

Jim Tisch \$5 MM Test

I noticed Excel Maritime, our underperformer, is up 100% YTD at \$0.90/share. It caught me off guard to be honest. We wanted to sell it when it broke -30%, but we held it because of our initial report and wanted to incorporate the loss into our figures to stay true to our research. In a sense, we wanted to feel the pain, to avoid the pain for future investments.

Coincidentally, we came across a great article related to the Loews Corporation, which has seen a history of successful investments, one of which was oil tankers, or ships which carry oil. With the Iranian embargo back in the 80s, the supply of tankers to demand was 3x over constructed. As a result, ship prices sank. Jim Tisch, the investment manager, found these ships were being sold for scrap value at \$6MM, and it cost \$1MM to transport from Europe to the scrapyards in Taiwan, so they picked them up for \$5MM, hence the name of the test. They protected their downside since they purchased them at scrap value. It cost \$50MM to construct the ships, so they had a lot of leeway. This led to another investment with deep sea rigs, which they purchased at a larger scale for \$5MM/each. They probably cost \$600MM in today's market.

So we see, if one has the capital, hard asset equipments are a great investment, which may have zero correlation with the market, thereby allowing investors to be insulated from the volatility in the market. On a side note, investors are reducing volatility in their performance by picking up long-dated US Treasuries, which acts as a hedge when the market reacts to macro news and we know this to be true as a phenomena known as flight to safety.