesting because Von Mises’ intellectual successor, Frederik Hayek, softened Mises’ tone and allowed for a limited government role during downturns.

With that in mind, ironically, it is possible that neither would be supportive of the extent of the interventions that have occurred over the past decade.

For our part, it is hard to say that one viewpoint is “better,” but we would offer that extreme versions of either could lead to unwelcome outcomes. This is essentially what both Hayek and Keynes eventually came to believe as well. Both sides have been right and wrong over the years. For example, Mises, Hayek’s mentor, was exactly right about the eventual collapse of the Soviet model, but it took 70 years to come true. And what would have been the result of his laissez-faire response to the Great Depression or the Global Financial Crisis? On the other hand, Keynesian orthodoxy underpinned a massive improvement in global living standards over the past century but also underpinned the stagflation of the 1970s while the full consequence of the most recent era is yet unknown. Unlike Steinbeck’s novel *Of Mice and Men*, coincidentally written amidst the Great Depression, it is never clear who is Lennie’s equivalent in economic terms. If one substitutes the economy for the ill-fated mouse from the novel, the views of both Mises and Keynes have repeatedly played the role of Lennie. What seems clear from history, then, is that the economy is exceedingly complex and as a result, our brightest minds have an imperfect understanding of it. Therefore, instead of any predictive power, the utility that we derive from this awareness of the past is in

---

*“What seems clear from history, then, is that the economy is exceedingly complex and as a result, our brightest minds have an imperfect understanding of it.”*

---

## IS A RECESSION STILL TO COME?



Source: Bloomberg and National Bureau of Economic Research  
The Leading Economic Index provides an early indication on significant turning points in the business cycle and where the economy is heading in the near term.

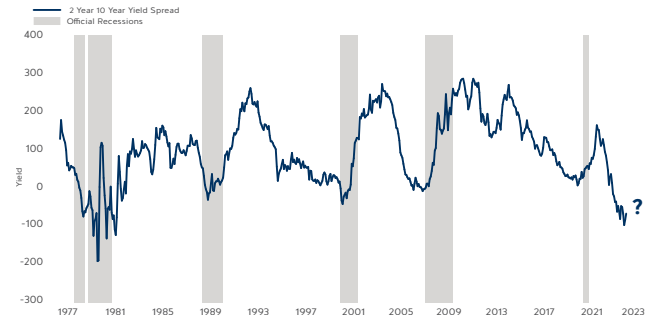
reinforcing the familiar and simple refrain that indeed the future is uncertain. For that reason, we seek a margin of safety for every investment.

## Franchise Evolution

With that backdrop, the team at Centerstone continues to look for interesting companies to purchase regardless of Wall Street's shifting macroeconomic outlook and the approaching election season. Our emphasis, as always, is to identify good businesses trading for prices below their intrinsic values and seek what we believe to be adequate margins of safety. The portfolios continue to evolve towards higher quality names and away from those that are more "cigar butt" in nature as we have previously discussed. We expect this evolution to continue for the foreseeable future.

A recent example of a franchise we purchased is FleetCor Technologies<sup>1</sup>. FleetCor provides digital payment solutions that allow businesses to control purchases by employees (expense management) and make payments to suppliers (corporate payments) more effectively and efficiently. Expense management solutions, primarily fuel, lodging, and tolls, account for most of the company's revenue. FleetCor's payment solutions are network-based systems that are difficult to replicate, provide significant advantages for customers and have significant long-term growth potential. FleetCor is a franchise business with a strong market

## IS THIS TIME DIFFERENT?



Source: Bloomberg and National Bureau of Economic Research  
The US 2 Year 10 Year Yield Spread is the yield of the 10 year minus the yield on the 2 year. It measures holding the 10 year and shorting the 2 year.

position, a solid balance sheet and a good management team. Management initiated a strategic review earlier this year to evaluate ways to improve the company's market value, including potentially spinning off or selling certain divisions. As we believe the company trades well below intrinsic value, we welcome management's efforts.

Another recent example of a franchise we purchased is Dollar General<sup>2</sup>. Dollar General is the largest discount retailer in the United States by number of stores, with nearly 20 thousand stores located in 47 states. The company employs a "scale economics shared" business model. It uses scale to procure merchandise cheaply and shares the benefit with customers through everyday low prices (EDLP). EDLP drives customer loyalty and repeat traffic, increasing Dollar General's scale, which it uses to cheaply procure even more quality merchandise. The company reinforces the scale economics shared model with an emphasis on rural locations and low

---

*"Therefore, instead of any predictive power, the utility that we derive from this awareness of the past is in reinforcing the familiar and simple refrain that indeed the future is uncertain. For that reason, we seek a margin of safety for every investment."*

---

<sup>1</sup> 2.09% position in the Centerstone Investors Fund as of June 30, 2023.

<sup>2</sup> 0.75% position in the Centerstone Investors Fund as of June 30, 2023.



operating costs. These features – scale, EDLP, focus on rural America and low operating costs – make Dollar General a formidable competitor in the small cities where it operates. The core consumers, low and fixed income households, have been disproportionately affected by inflation and rising interest rates over the 12–18 months, just as COVID–related government support for these households ended. This has led to flat same–store sales growth for Dollar General. However, the company has not slowed internal investments, as it operates the business for the long–term. Flat same–store sales and rising costs have translated into a sharp reduction in profit this year. We believe the profit headwinds are temporary – the investments being made should drive incremental traffic to stores and allow Dollar General to capture a larger share of the consumer’s spending over time. When same–store sales growth recovers, profit should recover as well.

Despite whatever the backdrop may be, we will continue to sift the world to uncover good businesses trading for prices below their intrinsic values and seek what we believe to be adequate margins of safety.

Thank you for your trust and interest in Centerstone.

Sincerely,

**Abhay Deshpande, CFA**  
**CHIEF INVESTMENT OFFICER**

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Centerstone Funds. This and other important information about the Funds are contained in the prospectus, which can be obtained by calling 877.314.9006. The prospectus should be read carefully before investing. For further information about the Centerstone Funds, please call 877.314.9006. The Centerstone Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. Centerstone Investors, LLC is not affiliated with Northern Lights Distributors, LLC.**

**Important Risk Information and Disclosure:**

The commentary represents the opinion of Centerstone Investors as of September 2023 and is subject to change based on market and other conditions. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics contained here have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

An investment in the Funds entails risk including possible loss of principal. There can be no assurance that the Funds will achieve their investment objective.

Past performance is no guarantee of future results.

The value of the Funds portfolio holdings may fluctuate in response to events specific to the companies or markets in which the Funds invest, as well as economic, political, or social events in the United States or abroad. The impact of the coronavirus (COVID-19), and other epidemics and pandemics that may arise in the future, could affect the economies of many nations, individual companies and the market in general in ways that cannot necessarily be foreseen at the present time.

Value investing involves buying stocks that are out of favor and/or undervalued in comparison to their peers or their prospects for growth. Our value strategy may not meet its investment objective and you could lose money by investing in the Centerstone Funds. Value investing involves the risk that such securities may not reach their expected market value, causing the Funds to underperform other equity funds that use different investing styles.

Investments in foreign securities could subject the Funds to greater risks including currency fluctuation, economic conditions, and different governmental and accounting standards. Foreign common stocks and currency strategies will subject the Funds to currency trading risks that include market risk, credit risk and country risk. There can be no assurance that the Funds' hedging strategy will reduce risk or that hedging transactions will be either available or cost effective. The Funds use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

Domestic economic growth and market conditions, interest rate levels, and political events are among the factors affecting the securities markets in which the Funds invest.

Large-cap company risk is the risk that established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. Securities in small and mid-cap companies may be more volatile and less liquid than the securities of companies with larger market capitalizations.