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October 22, 2023

Subject: Cedar Creek Partners 2023 Third Quarter Results

Dear Partners and Friends:

The major indices we track all were negative in the third quarter. The market continued to be led by a small handful of tech companies propelling the NASDAQ to year-to-date returns in excess of 26% and the S&P 500 to 13.0%. The Russell 2000 was up only 2.5% and the Russell MicroCap index was down 5.8% year-to-date. Cedar Creek increased by 12.5% in the third quarter, and was up 16.7% for the first nine months of 2023, net of fees and expenses.<sup>1</sup>

While Cedar Creek Partners focuses primarily on microcap stocks, and over-the-counter stocks in particular, we compare our returns against larger indices as well since we believe we need to outperform the most prominent passive benchmarks over time in order to justify our existence.

Cedar Creek's average annual return over our 17 ¾-year history is 14.5%, net of fees and expenses, which compares favorably to all the indices we compare against. Cumulative returns since inception for Cedar Creek were 1,006.6%, net of fees and expenses.

	Q3 '23	YTD '23	Inception	Ave. Annual
<b>Cedar Creek</b>	<b>12.5%</b>	<b>16.7%</b>	<b>1,006.6%</b>	<b>14.5%</b>
NASDAQ	-4.1%	26.3%	470.5%	10.3%
S&P 500 (SPY)	-3.2%	13.0%	368.0%	9.1%
DJIA (DIA)	-2.0%	2.7%	358.7%	9.0%
Russell 2000	-5.1%	2.5%	220.3%	3.8%
Russell Microcap	-7.9%	-5.8%	140.9%	5.1%

\* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

\$100,000 invested in the fund at inception in January 2006 would have grown to \$1,106,601 as of September 30, 2023, net of fees and expenses, whereas \$100,000 invested in the indices we compare against would have only grown to between \$240,885 in the Russell Micro Cap and \$570,526 in the NASDAQ.

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<sup>1</sup> While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

## Fund Holdings are at Incredibly Attractive Prices

**On the whole, as of the end of September 2023, the fund's holdings were trading at 6.2 times our estimate of earnings for the coming year, and 5.1 times expected earnings net of cash at the respective businesses.**<sup>2</sup> Trailing earnings multiple was 9.4 times assuming no earnings for **Pacific Coast Oil Trust** (ROYTL), and under 8 times assuming the ARO assessment is improper and ROYTL should have earned roughly \$0.20 per unit in the last twelve months. Weighted price to book was 1.7. Dividend yield was 1.8%. Weighted expected return on equity as of September 30, 2023, was 27%.

## Cash Levels and Fund Repositioning

We started the quarter with cash levels at 8% and ended the quarter at 5%. We continued to increase our holdings in **PD-Rx Pharmaceuticals** (PDRX) and a couple of other smaller names that we are building positions in. PD-Rx is on the expert market and trades at three times trailing earnings, and just over one times earnings net of cash.

## Expert Market Exposure

Our exposure to stocks trading in the expert market increased modestly in the quarter, due to an increase in the market price of **Propel Media** (PROM) which we profiled in our [Q2 letter](#). Expert market stocks are companies impacted by SEC Rule 15c2-11. For those unfamiliar, the rule prevents brokers from not only displaying quotes for non-reporting companies but also restricts transactions to selling only. Institutional accounts, depending on the broker, are not subject to the buying restriction. We started the quarter with 37% exposure to the expert market and ended at 39% of the fund.

Three positions make up about 75% of the expert market exposure – **Propel Media** (PROM) is about 17.5% of the fund, due to it rising in price from \$0.23 to \$1.10 per share in the quarter, **PD-Rx Pharmaceuticals** (PDRX) is about 9% of the fund, and **Pacific Coast Oil Trust** (ROYTL) is roughly 4.5% of the fund. We discussed PD-Rx Pharmaceuticals briefly in our Q1 2021 letter and Pacific Coast Oil Trust in our Q2 2022 letter. We also provided more detail on both in our 2022 yearend letter ([link](#)).

## Update on a Few of Our Top Holdings

**Propel Media** (PROM) – as we noted above was profiled in our Q2 letter and trades on the expert market. It rose in price from \$0.23 per share to \$1.10 per share during the quarter. The acquisition of Propel by **IQVIA** (IQV) is being held up at the FTC. Hearings are scheduled for December. We were pleasantly surprised in the quarter that Propel declared a dividend of \$0.01376 per share. The dividend was nearly 6% of our purchase price, which was nice. What was more important was that it provided confirmation of profitability for Propel and that it was likely earning cash in excess of any working capital targets that were set at the time of the agreement to sell to IQVIA. Current market cap is approximately \$275 million. The potential acquisition of Propel by IQVIA is believed to be between \$700 and \$800 million.

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<sup>2</sup> Ratio excludes cash held by the fund. We add back non-economic amortization in our earnings estimate. We used a projection of \$0.15 in earnings per unit for Pacific Coast Oil Trust. If courts rule against claims of unitholders and actual earnings are zero, then the fund's holdings are trading at 6.9 times our estimates of earnings for the coming year, and 5.6 times net of cash at the respective businesses.

**PharmChem** (PCHM) became the largest position in the fund due to a contribution in kind to the fund by Tice Brown the former Chairman of the Board of PharmChem. The transaction was announced August 31, 2023. As part of the transaction, Mr. Brown resigned from the Board and I took his place as Chairman. The fund previously owned about 3% of PharmChem. After the transaction, the fund is the largest shareholder, owning 31% of the company. PharmChem makes sweat patches used to detect drugs of abuse. It is an alternative to urine testing.

**Pacific Coast Oil Trust (ROYTL)** units decreased from \$0.47 to \$0.455 per unit in the quarter. The special meeting was held on July 12. 96% of unitholders voting supported removal of Bank of New York Mellon as trustee. 93% of those who voted supported allocating the costs to the Trust instead of having them borne by the group who called the Special Meeting; however, it needed 75% of all units outstanding to be in favor and it only achieved 59% due to the 66% turnout. We were very pleased with the result. It was an important first step and we look forward to unitholders being better represented and ultimately being treated fairly, which we do not think is currently happening.

An arbitration decision was announced recently which provided mixed results – PCEC was allowed to assess legal fees to the Trust up through liquidation but not against proceeds from a sale, while Bank of New York Mellon was allowed to insist on waiting for completion of the Trust's audits for the last four years before putting the net profit interest up for sale. We don't see how the audits will magically be completed in the coming months if they haven't been able to complete them up until now. BNY Mellon has not communicated what is causing the delay. The recent increase in oil prices was also a positive event. It allows for faster repayment of the ARO that has been assessed by PCEC. In a worst case situation of dissolution it should result in a higher valuation for the net profits interest.

**Solitron Devices** (SODI) - the bid price for shares decreased by 7% in the third quarter of 2023 from \$10.70 per share to \$10.00 per share. As a reminder, I am CEO and CFO of Solitron. During the quarter, Solitron closed its acquisition of Micro Engineering Inc. (MEI). MEI produces electronic components primarily for the medical industry. 2022 revenue was approximately \$5.9 million with operating income of \$1.3 million, as compared to 2021 revenue of \$5.5 million and operating income of \$1.2 million. Subsequent to quarter end, we filed a Form 4 noting the fund purchased an additional 35,000 shares for \$10.70 per share in a private transaction. The share price increased to as high as \$12 per share after the filing of the fund's purchase.

**Citizens Bancshares** (CZBS) - is an Atlanta, Georgia based bank that received \$95.7 million of additional capital via the US Treasury's Emergency Capital Investment Program (ECIP) at the end of June 2022. Citizens does not report quarterly earnings, but the bank does file quarterly Call Reports which are available on otcmarkets.com. Earnings for the first quarter of 2023 were roughly \$1.70 per share. Second quarter earnings increased to roughly \$1.85 per share. We believe the current annualized earnings run rate is approximately \$7 per share, which is quite low in relation to its \$34 share price.

We think the market is incorrect in giving almost no value to the massive amount of low rate perpetual preferred stock issued to the government.<sup>3</sup> At \$34 the stock is below book value and less than five times earnings. **BankFirst** (BFCC) purchased a bank that had ECIP preferred stock and in the transaction valued it at 21 cents on the dollar. If we value Citizens

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<sup>3</sup> The maximum rate on the preferred is 2%. If the bank an increase lending the rate can decline to between 0.5% and 2.0%.

preferred at 25 cents on the dollar, it would increase book value by \$72 million, or more than 100%. Higher interest rates make the preferred worth even less than what BankFirst valued the preferred in its acquisition. We think the stock is worth more than twice the current price.

### **Room for New Members and/or Additional Funds**

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of \$100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of \$10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. You can find more letters at [eriksencapitalmgmt.com/investor-letters](http://eriksencapitalmgmt.com/investor-letters). Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,



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## **DISCLAIMERS**

### **Fund Performance**

*The financial performance figures for 2023 presented in this report are un-audited estimates based on the best information available at the time of the letter and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.*

*Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.*

### **Index Returns**

*The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.*

*Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.*

*Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.*

*DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.*

*While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.*

*Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.*

### **Share Prices**

*Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com, except for unlisted stocks classified as expert market, which do not have public availability of quotes, and are marked to last sale.*

### **Forward Looking Statements**

*This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.*