

June 30, 2019

I use round numbers to save time. Actual figures might be slightly off because of this. Rather than creating a fancy looking report with lots of decimal places I'd rather find more ideas. My results should do the talking in the long run.

1. Results for March 13 - June 28, 2019

SP500: +5%

Fund: +23%

We're 190% long and 90% short. Throughout most of the quarter we were close to 150% long, 50% short. The goal is to be net 100% long using up all margin. The actual long/short size will vary depending on margin requirements for ideas that I find. I've optimized by cutting out some wasteful longs that took up too much margin. I'll update each quarter what the long/short exposure is.

Long:

We're up 8% on the long side, slightly beating the SP500 adjusted for leverage. I'm very confident in these picks now. I sorted through more than 4,000 companies to find the 18 we're currently long. Bets range from power boat manufacturers to central European TV stations to rural fiber companies. Why this odd bunch? They're good value, the business model makes sense to me, management seems trustworthy and they offer enough diversification for different market conditions.

The biggest loser was Men's Wearhouse (TLRD). I bought this company because it was trading absurdly cheap, the bonds traded strong and Michael Bury from The Big Short has a position. I quit after Q2 guidance came in much worse than expected. The company has a lot of debt which makes it very sensitive to decreased earnings. This bet cost 4%. This company has much more downside risk than our other investments, but also a lot higher potential reward. I limit these types of bets. I'm only long one other company like this and that is going quite well so far.

The biggest winner was Disney (DIS). At \$110 this great company was trading at the same price as 4 years ago despite strong earnings/growth since then. It was also 30% cheaper relative to other great companies. I normally don't invest in large caps but this one really stood out. I quit since the potential reward seems much more limited from here. We won 3% on this bet.

Short:

We're up 15% on the short side, totally crushing it. We currently have 30 short positions and cycled through 75 or so during the quarter. Like I mentioned in the intro letter, playing these are often about timing and risk management, more so than longs. There are many more opportunities on the short side because few companies are significantly undervalued - whereas a ton of the companies on the market

are actually worthless in my opinion. This is still where the majority of my energy goes. Having a great mentor helps, too.

The biggest loser was SunPower (SPWR). I describe this more below but we're stuck 3% on this one for now.

The biggest winner was Global Eagle Entertainment (ENT). The company mostly does in-flight movies and internet. A large fund propping up the share price explained the price anomaly. Reality always catches up though and the share price dropped 75%. The company is obviously worthless to me plus they were running out of cash. I smelled blood and shorted more on the way down, creating a substantial 6.5% win.

2. Notable Current Long and Short Positions

The largest long position is Atlas Air (AAWW), an air freight company. In effect, we're buying airplanes for 55 cents on the dollar and the company has consistent/strong income. This company is 25% of the portfolio, an abnormally large position. I'm extremely confident in this bet even though we're just even so far.

After spiking recently, Sunpower is a 9% position, quite large for the short side. They're a manufacturer of solar panels, which they're really bad at from a business standpoint. Warren Buffett at the peak of the dotcom bubble said, "There are many worthless billion dollar companies on the market." Sunpower is another clear example of that, in my mind. Despite burning through \$2 billion in shareholder equity in the last few years, the share price is miraculously higher now.

The SunPower price spike was from an analyst upgrading the stock to a buy. I learned quickly that professional analysts are terrible at their job. Why? The good ones join or start funds. Mostly these guys spin nonsense to try to sell the stock to someone else, and collect a fee. This is an ongoing force in the market and they can cause lots of money to flow in and out of companies. This variance reminds me of luck in poker, something out of my control.

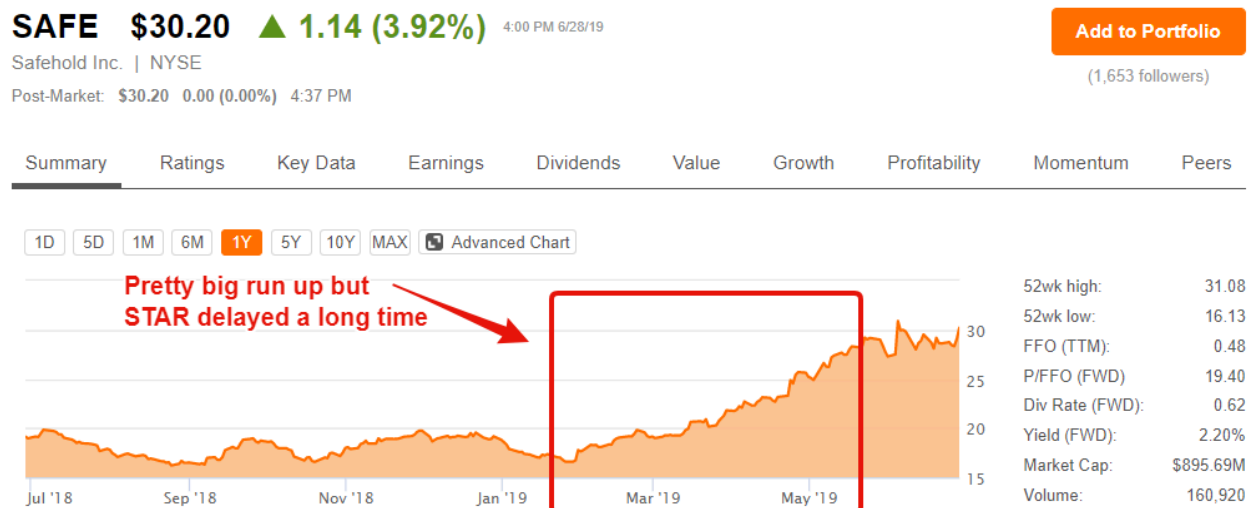
I wrote articles for both of these companies if you want more detailed reasoning.

3. Idea Refuting the Efficient Market Hypothesis

I was sorting through the Russell 2000 and I found iStar (STAR), a real estate investment trust. I noticed the price spiking here but couldn't find any news.



So I read the annual report to see what was going on. It turned out that STAR owns 65% of a company called SAFE. I'd seen that symbol before and vaguely remembered that ... hadn't it been doing well lately?



Note the market cap of the two companies. Before STAR's spike, its investment in SAFE was worth more than the entire company. Based on this, I went long STAR at \$9.50 and shorted SAFE to protect myself. I closed the position a few days later at \$11.25 as the gap got filled. I made a mistake not betting larger on such an obvious one but I still made about .5%. This trade easily could have won a few percent but the situation was so new to me. Betting so small here was probably the biggest mistake of the quarter.

4. Detailed Broker Reports

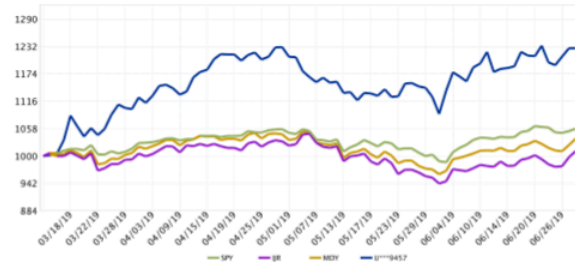
Feel free to skip these reports if you're not interested. I'll include them each quarter for those who are.

Risk Measures Benchmark Comparison

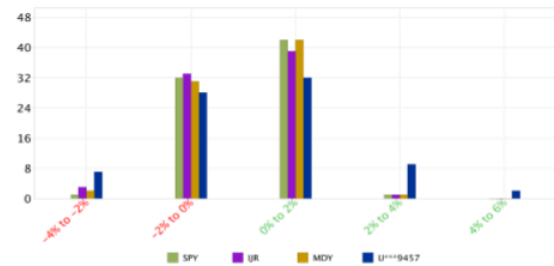


Risk Analysis				
	SPY	IJR	MDY	U***9457
Ending VAMI:	1,058.06	1,010.56	1,036.77	1,228.14
Max Drawdown:	6.62%	10.08%	8.56%	11.50%
Peak-To-Valley:	05/03/19 - 06/03/19	05/06/19 - 05/31/19	05/03/19 - 05/31/19	04/30/19 - 05/31/19
Recovery:	13 Days	Ongoing	Ongoing	15 Days
Sharpe Ratio:	1.78	0.22	0.90	3.12
Sortino Ratio:	1.94	-0.04	0.81	4.99
Standard Deviation:	0.73%	1.07%	0.93%	1.65%
Downside Deviation:	0.53%	0.80%	0.70%	0.97%
Correlation:	0.42	0.50	0.52	-
β :	0.95	0.77	0.92	-
α :	0.74	0.94	0.83	-
Mean Return:	0.08%	0.02%	0.05%	0.28%
Positive Periods:	45 (57.69%)	42 (53.85%)	45 (57.69%)	44 (56.41%)
Negative Periods:	33 (42.31%)	36 (46.15%)	33 (42.31%)	34 (43.59%)

Value Added Monthly Index (VAMI)



Distribution of Returns



L & S Performance By Financial Instrument Comparison

