

CENTRAL SECURITIES CORP
Form N-CSR
February 12, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act File Number 811-179

Name of registrant as specified in charter: Central Securities Corporation

Address of principal executive offices:

630 Fifth Avenue

Suite 820

New York, New York 10111

Name and address of agent for service:

Central Securities Corporation, Wilmot H. Kidd, Chief Executive Officer

630 Fifth Avenue

Suite 820

New York, New York 10111

Registrant's telephone number, including area code: 212-698-2020

Date of fiscal year end: December 31, 2018

Date of reporting period: December 31, 2018

Item 1. Reports to Stockholders.

CENTRAL SECURITIES CORPORATION

NINETIETH ANNUAL REPORT

2018

SIGNS OF THE TIMES

“One bright morning earlier this year your correspondent travelled from New York to the University of Chicago to attend a conference on the threat to prosperity posed by monopolies. The journey began with an alarm beeping on a handset made by Apple (which has a 62% market share in America), then a bumpy taxi ride to the airport paid for using a piece of plastic issued by one of the three firms, American Express, MasterCard and Visa, that control 95% of the credit-card market. In the terminal, breakfast was scooped from a supersized fast-food chain, where emails were checked using Google, which has 60% of the browser market.

“The mobile signal was transmitted on one of the three networks that control 78% of the telecoms market. The flight was with one of the four airlines that control 69% of the journeys within America. In Chicago your correspondent checked into the LondonHouse hotel, which looks like a boutique but turns out to be part of Hilton, which controls 12% of all rooms in America, and 25% of the new rooms being built. The booking was made on Expedia, which has 27% of the North American online travel market.

“The firms involved in the journey made profits of \$151bn and had a median return on capital of 29% last year. An equally weighted basket of their shares — call it the monopoly money portfolio — beat global stockmarkets by 484% over the past decade. Collectively, 17% of the companies’ shares are owned by just three investment mega-managers, BlackRock, Vanguard and State Street.” (*The Economist*, November 17, 2018)

“For a few sweet months of 2018, all of Silicon Valley was wrapped up in frenzied easy money and a fantasy of remaking the world order with cryptocurrencies and a related technology called the blockchain. A flood of joy hit the Bay Area. The New York Times ran with the trend in an article with the headline ‘Everyone is Getting Hilariously Rich and You’re Not.’ It was temporarily true.

“And just as the American public had been given every possible blockchain explainer that could be written, the whole thing collapsed. The bubble popped.

“Today the price of Bitcoin — \$19,783 last December — is \$3,810. Litecoin was \$366 a coin; it’s now \$30. Ethereum was \$1,400 in January; today it’s \$130.” (Nellie Bowles, *The New York Times*, December 28, 2018)

“Small and midsize companies are fading from stock markets, leaving far fewer publicly traded companies. Many of the smaller companies are bought by larger organizations or are enticed to stay private by the sharp rise in venture capital money, both of which allow them to avoid the volatility and scrutiny that come with going public. The number of listed companies peaked in the late-1990s, before the dot-com bust, plummeting 52 percent by 2016.” (Erin Griffith and Matt Phillips, *The New York Times*, November 27, 2018)

“The World Economic Forum estimates that 90 percent of the world’s plastic waste ends up in the ocean, and that currently there are 50 million tons of plastic in the world’s oceans that could take centuries to degrade. This year the forum warned that there would be more plastic than fish in weight in oceans by 2050.” (Ceylan Yeginsu, *The New York Times*, October 25, 2018)

CENTRAL SECURITIES CORPORATION

(Organized on October 1, 1929 as an investment company, registered as such with the Securities and Exchange Commission under the provisions of the Investment Company Act of 1940)

25-YEAR HISTORICAL DATA

Year Ended December 31,	Total net assets	Per Share of Common Stock			Total dividends and distributions	Unrealized appreciation of investments at end of year
		Net asset value	Source of dividends and distributions			
			Ordinary income*	Long-term capital gains*		
1993	\$218,868,360	\$17.90				\$111,304,454
1994	226,639,144	17.60	\$.22	\$1.39	\$1.61	109,278,788
1995	292,547,559	21.74	.33	1.60	1.93	162,016,798
1996	356,685,785	25.64	.28	1.37	1.65	214,721,981
1997	434,423,053	29.97	.34	2.08	2.42	273,760,444
1998	476,463,575	31.43	.29	1.65	1.94	301,750,135
1999	590,655,679	35.05	.26	2.34	2.60	394,282,360
2000	596,289,086	32.94	.32	4.03	4.35	363,263,634
2001	539,839,060	28.54	.22	1.58	** 1.80	** 304,887,640
2002	361,942,568	18.72	.14	1.11	1.25	119,501,484
2003	478,959,218	24.32	.11	1.29	1.40	229,388,141
2004	529,468,675	26.44	.11	1.21	1.32	271,710,179
2005	573,979,905	27.65	.28	1.72	2.00	302,381,671
2006	617,167,026	30.05	.58	1.64	2.22	351,924,627
2007	644,822,724	30.15	.52	1.88	2.40	356,551,394
2008	397,353,061	17.79	.36	2.10	2.46	94,752,477
2009	504,029,743	22.32	.33	.32	.65	197,256,447
2010	593,524,167	26.06	.46	.44	.90	281,081,168
2011	574,187,941	24.96	.43	.57	1.00	255,654,966
2012	569,465,087	24.53	.51	.43	.94	247,684,116
2013	648,261,868	26.78	.12	3.58	3.70	305,978,151
2014	649,760,644	26.18	.16	1.59	1.75	293,810,819
2015	582,870,527	23.53	.12	1.86	1.98	229,473,007
2016	674,683,352	27.12	.30	.68	.98	318,524,775
2017	826,331,789	32.86	.28	.72	1.00	460,088,116
2018	765,342,588	30.02	.56	.89	1.45	392,947,674
Dividends and distributions for the 25-year period:			\$7.63	\$38.07	\$45.70	

* Computed on the basis of the Corporation's status as a "regulated investment company" for Federal income tax purposes. Dividends from ordinary income include short-term capital gains.

** Includes non-taxable return of capital of \$.55.

The Common Stock is listed on the NYSE American under the symbol CET. On December 31, 2018, the closing market price was \$24.83 per share.

[3]

25-YEAR INVESTMENT RESULTS

ASSUMING AN INITIAL INVESTMENT OF \$10,000

(unaudited)

<u>Average Annual Total Return</u>	Central's NAV Return	Central's Market Return	S&P 500 Index
1 Year	-3.88%	-4.51%	-4.39%
5 Year	8.64%	9.24%	8.47%
10 Year	12.22%	12.66%	13.10%
15 Year	8.97%	8.88%	7.76%
20 Year	8.05%	8.21%	5.61%
25 Year	10.60%	10.34%	9.06%
Value of \$10,000 invested for a 25-year period	\$124,251	\$116,997	\$87,431

The Corporation's total returns reflect changes in market price or net asset value, as applicable, and assume reinvestment of all distributions. Distributions that are payable only in cash are assumed to be reinvested on the payable date of the distribution at the market price or net asset value, as applicable. Distributions that may be taken in shares are assumed to be reinvested at the price designated by the Corporation. Total returns do not reflect any transaction costs on investments or the deduction of taxes that investors may pay on distributions or the sale of shares.

The Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index") is an unmanaged benchmark of large U.S. corporations that assumes reinvestment of all distributions, and excludes the effect of fees, expenses, taxes, and sales charges.

Performance data represents past performance and does not guarantee future investment results.

[4]

To the Stockholders of

CENTRAL SECURITIES CORPORATION:

Financial statements for the year 2018, as reported upon by our independent registered public accounting firm, and other pertinent information are submitted herewith.

Comparative net assets are as follows:

	December 31, <u>2018</u>	December 31, <u>2017</u>
Net assets	\$ 765,342,588	\$ 826,331,789
Net assets per share of Common Stock	30.02	32.86
Shares of Common Stock outstanding	25,496,847	25,143,616

Comparative operating results are as follows:

	<u>Year 2018</u>	<u>Year 2017</u>
Net investment income	\$ 13,684,841	\$ 6,911,428
Per share of Common Stock	.54 *	.28 *
Net realized gain from investment transactions	19,176,502	20,731,782
Increase (decrease) in net unrealized appreciation of investments	(67,140,442)	141,563,341
Increase (decrease) in net assets resulting from operations	(34,279,099)	169,206,551

*Per-share data are based on the average number of Common shares outstanding during the year.

The Corporation declared two distributions to holders of Common Stock in 2018, \$.25 per share paid on June 26 in cash and \$1.20 per share paid on December 20 in cash or in additional shares of Common Stock at the stockholder's option. For Federal income tax purposes, of the \$1.45 paid, \$.56 represents ordinary income and \$.89 represents long-term capital gains. Separate tax notices have been mailed to stockholders. With respect to state and local taxes, the character of distributions may vary. Stockholders should consult with their tax advisors on this matter.

In the distribution paid in December, the holders of 44% of the outstanding shares of Common Stock elected stock, and they received 494,048 Common shares at a price of \$27.07 per share.

During 2018, the Corporation purchased 153,010 shares of its Common Stock at an average price of \$26.03 per share. The Corporation may from time to time purchase its Common Stock in such amounts and at such prices as the

Board of Directors deems advisable in the best interests of stockholders. Purchases may be made in the open market or in private transactions directly with stockholders.

[5]

Central's net asset value, adjusted for the reinvestment of distributions to shareholders, decreased by 3.9% during 2018. Over the same period, Central's shares decreased by 4.5%. For comparative purposes, the S&P 500 Index decreased by 4.4%, while the Russell 2000, a broad index composed of smaller companies decreased by 11.0%.

Long-term returns on an annualized basis are shown below.

<u>Years</u>	<u>NAV Return</u>	<u>Market Return</u>	<u>S&P 500</u>
10	12.2%	12.7%	13.1%
20	8.1%	8.2%	5.6%
30	11.9%	12.2%	9.9%
40	13.8%	14.1%	11.5%

After a moderate increase during the first nine months, the major stock market indexes declined abruptly in the fourth quarter last year. Against this backdrop, we made few portfolio changes during the year. Our annual portfolio turnover rate was 8%. During the year, Central purchased three new holdings and sold seven, ending the year with 36. The new investments were Kemper Corporation, Cogent Communications and Star Group. We sold Cable One, Tiffany, Murphy Oil, Kennedy-Wilson, Encore Capital, Freeport-McMoRan and General Electric. At year end, Central's ten largest investments (shown on page 8) comprised 56% of net assets.

The five most significant positive contributors to Central's 2018 results, in order of importance, were Plymouth Rock, Motorola Solutions, Keysight Technologies, Merck and Amazon. The biggest detractors were Coherent, Capital One, Citigroup, TRI-Pointe and Hess. Coherent deserves special mention. It was the largest contributor to Central's results in 2016 and 2017 before becoming the largest detractor last year. Still, combining all three years it handily outpaced the S&P 500, returning an average of 17% per year. This experience illustrates one of the more difficult situations long-term investors face: what action to take, if any, when after a significant multi-year gain, an important holding undergoes a large drawdown. In this case, we reevaluated the holding and chose to maintain our investment. We remain confident in Coherent's management and market position. It should be noted that during this period, our Coherent holding has not remained constant. We reduced our holding by 23% since the beginning of 2017 before adding shares in the second half of 2018.

Central's largest and most important investment continues to be Plymouth Rock, a privately-held company in which we invested at its inception in 1982. The Plymouth Rock Group of Companies together write and manage over \$1.2 billion in personal and commercial auto, homeowners and umbrella insurance in Massachusetts, New Hampshire, Connecticut, New York, New Jersey and Pennsylvania. We currently own 23% of Plymouth Rock.

Plymouth Rock had a productive year in 2018. Among other things, the company entered the New York market. Shareholders may find Plymouth Rock's annual reports to stockholders at www.plymouthrock.com/about/financial-information/annual-reports. The reports include audited financial statements and a letter from CEO Jim Stone which reviews notable events and achievements of the previous year and sets forth plans for the coming year. Taken together, the reports provide a detailed history of the company. It is expected that the company's 2018 annual report will be available in April.

The electrification of trading has been much commented upon both in the financial press and by experienced investors. One observer has estimated that truly active investors comprise only about 10% of daily trading activity. Market participants have different time horizons: some focus on seconds, minutes and hours; others focus on months and years; and still others focus on multiple years. In recent years, more stock market activity is thought to be generated by those focused on the shortest time horizons, the “so called” high-frequency traders who trade electronically using algorithms they have developed. Some investors have complained that this has introduced an unacceptable level of market volatility and risk and that it should be curtailed or more closely regulated. Others are pleased with the low costs and effectiveness of electronic markets. Central invests with a long-term view and does not trade actively. Thus, electronic trading has not had a significant effect on Central’s investment operations.

Looking forward, investors are confronted with some serious concerns and questions. Is the international regime of free trade existing since World War II breaking down, and are investors facing a world with less trade each year rather than more? World debt is \$247 trillion according to the Institute of International Finance. Many countries and companies are vulnerable to a protracted rise in interest costs, constraining global central bank flexibility. The debt and growing wealth inequality have concerned many economists and are most likely behind the populist movements experienced by democracies around the world. These issues have combined to create a more uncertain investing environment.

Central is an independent, internally-managed investment company. We invest for long-term growth of capital. It is our goal to own a limited number of companies that generate superior returns. Honest and capable management working in the interest of all shareholders is of the utmost importance in our consideration of new investments. We attempt to purchase investments at a reasonable price in relation to their probable and potential intrinsic value looking out three to five years. We then want to be able to hold them through the inevitable stock market ups and downs. We believe Central’s ability to take a long-term view has been and will continue to be advantageous to shareholders.

Stockholder’s inquiries are welcome.

Wilmot H. Kidd John C. Hill Andrew J. O’Neill

630 Fifth Avenue
New York, New York 10111
January 30, 2019

[7]

TEN LARGEST INVESTMENTS

December 31, 2018

(unaudited)

	Cost	Value	% of	Year
	(mil.)	(mil.)	Net	First
			Assets	Acquired
The Plymouth Rock Company Incorporated	\$ 0.7	\$ 170.5	22.3%	1982
Plymouth Rock underwrites and services over \$1.2 billion in automobile and homeowner's insurance premiums in the Northeast. Founded in 1982, it has grown both organically and by acquisition.				
Intel Corporation	7.6	39.4	5.2	1986
Intel is one of the world's largest semiconductor makers, based on revenue of \$63 billion. It develops advanced integrated circuits for industries such as computing, data storage and communications.				
Analog Devices, Inc.	6.2	38.6	5.0	1987
Analog Devices designs, manufactures and markets integrated circuits used in analog and digital signal processing and power management. It has \$6.2 billion in global product sales to industrial, communications, automotive and consumer end-markets.				
Coherent, Inc.	13.5	37.0	4.8	2007
Coherent is a leading producer of commercial and scientific laser systems and components to diverse end-markets including flat-panel display, microelectronics and materials processing, with \$1.9 billion in sales.				
Motorola Solutions, Inc.	14.1	34.5	4.5	2000
Motorola Solutions, with sales of \$6.4 billion, is a leading provider of emergency-response and public-safety communication infrastructure, devices, software and services to governments and enterprises globally.				
Hess Corporation	31.2	28.4	3.7	2017
Hess Corporation engages in the exploration, development, production, transportation, purchase and sale of crude oil, natural gas liquid and natural gas. Hess has production operations in the U.S., Asia and South America.				

Capital One Financial Corporation	17.8	22.7	3.0	2013
Capital One is one of the 10 largest banks in the U.S., with assets of over \$360 billion and deposits of over \$240 billion. It generates revenues of \$25 billion.				
Amazon.com, Inc.	3.8	19.5	2.6	2014
Amazon.com provides online retail shopping services and, through the Amazon Web Services segment, technology services. Amazon generates revenues of \$178 billion.				
Rayonier Inc.	21.1	19.4	2.5	2014
Rayonier is a real estate investment trust with 2.6 million acres of timberlands in the Southern and Pacific Northwest regions of the United States and in New Zealand.				
The Bank of New York Mellon Corporation	8.4	18.8	2.5	1993
Bank of New York is a global leader in custodial services, securities processing and asset management with \$34 trillion in assets under custody and \$1.8 trillion under management.				

DIVERSIFICATION OF INVESTMENTS

December 31, 2018

(unaudited)

	<u>Issues</u>	<u>Cost</u>	<u>Value</u>	Percent of Net Assets <u>December 31.</u>			
				<u>2018</u>		<u>2017(a)</u>	
Common Stocks:							
Insurance	5	\$ 28,750,437	\$ 210,871,880	27.6	%	20.7	%
Technology Hardware and Equipment	4	45,814,469	96,509,922	12.6		17.5	
Semiconductor	2	13,769,771	78,044,700	10.2		9.5	
Diversified Financial	5	45,772,300	67,584,300	8.8		10.1	
Diversified Industrial	3	8,960,292	47,338,000	6.2		6.5	
Health Care	3	30,744,887	44,443,250	5.8		5.2	
Banks	3	33,967,435	43,668,400	5.7		6.5	
Communications Services	4	33,721,827	33,009,760	4.3		4.1	
Energy	1	31,227,477	28,350,000	3.7		3.5	
Real Estate and Homebuilding	2	32,222,317	27,034,000	3.5		4.4	
Retailing	1	3,814,861	19,525,610	2.6		3.1	
Other	3	12,405,344	17,739,269	2.3		2.0	
Short-Term Investments	3	50,606,599	50,606,599	6.6		6.7	

(a) Certain amounts from 2017 have been adjusted to conform to 2018 presentation.

PRINCIPAL PORTFOLIO CHANGES

October 1 to December 31, 2018

(Common Stock unless specified otherwise)
(unaudited)

Number of Shares		Held December 31, 2018
Purchased	Sold	

Edgar Filing: CENTRAL SECURITIES CORP - Form N-CSR

Alphabet Inc.	1,000	16,000
Brady Corporation	80,000	320,000
Freeport-McMoRan Inc.	150,000	—
General Electric Company	500,000	—
Star Group, L.P.	40,000	494,108
Wells Fargo & Company	20,000	250,000

[9]

STATEMENT OF INVESTMENTS

December 31, 2018

<i>Shares</i>		<u><i>Value</i></u>
COMMON STOCKS 93.3%		
Banks 5.7%		
280,000	Citigroup Inc.	\$ 14,576,800
180,000	JPMorgan Chase & Co.	17,571,600
250,000	Wells Fargo & Company	11,520,000
		43,668,400
Communications Services 4.3%		
16,000	Alphabet Inc. Class A (a)	16,719,360
200,000	Cogent Communications Holdings, Inc.	9,042,000
210,000	Liberty Global plc Class C (a)	4,334,400
200,000	Liberty Latin America Ltd. Class C (a)	2,914,000
		33,009,760
Consumer Services 0.4%		
30,000	Wynn Resorts Ltd.	2,967,300
Diversified Financial 8.8%		
150,000	American Express Company	14,298,000
400,000	The Bank of New York Mellon Corporation	18,828,000
10	Berkshire Hathaway Inc. Class A (a)	3,060,000
300,000	Capital One Financial Corporation	22,677,000
210,000	The Charles Schwab Corporation	8,721,300
		67,584,300
Diversified Industrial 6.2%		
320,000	Brady Corporation Class A	13,907,200
700,000	Heritage-Crystal Clean, Inc. (a)	16,107,000
65,000	Roper Technologies, Inc.	17,323,800
		47,338,000
Energy 3.7%		
700,000	Hess Corporation	28,350,000
Health Care 5.8%		
85,000	Johnson & Johnson	10,969,250

Edgar Filing: CENTRAL SECURITIES CORP - Form N-CSR

200,000	Medtronic plc	18,192,000
200,000	Merck & Co., Inc.	15,282,000
		44,443,250

Insurance 27.6%

19,000	Alleghany Corporation (a)	11,843,080
200,000	Kemper Corporation	13,276,000
100,000	Kinsale Capital Group, Inc.	5,556,000
28,424	The Plymouth Rock Company Incorporated	
	Class A (b)(c)	170,544,000
160,000	Progressive Corporation	9,652,800
		210,871,880

Real Estate and Homebuilding 3.5%

700,000	Rayonier Inc.	19,383,000
700,000	TRI Pointe Group, Inc. (a)	7,651,000
		27,034,000

[10]

<i>Shares</i>		<u><i>Value</i></u>
	Retailing 2.6%	
13,000	Amazon.com, Inc. (a)	\$ 19,525,610
	Semiconductor 10.2%	
450,000	Analog Devices, Inc.	38,623,500
840,000	Intel Corporation	39,421,200
		78,044,700
	Software and Services 1.3%	
100,000	Microsoft Corporation	10,157,000
	Technology Hardware and Equipment 12.6%	
350,000	Coherent, Inc. (a)	36,998,500
295,000	Keysight Technologies, Inc. (a)	18,313,600
300,000	Motorola Solutions, Inc.	34,512,000
1,387,100	Ribbon Communications Inc. (a)	6,685,822
		96,509,922
	Utilities 0.6%	
494,108	Star Group, L.P.	4,614,969
	Total Common Stocks (cost \$321,171,417)	714,119,091

SHORT-TERM INVESTMENTS 6.6%

	Money Market Fund 1.6%	
12,637,542	Fidelity Institutional Money Market Fund Treasury Only Portfolio- Class I	12,637,542
	U.S. Treasury Bills 5.0%	
\$38,000,000	U.S. Treasury Bills 2.32% – 2.41%, due 1/8/19 – 1/22/19 (d)	37,969,057
	Total Short-term Investments (cost \$50,606,599)	50,606,599
	Total Investments (cost \$371,778,016) (99.9%)	764,725,690
	Cash, receivables and other assets	
	less liabilities (0.1%)	616,898
	Net Assets (100%)	\$ 765,342,588

- (a) Non-dividend paying.
 - (b) Affiliate as defined in the Investment Company Act of 1940 and restricted. See Note 5 and Note 6.
 - (c) Valued based on Level 3 inputs – see Note 2.
 - (d) Valued based on Level 2 inputs – see Note 2.
- See accompanying notes to financial statements.

[11]

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2018

Assets:

Investments:

Securities of unaffiliated companies (cost \$320,460,817) (Note 2)	\$ 543,575,091	
Securities of affiliated companies (cost \$710,600) (Notes 2, 5 and 6)	170,544,000	
Short-term investments (cost \$50,606,599) (Note 2)	50,606,599	\$ 764,725,690

Cash, receivables and other assets:

Cash	230,919	
Dividends receivable	410,246	
Other assets	94,658	735,823
Total Assets		765,461,513

Liabilities:

Accrued expenses and other liabilities	118,925	
Total Liabilities		118,925
Net Assets		\$ 765,342,588

Net Assets are represented by:

Common Stock \$1 par value: authorized 40,000,000 shares; issued 25,565,531 (Note 3)	\$ 25,565,531	
---	---------------	--

Surplus:

Paid-in	\$ 346,267,704	
Total distributable earnings, including net unrealized appreciation of investments (Note 1)	395,261,079	741,528,783
Treasury Stock, at cost (68,684 shares of Common Stock) (Note 3)		(1,751,726)
Net Assets		\$ 765,342,588