

2013: The Review

December 16, 2013

We started this venture in the summer of 2009, when I began writing ad hoc reports related to valuation and equities. 4.5 years later, we have a fully committed website, offering articles primarily related to US equity valuation, fixed income and real estate. We have roughly 800 articles/reports uploaded into the site. We had 4 interns join our analyst program in 2013. In 2013, we launched a Korean and Financial Institutions Group portfolio, where we have been slow to deliver up to date reports. On a personal note, I have written over 100 Bible related topics for the Sunday School preparation. Also, we are excited to plan out our Evangelistic Outreach for 2014, which will impact people in a real way. **Finally, we are growing our subsidiary businesses related to English, and product development and sales.**

Investments

We have been monitoring a value focus fund over the past 2.25 years, which has generated a 27% YTD, beating the S&P 500 by 1%, while trailing the top performers by 9%. A few of our stock picks- EZPW, BIG, AEO,MCZ, SKUL, Short High Yield Bond ETF, EGY, NEM- retraced their gains in November and early December., as retail apparel companies reported weaker Black Friday sales. However, overall, we enjoyed whopping gains throughout the year. We learned our fund is very volatile and has a large beta. It is not apt for the weak willed, nor risk adverse investor. We like our picks, we have a strong conviction in their value, but some of the companies have seen deterioration in their fundamental, underlying business, which calls for a reassessment of their portfolio value.

We learned the importance of business growth vs. market capitalization growth. We must be keener on growing sales and profit margins first, and then communicate the business developments to the investor community to see an appreciation in the market value. We need to make first thing first.

The market was heavily driven by government stimulus and policies in the 1st half of 2013. This period helped pave the way for the awesome rally in the summer. As concerns over the Great Rotation from fixed income to equity and the impact tapering would have on the market as a whole subsided, the market started to take off until November, when investors sold their investments to lock in their gain and concerns over the weak retail figures dimmed the outlook. As such, no investor could possibly forecast the market sentiment, which means pegging our investment prowess on market valuation change to the market index is meaningless. We should measure the change in the net tangible book value, like Warren Buffet, not the market value. Some will argue this approach is too idealistic and has no bearing on the bottom line. This is true, but I believe an investor is ideologically different from a trader. The trader looks at the loss/gain of the market value, whereas an investor looks at the loss/gain of the business value. The market should find equilibrium with the business value, which at times, may present a diminished risk investment.

Business Subsidiaries

English Business

English business requires minimal cap ex and generates a reasonable cash flow stream. English services are a true cash cow, where we can use the cash and reinvest into more lucrative opportunities. We expanded our services to assisting academies, aside from our 1-to-1 tutoring, thereby growing our corporate service line-up. However, the drawback is the taxing toll it has on our bodies. There is a revenue cap in the service business, which is 1) time and 2) energy. So, we see the English business as a cash cow business, where growth only comes by institutionalizing our services through a study room. Starting up a study room requires at least \$50,000 and we are not comfortable making such an investment at this juncture. We would like to be exposed to more business models, but we are certain to start a study room in the not too distant future.

Product Development

We are currently in the process of developing a tech related apparel product. We believe there will be a major transition in this space, from the current generation technology to the more accommodative next generation enhancement. We have been studying the market and product development for a few months now. It is exciting to think of the possibilities. We firmly believe becoming a millionaire is only 1 product development away. Well, maybe not a millionaire but at least financially independent. A service business may require minimal capital investment to startup the business, but will drain the owner over the long stretch. On the flipside, a goods business may require more investment at the start, but will be much easier to scale up the business to generate more profit.

Hindsight and Projection

While 2012 was exciting because it was the first year we had a full iteration on our process (writing reports, utilizing model), 2013 was exciting because we finalized most of our valuation process and saw the fruits of it with the positive market results. Also, we focused on developing an actual goods/service business, to complement the investment business.

2014 will be focused on developing the subsidiary business, and once we run 1 full iteration, we plan to branch out into other promising businesses. We will reinvest the proceeds from the subsidiary business into our investment business, along with more of the principal's salary. While the first 4 years was conceptualizing and paper pushing, the next 4 years will be portfolio management and business development. With the residual profit, after accounting for our hurdle rate, we plan on providing aid and necessities to those who welcome our contribution.

Thank you God for this gift. May it be used for Your glory. In Jesus name. Amen.