



July 1, 2021

Figures are rounded to save time and don't include fees. See the administrator's statement for more precise numbers.

1. Results from March 29th - June 30th 2021

SP500 +8.5%
Fund +8.8%

We're 200% long and 100% short. Beta is still negative. Not much changed from last quarter's positioning except long exposure is slightly higher.

Long:

We're up 25% on the long side.

Bubbles only affect certain sectors while others can be cheaper than usual. Some of the cheapest stocks I've seen were at the peak of the dotcom bubble, even. That's because fundamental funds underperform, face redemptions and are forced sellers. This causes underperformance for other fundamental funds. It's a vicious cycle. I believe there are many great opportunities in the market today, probably even better than when I started 3 years ago, despite the index being so expensive.

There wasn't a significant losing long position.

Our biggest winner was Live Ventures (LIVE). It started as a 3% position and we've quit now. It went up more than 100% and we won 4%. They're in three businesses that did well during covid: flooring manufacturing, steel manufacturing and appliance stores. I noticed they had lots of inventory (\$65

million) relative to the market cap (\$40 million). World supply chains were tight and home product demand was strong. A business owner I trust on twitter mentioned he benefited from having lots of inventory last year. I figured that LIVE's pricing power in this environment combined with so much inventory could translate into massive profits. That played out better than hoped - they earned \$5.8 last quarter while I bought the stock for just \$25. I'm not convinced these profits will last so I quit.

Short:

We're down 13% on the short side.

There are distinct baskets of correlated shorts in today's market: growth, crypto, meme, cult stocks i.e. ARKK, green, junk microcaps, spacs, covid winners, reopening plays, etc. The way I'm protecting the portfolio is not betting too big on any one basket and sizing bets based on volatility.

Interest in investing from the general public is dropping according to [subredditstats](#) and [Google trends](#)¹. A chart of some of the bubbly sectors are [showing cracks](#) since a few months, too - today looks similar to the ["return to normal" phase of a typical bubble](#). Meanwhile the S&P 500's earnings yield is at [dot-com extremes](#). These are just moderate reads to be bearish, though. I'm watching closely to see if the mania picks up steam. If so, I'll still cut gross leverage. But if that happens we'll probably have another drawdown.

I perceive a big edge in shorting right now from 1. Being able to hold more long positions which are *way* cheaper than the market. And 2. Shorts being up such an extreme amount makes it harder for them to double again - I think they're more likely to fall than rise 75% from here. If I can hold this gross leverage over a couple years I strongly think returns will be great, especially if I keep cycling into shorts that held up relatively well as the bubble deflates.

2. Grab Bag of Mania Market Long Ideas.

I can share more long ideas now that the fund is full. If you use one please consider returning some of your top ideas. Thanks to those of you who already sent ideas - I've used quite a few now.

Verizon (VZ) - The largest US wireless broadband company. It trades for 11 times earnings. They recently took on a lot of very long dated, low interest debt to buy the most 5G spectrum of any US company. 5G has a far shorter range than 4G and requires more equipment. This might play out favorably. Smaller players don't have the scale to install equipment everywhere so big players benefit from less competition. On top of that, in-home 5G might replace cable which would be a new revenue stream. Rather than running wires through buildings this solution would use backbone lines through cities and be far more efficient. Maybe in the future 5G nodes will send data to each other and Verizon can skip fiber altogether. Fiber companies would be the loser. Their new long dated debt makes for a good inflation hedge, too. But the main thesis is simple: this is a utility trading for 11 times earnings.

¹ Interestingly, the [retail mania likely began right before covid hit](#), which helps explain why the market rebounded so fast.

New England Realty Associates (NEN) - They own lots of apartments in Boston. It's far cheaper than their apartments are worth and it's 10x normalized cash flow despite having low debt. For comparison, people often buy real estate investments with half the cash flow yield and a mountain of debt. Depreciation overstates the expense for real estate - real estate appreciates over time so NEN's properties are marked far below fair value on the balance sheet. Residential real estate appreciated a lot last year while NEN traded flat, which of course makes no sense. Finally, the strongest tell of a bargain is that the market cap is just \$230 million while they generated \$100 million in cash over the last 5 years yet shares are miraculously flat since then.

Progressive (PGR) - The auto insurance company. A strong bear argument is that self driving puts them out of business in 5-10 years. A weak bear argument is that claims might go up next year because people will drive more with covid over, which in my mind doesn't matter long term but could make the stock trade down short term. Ignoring those risks, the company is dirt cheap at 10 times earnings given the growth. I think there's a good chance folks will still want their own self driving car rather than rely on taxis, and many cars will still probably allow manual driving. While premiums would go down, presumably claims would too. Thus, it's not that clear to me that self driving is definitely *that* bad, especially if lower quality competition goes out of business. I signed up recently and saw how well run they are. It was so easy to buy insurance and they had some of the best support I've ever talked with, despite being in an odd situation with a foreign wife and no recent US driving experience. I talked with a few support people to experiment and they were all great.

Hurco (HURC) - They make machine tools for metal cutting and have really lumpy earnings. Current assets minus current liabilities almost equal the market cap and they have no debt. Their tools use lots of raw materials. With the recent inflation in commodities, inventory might be understated on the balance sheet. This reminds me of what just happened with LIVE which means they could put up some great near-term quarters compared to the tiny market cap, causing the stock to rise.

Jungfraubahn (JFN.sw) - This is a unique company that I really like. They own a tourism railroad that goes pretty far up the Swiss Alps which was built over 100 years ago when labor was cheap and safety standards low. Debt is low and it trades for about 15 times pre-covid earnings. Growth was pretty steady and extra revenue goes straight to the bottom line - it doesn't really increase expenses to add passengers on a train. They can build more attractions as they grow which gives them lots of options for reinvestment. Someone else building an attraction nearby helps them, too. I'll guess Swiss tourism grows at 5-10%/year long term. If so this investment will do very well. I doubt anyone will compete since building a new railroad up the Swiss mountains is incredibly hard. Lastly, Switzerland is one of the most stable countries and should have some premium.

National Western Life (NWLI) - A life insurance company trading for a third of book value and 6 times earnings. Life insurance companies are cheap because real yields are negative. This is problematic for insurance companies whose contracts are long term - especially their annuities, which management is incentivized to sell lots of. On top of that, the company isn't run to maximize shareholder value - management could presumably start returning lots of capital to shareholders but don't. The Moody

family controls the company and the CEO is a family member who is blatantly overpaid. Even with these problems, at some point cheapness gets too important and we've reached that point. The biggest risk is that management is lying about their net income or liabilities/annuities, which is easy for financial companies. However, short interest is very low for National Western and other life insurance companies, a good sign. Being family controlled has a positive aspect, too: the accounting is more likely to be honest.

A possible catalyst to unlock value will be the death of Robert Moody Sr. who is in the ballpark of 90 years old². Another (maybe related) catalyst is that American National Group (ANAT) just had a buyout rumor that sent the price a lot higher, and that's another life insurance company controlled by the Moody family. I was long ANAT before that announcement and planned on suggesting them in this letter, but it's not as cheap anymore. A subtle point about the ANAT rumor is that price was suspiciously creeping up before the news broke, implying that someone was buying in early. In my mind that makes the rumor more likely to be true. This event is what ultimately pushed me over the edge to buy NWLI.

Warsaw Stock Exchange (GPW.wa) - Stock exchanges are wonderful, predictable businesses. This one [trades for just 13 times earnings](#). For comparison, most other exchanges trade for 20+ times earnings. If you look at the longest lasting businesses through history you'll see that stock exchanges are definitely up there. GPW is the largest in Eastern Europe and neighboring countries might list stocks on it. I'm optimistic about Poland - they're rebounding out of communism and have a long runway. Someone I met in Chiang Mai is Polish and he's positive about the country's direction, too. Why can't they be as rich as western Europe in a few decades?

Senvest Capital (SEC.to) - This is a fund that won a lot on Gamestop in January. I don't normally buy funds but made an exception because 1. Their long term track record is good and especially 2. It trades for \$960 million while NAV is \$1.6 billion - I had to do a double take on that. I really like how illiquid the stock is, too, which explains why this anomaly exists.

Dream International (1126.hk) - A toy maker in Vietnam with Korean management. This one is absurdly cheap at 5x pre-covid earnings with strong growth. If world relations with China get worse - China's military expansion or Taiwan come to mind - Vietnam is likely to benefit if Chinese exports face more pressure. Business was bad this year from supply chain issues but I expect things to get back on track. A professional toy seller also confirmed that the company is definitely real, and he's generally a skeptical person.

Let me know if you're interested in buying these brief ideas. I generate about 1.5/month. We can make a deal for 1-2 years. The price is \$5k/year. I prefer a deal with just 1-2 people for liquidity reasons. I'm offering this because the USA is far more expensive now and this would help until the fund grows.

² It's morbid but the life expectancy of a 90 year old is just a few years.

3. Detailed Broker Reports³

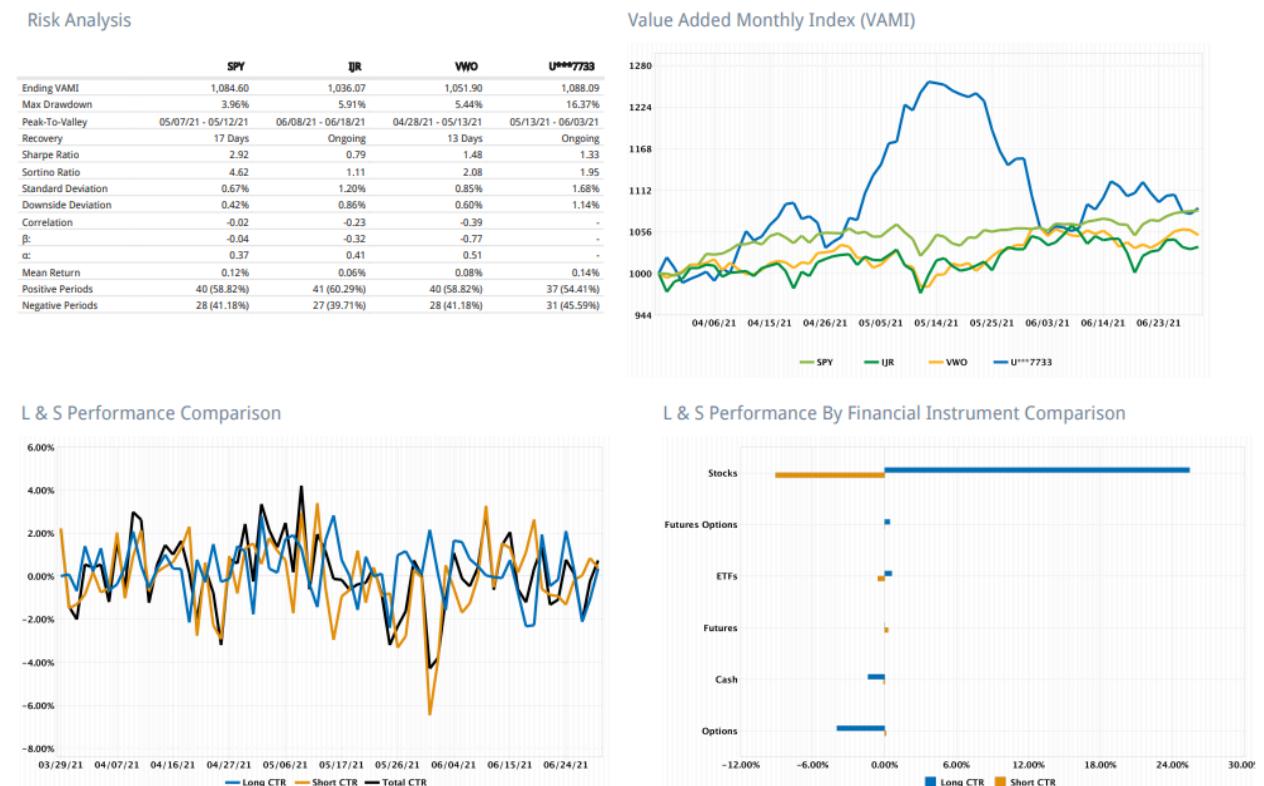
Q: What caused the drawdown in mid-May?

A: Shorts were going incredibly well but that trend reversed sharply. We went from +7% on shorts to -13% for the quarter. AMC cost 4%. I also had two catalyst shorts on which meant the positions were bigger. Each of them lost 4% when they squeezed back to back. For all three positions I reduced size so there wasn't existential risk. These three bets explain a lot of the downside volatility.

It didn't help that I was moving around the world as this happened. A couple times I was out with my wife and told her we had to head back to the hotel so I could focus. I made a few good choices and don't think I could have done too much differently. I've settled into a new place⁴ and am working 15 hours a day again so moving isn't a factor anymore. And I now have a better investing setup than in Thailand.

Risk Measures Benchmark Comparison

Analysis Period: March 29, 2021 - June 30, 2021



³ Here are the [results of the legacy account](#). I was going to merge accounts last month with an in-kind position transfer. However, my accountant suggested I just liquidate the old portfolio to avoid a possible regulatory nightmare despite doing nothing wrong. I've set a definitive date: December 15th this year.

⁴ We settled down near Tampa. If anyone heads out here I'd be glad to meet you. The beer is on me.

A funny thing from poker is that:

1. If you win \$5,000 early in a session but finish up only \$500 on the day, you feel bad.
2. If you lose \$5,000 early in a session and finish down just \$500, you feel great.

It's totally irrational but that's just how the human brain works so I don't feel good about this quarter.

4. Fund Update

The fund reached \$11.3 million with initial deposits of \$8.4 million. I've closed to new investors a bit early because we've reached the size I want. I like the group I have. A couple of you already told me you're depositing more before I announced this, which is fine - please do it by the end of the year. Everyone can still match their initial deposit up to \$100k by Q3, 2022. Rob and Van can still contribute up to \$1 million from here at any time.

17 non-investors are still on my mailing list. You're welcome to join the fund at any time because you've contributed a lot to my success, mostly from sharing ideas I ended up using but also by helping me in other ways. I want our interests aligned as much as possible. I hope to invest with some of you as my networth grows.

I won't raise more money unless we have another drawdown, in which case I'll probably top back up to \$10 million if there's still interest. I like this forgiving fund size for at least the next several years of learning.

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Short term results are more out of my control than ever. They depend a lot on what bubble stocks do in the near term. If things get rough for a while I hope you're patient and keep a level head as I battle this out. I assure you that I will continue doing my best.

David Orr

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Except for the year end 2021-2024 net returns at the top of this letter, the figures provided are unaudited.

Past performance is not indicative of future results.

Each investor / Limited Partner will receive individual statements from the funds' administrator showing actual returns.

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