



January 1, 2022

I use round figures to save time and they don't include fees. See the administrator's statement for precise numbers.

Part 1: Fourth Quarter

1. Results for October 1st - December 31, 2021

SP500: +11%

Fund: +14%

Currently we're 200% long and 110% short. Beta is slightly negative.

Long:

Longs are up 7%.

We own the same types of companies I mentioned in the Q2 2021 letter. Nothing changed except they're a bit cheaper now in absolute terms. Bargains are bigger than in 2019 but smaller than pre-vaccine news in 2020. Some companies are particularly beaten down such as AT&T (T), which I've been buying opportunistically.

Short:

We're up 7% on the short side.

Beneath the market surface there's a great rotation going on. Many bubbly sectors have continued deflating. Some etfs show simply what is going on: ARKK (cult stocks), MOON (non-profitable tech), ICLN

(green) and DSPC (SPACs) are all trending down. This money is flowing into large caps like Apple, which is common in the late stage of a bubble¹.

I have a three pronged short plan for the next couple of years:

- There were few bankruptcies last year because easy money continued to flood the system. However, the Fed is raising rates within a few months and I've got my sights set on a few bankruptcy candidates once they begin.
- I will attack individual bubble stocks under \$100 billion market cap that have defied gravity thus far. The asymmetry is great.
- I will keep an eye on the general market bubble, hoping it continues expanding in the near future. When I spot weakness, I will be able to short egregiously overpriced large caps at the very end. The Fed raising rates multiple times will probably be the trigger.

2. Broker Report²

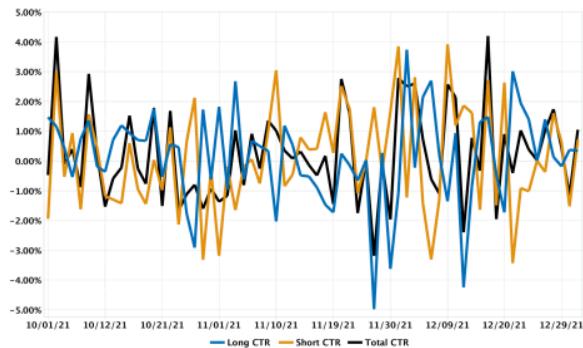
Risk Analysis

	SPY	UJR	VT	U***7733
Ending VAMI	1,110.71	1,055.68	1,063.01	1,143.11
Max Drawdown	4.09%	9.68%	5.55%	8.96%
Peak-To-Valley	11/18/21 - 12/01/21	11/08/21 - 12/01/21	11/08/21 - 12/01/21	10/22/21 - 11/30/21
Recovery	7 Days	Ongoing	Ongoing	8 Days
Sharpe Ratio	3.08	1.16	1.93	2.25
Sortino Ratio	4.88	1.78	2.90	3.93
Standard Deviation	0.85%	1.24%	0.80%	1.54%
Downside Deviation	0.54%	0.81%	0.53%	0.88%
Correlation	-0.05	0.03	-0.03	-
β :	-0.09	0.04	-0.05	-
α :	0.60	0.55	0.57	-
Mean Return	0.16%	0.09%	0.10%	0.21%
Positive Periods	42 (63.64%)	35 (53.03%)	38 (57.58%)	34 (51.52%)
Negative Periods	24 (36.36%)	31 (46.97%)	28 (42.42%)	32 (48.48%)

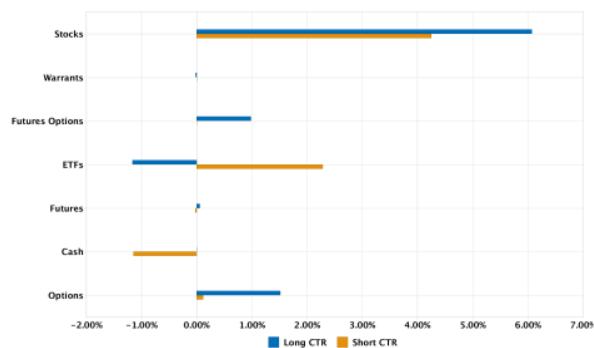
Value Added Monthly Index (VAMI)



L & S Performance Comparison



L & S Performance by Financial Instrument Comparison



¹ During dotcom companies like Microsoft and Oracle reached absurd valuations at the very end. During the 80's Japanese bubble, junky companies started dropping in 1988 [according to Paul Tudor Jones](#), even while the overall market bubble expanded until 1990. In the '60s US bubble money flowed into the "Nifty 50" in the end. These 50 companies were perceived to be of such high quality that folks could pay any price; they were wrong.

² Q4 [legacy account results](#) and by [long/short](#).

Part 2: Full Year

1. 2021 Feb-Dec Results³

Luckily the fund launched after the bubble's blow-off top in January where I lost 29%, by far my worst month.

SP500: +30%

Fund: +87%. Long +58%, Short +18.5%

There were 380 bets spread over 300 companies.

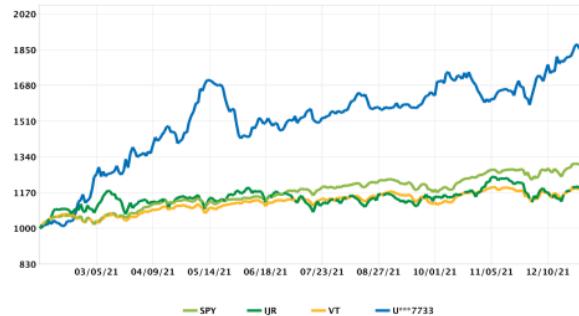
Risk Measures Benchmark Comparison

Analysis Period: February 1, 2021 - December 31, 2021

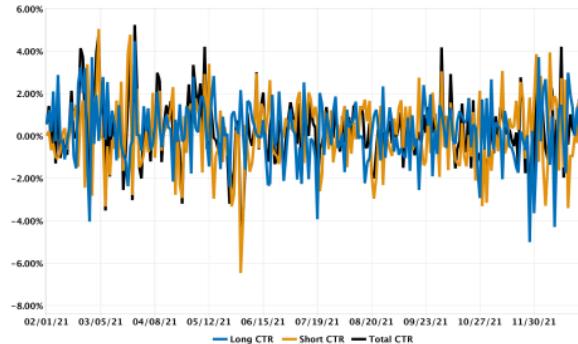
Risk Analysis

	SPY	UJR	VT	U***7733
Ending VAMI	1,300.71	1,192.38	1,185.43	1,874.05
Max Drawdown	5.11%	9.68%	5.55%	16.37%
Peak-To-Valley	09/02/21 - 10/04/21	11/08/21 - 12/01/21	11/08/21 - 12/01/21	05/13/21 - 06/03/21
Recovery	12 Days	Ongoing	Ongoing	91 Days
Sharpe Ratio	2.31	1.01	1.53	2.79
Sortino Ratio	3.55	1.52	2.25	4.65
Standard Deviation	0.78%	1.30%	0.77%	1.58%
Downside Deviation	0.51%	0.87%	0.53%	0.95%
Correlation	-0.04	-0.05	-0.08	-
β :	-0.08	-0.06	-0.16	-
α :	0.74	0.73	0.74	-
Mean Return	0.11%	0.08%	0.07%	0.27%
Positive Periods	142 (59.17%)	130 (54.17%)	139 (57.92%)	135 (56.25%)
Negative Periods	98 (40.83%)	110 (45.83%)	101 (42.08%)	105 (43.75%)

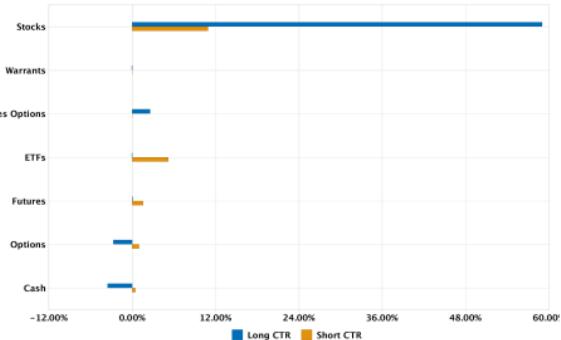
Value Added Monthly Index (VAMI)



L & S Performance Comparison



L & S Performance by Financial Instrument Comparison



2. Taxes

I estimate that realized gains after expenses are near zero this year. I might be off a bit - I'm learning the nuance of fund taxation as I go. Delaying tax is really important to me when optimal; this passage from [Fortune's Formula](#) demonstrates why:

³ Full-year [legacy account results](#) and by [long/short](#). Here's the last 3.5 year [monthly scorecard](#), and by [long/short](#). This account has been liquidated and is being combined with the fund account now.

Arbitrage

Take Shannon's pipe dream of turning a dollar into \$2,048. You buy a stock for \$1. It doubles every year for eleven years (100 percent annual return!) and then you sell it for \$2,048. That triggers capital gains tax on the \$2,047 profit. At a 20 percent tax rate, you'd owe the government \$409. This leaves you \$1,639. That is the same as getting a 96 percent return, tax-free, for eleven years. The tax knocks only 4 percentage points off the pretax compound return rate.

Suppose instead that you run the same dollar into \$2,048 through a lot of trading. You realize profit each year, so you have to pay capital taxes each year. The first year, you go from \$1 to \$2 and owe tax on the \$1 profit. For simplicity, pretend that the short-term tax rate is also 20 percent (it's generally higher). Then you pay the government 20 cents and end the first year with \$1.80 rather than \$2.00.

This means that you are not doubling your money but increasing it by a factor of 1.8—after taxes. At the end of eleven years you will have not 2^{11} but 1.8^{11} . That comes to about \$683. That's less than half what the buy-and-hold investor is left with after taxes.

3. Conclusion

I'm playing the World Series of Poker main event in Vegas this summer. If anyone will be in town I'm happy to meet individually, or if there's enough interest we can have dinner as a group of investors.

Thanks for investing,

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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