LPL Financial

Beyond the Numbers

Quality, Value, and Intelligent Investing at Latticework 2026

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Executive Summary

For the second year in a row, we had the opportunity to attend MOI Global's flagship U.S. event, Latticework 2026, hosted at the University Club of Chicago. As background, MOI Global is a membership community of fundamental investors with a bias toward quality and value, united by a passion for lifelong learning. This year's expanded two-day event featured 14 panelists in a fireside-chat format, as well as an idea-sharing session among attendees. In this month's edition of *Beyond the Numbers*, we highlight our key takeaways from the event, including key investment themes presented and a collection of timeless lessons in intelligent investing, and conclude with an analysis of a frequent topic of discussion throughout the event: artificial intelligence (AI) and its impact on fundamental investing.

Takeaways and Investment Themes of Interest

Two days of "fireside chat" format sessions with professional investors (covering various investment styles) and C-suite executives (from various industries) provided a broad spectrum of viewpoints, ideas, and investment philosophies to consider. We share a selection that we found compelling from an investor "sentiment check" perspective, for idea generation purposes, and as broad-based takeaways from time spent with active long-term, fundamental investors.

Turnover is Trending Higher, Even for Concentrated, High Conviction Strategies

One generalized takeaway that we walked away with was that we heard several (four or five) managers note that their turnover this year or in recent years has run higher than usual. One manager who is soon to be celebrating 30 years running his fund noted that turnover, while still running below 50% this year, is ~3x higher than in a typical year. We have felt this way too, and we believe, without any empirical evidence, that more and faster information is creating more dislocation, particularly at the individual stock level, which may create opportunities to act. This makes sense, given that we were at an event full of fundamental investors who broadly believe that A) Mr. Market is manic-depressive (perhaps more so today), and B) Mr. Market is there to serve and inform you, not to guide you. In other words, if the market prices for individual businesses are more volatile than in years past, while estimates of intrinsic value are not, the active fundamental investor is going to have more reasons to act. Perhaps it's the plumbing (i.e., market structure), or perhaps it's due to AI and information overload. Or, as one speaker believes, due to geopolitical volatility, we have institutionalized calamities and black swan events in this country. Speaking solely from a market observer's (and participant's) perspective, we can't disagree.

Sentiment Among Investors: Crowd Sourced Positioning Check

The first day of the event ended with an idea pitch session, "Elevator Pitches: Twenty Ideas in Sixty Minutes." Attendees volunteered an individual equity investment idea in two minutes or less, providing plenty to talk about over dinner and think about over the next few weeks. Without getting into the individual ideas themselves, here's where this group of investors is finding value in the equity markets. Attendees skewed North American (U.S. and Canada), and the pitches had a home, with roughly 80% of ideas being U.S. equity investments. The value tilt showed up in size and sectors, with pitches skewing small-/mid-cap, breaking down to roughly three quarters small,

and mid-cap and one quarter large-cap. As for sectors, roughly half of the pitches landed in real and hard asset driven sectors (i.e., industrials/materials/REITs), with the rest split roughly evenly between financials, info tech/comm. services, and consumer discretionary/staples.

Building Products and Housing-Related Business Remain Attractive

A recurring theme from the 2025 event was the relative attractiveness of both homebuilders and the industry's building products suppliers among some presenters. This space was well represented among the attendee pitches as well, within the industrials/materials sector. Starting at the macro level, the environment facing the industry remains challenged. The housing market in the U.S. is best described as "stuck" due to elevated mortgage rates and the reluctance of homeowners to give up existing fixed mortgage rates, many of which were refinanced and locked in when rates were lower before 2022. New housing starts, a key macro indicator for both homebuilding and building products demand, have been in a steady decline since early 2022. Both homebuilders and building products companies have experienced declines in sales and earnings, as lower cost absorption and discounting eat into margins on lower volumes. However, fitting with the many contrarian/value-focused speakers and attendees with long investment horizons, this is the time to look for quality businesses in any cyclical industry, ahead of the eventual turn of the cycle. Valuations remain compelling despite recent "broadening out/rotation" rallies in the market supporting stock prices of industry players.

There are also idiosyncratic trends that could provide additional tailwinds to the industry once demand recovers, chief among them being continued consolidation of a very fragmented marketplace. This was mostly discussed as a building products distributor dynamic, but consolidation is an ongoing trend with the homebuilders as well. Distributors sit between building products manufacturers who make the shingles, flashing, insulation, etc. and the end contractors who use said supplies to build a home. One primary benefit of consolidation among distributors, beyond pricing power with customers and bargaining power with manufacturers, is the increased value proposition to customers by way of reliable inventory and logistics; i.e., delivering in full what contractors ordered, when they expect to receive it. Seems simple enough, but the fragmented market currently does not execute well in this regard, due to a lack of scale and technology solutions inside small "mom-and-pop" distributors. This improved service is worth more to contractors than the cost of slightly higher prices and serves as a margin tailwind for the scaled consolidators in the market.

A Golden Age for Biotech

Another interesting theme discussed was biotech and life sciences/tools, within the health care sector. A session dedicated to the topic described the current environment as a "golden era of biotech," given constructive demographics, pipeline visibility, and a (recently) more accommodative regulatory regime at the FDA. The presentation was geared toward generalist investors and made the case not to ignore the space as "too hard" or "binary lottery tickets," as many generalists (your authors included) typically do. The primary reasons for this bullish view of biotech (and by extension, the life sciences tools and services space, which are effectively "picks and shovels" for the biotech industry), in our view, are threefold:

- **Evolution of biotech platforms**: Biotech "platforms" shift the model from one drug/one disease to a reusable discovery engine that can generate multiple clinical candidates from the same core biology, chemistry, delivery system, or computational workflow. The idea is "one platform, five drugs." If the engine works, each new program should benefit from shared learnings and a lower marginal R&D burden. The cleanest, most successful example is Vertex's CFTR platform (for cystic fibrosis), while others include Moderna's mRNA platform, and the CRISPR gene editing platform.
- **Underlying bid/investment from big pharma**: The well-known names in medicine, large-cap pharmaceutical businesses such as Eli Lilly, Johnson & Johnson, Merck, and Pfizer, are generating high levels of cash (and are expected to continue to do so next year) and are sitting on large cash balances, but collectively face a "patent cliff" for many of their blockbuster drug "cash cows." This environment will

necessitate replacing drugs in their pipelines, via acquisition, or co-investment with recently developed drugs/therapies.

- **Accommodative FDA**: Regulatory sentiment toward biotech has improved after the departures of FDA leaders viewed as more restrictive for drug development. Since then, investor surveys show a more supportive read on the FDA, and the agency has signaled greater flexibility around single-trial approvals and cell/gene therapy manufacturing requirements.

These three trends are the keys to the case that the next successful large-cap biotech (such as Regeneron or Vertex), with the potential to become a wide-moat, high-ROIC biotech development platform, may already exist in the public market and may be trading cheaply relative to intrinsic value.

A Contrast in Metals and Mining: Exploration versus Development-Focused Miners

The final investment theme that we found particularly insightful and worthy of sharing came via a session with two CEO's of small-cap mining companies, hosted by natural resources equity fund manager Will Thomson, of Massif Capital, LLC. The contrast we found interesting was not the resource each business is hoping to economically extract, nor the approach each takes to capital allocation. It was where each company is focused in the life cycle of a new mining play; one is focused on exploration, while the other is focused on the development and production of an already-proven mine. This lifecycle, and more specifically, the typical path of travel for share prices of junior miners, resides on what is known as the "Lassonde Curve," named after Pierre Lassonde, founder of Franco-Nevada Mining. The Lassonde Curve maps the typical share-price lifecycle from discovery (stock rallies on excitement), through development (investors get bored, shares languish; known as the "orphan period"), and eventually into production (stock can re-rate higher again as valuation shifts from optionality to NAV/cash flows).

Exploration-focused miners: Mining companies that are involved primarily in the speculative business of finding an economically viable amount of metal in a specific area of the Earth. The executive affectionately, if somewhat cheekily, referred to them as treasure hunters. At a high level, this business leans heavily on the scientific method: observing the Earth, asking the question (is there metal here?), formulating a hypothesis (there is metal here.), designing and executing the experiment (drilling this deep in that location), and analyzing and reporting the results. This work is largely led by a scientist, the head geologist, though the executive noted exploration is both an art and a science, and added that the best explorers typically differentiate themselves more via their art than their scientific chops. The core role of an exploration-focused CEO? Take care of your head geologist; i.e., make sure they have the money and resources they need.

Development-focused miners: On the other side of successful exploration is development. This is where engineers shine, and it was described as 100% science. The market typically loses interest during feasibility work, permitting, and planning. The underlying metal is there, but cash flow is not, which introduces risk. The keys to managing this risk revolve around people, project/change management, and procurement. Get any of these wrong, and you could end up with a cash-flow timing mismatch, which sends the business back to the capital markets for financing. Successful developers differentiate themselves via flawless execution, learned through repetition and failure. This phase, if successful, leads to first production, which is when the shares are seen as "de-risked" and typically re-rate higher on traditional asset valuations (NAVs, cash-flow models).

As investors, underwriting junior miners requires first knowing where the operation resides on the Lassonde Curve, and then conducting specific due diligence for the task. Some may find uncovering a true "artist" of an explorer outside their circle of competence and should accordingly put those opportunities in the "too hard" pile and move on. Others may lack the patience for development plays, or the skill to judge the strong operators those plays require. But first, the intelligent mining investor must understand whether they are evaluating an explorer or a developer.

Two additional learnings to share, which answer the "why should I care?" about miners in the first place. First, most investors have a tangible connection to oil and gas, from filling up their car with gasoline to turning up the furnace as fall turns to winter, but may lack the tangible connection to metals and mining. Here's the connection: *Of the*

roughly 80 stable (non-radioactive) elements in the periodic table, your smartphone contains 70 of them. Second, there are geopolitical tailwinds. China's grip on rare earths and critical minerals, which are key inputs for the defense industry as well as electronic equipment such as semiconductors, has become increasingly uncomfortable for the U.S. As such, there is plenty of regulatory support and demand for these resources from the federal government. How these ambitions evolve as administrations change remains to be seen, but many of the efforts to curtail outside reliance began during prior administrations.

Revisiting Economic Moats and Competitive Advantages

One of the featured keynote speakers was Pat Dorsey, head of Dorsey Asset Management, and former head of Morningstar's equity research franchise. At Morningstar, he helped develop the economic moat ratings and framework for analyzing competitive advantages; therefore, his perspective on analyzing economic moats is worthwhile. We won't go through everything he covered, but his response to one question gave us plenty to think about: where has your thinking on economic moat analysis changed over the last 20-plus years, or what would you do differently if you were writing the rulebook today?

- **He'd delete the section on company management not providing any sort of moat/competitive advantage.** Chalk it up to greater access to hearing CEOs speak today, whether on podcasts, YouTube, broader access and availability of earnings calls; through experience, he's found that managers, particularly leaders (CEOs), do make a difference. He suggests seeking out humility in a leader; don't focus so much on trying to find the geniuses (better to try to avoid the idiots).
- **"Capital-light" business models that proliferated in the 2010s makes his initial moat analysis' reliance on ROIC less meaningful.** Software-as-a-Service businesses, powered by cloud computing, drove margins on each incremental software subscription so high that even a bad, low-moat software business would exhibit very high ROIC.
- **Network effects are not as durable a moat as originally thought.** Just because you have a network effect, with both supply (sellers) and demand (buyers) present, does not alone guarantee a durable moat, as the network must remain difficult to bypass (can the access point shift?), and the value delivered to both sides must grow or remain stable.
- **Consumer brands don't have as durable a moat as they used to.** He notes that due to social media, hyper-targeted, niche product markets, and online influencers driving decision-making, brands are much more ephemeral. Companies used to need scale to do a large, national ad campaign given the expense; now any startup can target their exact market much more cheaply; barriers to entry and barriers to distribution are now much lower, thus consumer brand moats have become much less durable.
- **Investors must pay closer attention to moats, while management must provide more care and feeding to their moats.** This point speaks largely to, in our view, an increasingly competitive market for both ideas (investors) and products/services (corporate management teams).

The Augmented Investor: Maintaining an Edge with Artificial Intelligence

Lucas Miller, cognitive scientist, author, and faculty professor at UC Berkeley, spoke on the topic of how AI shifts the way long-term, fundamental investors do their jobs. His work can be found at lucasmiller.org, which we found to be a great resource after we heard him speak. Active, fundamental investing is a job that is relatively more based on critical thinking with less well-defined outcomes than many other white-collar knowledge-work professions like accountants and lawyers, and requires a different approach to analyzing how generative AI will impact the profession. He discussed how, for iterative tasks where the goals are clear and success or failure is quickly verifiable, adding more compute to brute-force improvement has been a more successful strategy than relying on expert training. This discovery does not apply to long-term investing, and complementarity (AI + Human being greater than either alone, à la LPL Research's *Mind and Machine* approach) is expected to last.

That said, the source of human edge has shifted. It is not obvious that whoever does the work others do not will win, because simply digesting more information does not guarantee better results. If investing were simply a volume-of-information game, the human edge over AI would have already vanished.

The practical takeaways for today's long-term investors are as follows:

- **Idea Generation:** Use AI to help improve the focus of your attention. If a large language model (LLM) is trained on what you look for and what you ignore when scouring the universe of opportunities, it can help investors to more quickly narrow data down to what is most relevant.
- **Idea Vetting:** A person can only be sure of work they have done themselves. To expedite the process of checking any AI output thoroughly, point the tools you use only to sources you trust and ensure they ignore the rest. Think for yourself, then compare that against what the bot has to say. Finally, leverage follow-up prompting to "fight" with your AI. View the tool as a sparring partner, not a chauffeur.
- **Decisions:** Everyone tends to underestimate how often they "borrow" conviction. This is no different when using AI, but it is important to remember that these tools cannot bear consequences and have known limitations. AI tools are particularly good at helping you discard bad ideas, but be wary of sycophantic, AI-enabled bullishness in areas outside your circle of competence.

A final takeaway from the session is that AI has made it harder to find a competitive edge as a specialist. The scales have tipped in favor of generalist investors who can now scour a broader landscape for worthwhile investments. As for the remaining presenters, primarily professional investors, they shared mixed views on AI, with some acknowledging that it is more useful than others did. We can't help but think this is likely due to perceived threats to our own self-images and careers, as value-added contributors to the industry.

Timeless Lessons in Intelligent Investing

In addition to being introduced to specific ideas and themes, or diving into overlooked areas of the market, the Latticework event also provided us with the opportunity to hear and learn from successful fundamental investors with long track records. In the spirit of sharing, and in lieu of a formal conclusion, we leave readers with selected lessons and soundbites we picked up across two days of learning, networking, and commiserating with peers who hold the same passion for fundamental investing as we do. Thanks for reading, and have a wonderful Thanksgiving Holiday.

Contrarians at the Gate

- The perception that a so-called "zombie company" is in fact a zombie company, i.e., a low- to no-growth business that no longer has any competitive advantage and survives on surplus built up in a prior cycle/regime, is often wrong, which provides an opportunity if you have done the work and understand the underlying business.
- There are no investment geniuses, only cycles. Long cycles of poor capital allocation eventually reverse.
- Always think about how you can be different; data and information are no substitute for human thinking. Truisms aren't always true.
- Go where Wall Street/the investment community says it is "uninvestable."
- How to navigate a melt-up in everything you don't own:
    - Keep those you trust most close, and those you trust least closer.
    - Avoid the three C's: crowds, concentration, and complacency.

Long-Term Quality and Capital Allocation

- Sometimes being a shareholder in an attractive, high-quality business means accepting higher valuations.
- Businesses with a wide moat that are earning attractive returns on capital, but lack attractive reinvestment opportunities, should return capital to investors, preferably via share repurchases.

- The perfect holding period is not “forever”; the perfect holding period is however long your thesis on the stock holds and the opportunity cost of holding it is low.

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All index data from Bloomberg.

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