2024

River Landscape

1882, oil on canvas

Homer Watson

Annual Update

For the quarter ending December 2024, the portfolio returned 7.95%, compared to the benchmark, S&P 500 (VFV), which returned 8.81%. Overall, the portfolio's gain for 2024 lagged the benchmark by 0.18%:

Date	Portfolio[1]	VFV[2]	Relative
Q3 2024	5.22%	4.56%	0.66%
Q4 2024	7.95%	8.81%	(0.86%)
2024[3]	13.59%	13.77%	(0.18%)

The portfolio holdings as of the market close on December 31, 2024, are as follows:

#	Symbol	Cost/Share[4]	Market Price	Difference	% of Portfolio
1	BRK.B	$409.74	$453.28	10.63%	19.45%
2	CSU	$3,641.80	$4,444.91	22.05%	13.26%
3	AMZN	$200.18	$219.39	9.60%	9.41%
4	GOOGL	$120.92	$189.30	56.55%	8.12%
5	BABA	$142.43	$84.79	-40.47%	6.91%
6	AAPL	$163.23	$250.42	53.42%	6.44%
7	CBIL	$ -	$ -	- %	35.92%
	Cash	$ -	$ -	- %	0.49%
					100%

[1] Portfolio returns are money-weighted and net of fees, including exchange and trading costs. It also accounts for currency fluctuations.
[2] VFV returns are sourced from the official Vanguard website: https://www.vanguard.ca/en/product/etf/equity/9563/vanguard-sp-500-index-etf.
[3] The annual return is calculated based on the two quarters of recorded data.
[4] Per-share costs are calculated on a net basis.

A Look In The Mirror

I vividly remember when I first came across the concept of investing. I was sitting in front of the TV, watching the Korean news report about how much Bitcoin had appreciated in value. This was 2016. I spent the next few months digging through YouTube, trying to figure out what digital currency was all about. I stumbled upon investment gurus like Robert Kiyosaki at first, then learned about Mr. Buffett and Mr. Munger. Not long after, I jumped in with both feet. I spent hours after school studying everything from technical analysis to building a DCF model.

I opened my first investment account in 2019 when I turned 18. Just like with video games or sports I'd played, I wanted to test out most, if not all, of the strategies I'd studied. Deep down, though, I knew I'd end up as a value investor. I was fortunate to have a grandfather and a father who ran a small business that lifted our family from poverty to a middle-class life without much formal education—that showed me what business was really about. Still, I wanted to explore strategies that went against my instincts, thinking they might teach me lessons value investing alone couldn't offer.

This led me to September 2024. By then, I'd been at it long enough to step back and evaluate my results. My long-only account had slightly outperformed the market, while the rest fell short. I'd used short-term strategies involving shorts, options, and computer algorithms, with holding periods ranging from a few seconds to a few months. Looking back, I was pretty clueless about those trading methods—and maybe I still am. I got lucky, though; over that five-year stretch, a massive bull market masked my inexperienced trades.

Ultimately, I called it quits after five years of underperformance. It was time to take my lessons and move on. They say compounding is the eighth wonder of the world, and though I lost a chunk of capital that could have grown over those five years, I think the lessons from trading were just as valuable. It was a steep learning curve that taught me a lot about myself. Most importantly, it showed me that the grass isn't greener on the other side.

Now that I've settled into a strategy, life has become much simpler. And it turns out I was right to think I'd eventually become a value investor. I love the people I get to look up to and the way they live their lives. I enjoy how my natural habits—like reading, thinking (or daydreaming), and making a handful of big decisions instead of constantly reacting to every little thing—fit into it perfectly. Recently, I was on a call with my parents, and they brought up an old memory about how long it used to take me to choose a toy. They'd often set aside a few hours for me to roam around the store and make a decision. Apparently, I'd always narrow it down to a few options and weigh the pros and cons for a very long time before settling on one. Hearing this, I couldn't help but think that If I ever succeed in growing a basket of capital over the long term, a lot of the credit would go to my parents who instead of scolding me for taking hours to pick a toy, had the patience to allow their child the time and space to make an independent decision.

I'd like to conclude this brief reflection with a quote from Mr. Munger: "The art of stock picking as a subdivision of the art of worldly wisdom." In my opinion, this is one of the best summaries of how one should approach the subject of investing. The reason is simple: when you realize that the most important decision in running a successful lemonade stand isn't the price, taste, or quality of the lemons—it's the season, the location, and the time of day—it becomes clear that understanding humans is on par with understanding the economics of a business[5]. From operations to marketing to sales, it all starts and ends with people. And when it comes to understanding humans, cultivating wisdom is the way.

With that in mind, it's my goal to embrace Mr. Munger's words and apply them in the years to come. In doing so, I hope not only to preserve and grow my family's capital but also to discover a more meaningful way of living life.

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[5] Using partial derivatives to analyze the business of a lemonade stand feels strange. In fact, most businesses don't require any kind of higher math to understand their value. So, why it's so normalized to use higher mathematics in evaluating a portfolio of businesses is something I haven't fully wrapped my mind around yet. But that's a topic for another time.

Investment Philosophy
I view investing in common stocks as a way to be a permanent owner of the best businesses around the world.

<u>Market</u>
The stock market simplifies the price negotiation process. Unlike customized deals that can lead to more efficient pricing, the public market sometimes offers buyers irrationally priced opportunities while providing access to shares of companies whose qualities far exceed the norm. Thus, the market, when used as intended, is a provider of opportunity for a rational investor.

<u>Valuation</u>
The valuation of a company involves a process of making a series of assumptions that transform its shares into a bond with a yield. This process depends on qualitative insights, which require an in-depth understanding of the industry to identify the most significant economic factors that drive or disrupt the business. While a precise forecast is impossible, a strong grasp of these factors helps form a reliable picture of the business's current value, thereby reducing the likelihood of significant errors in assessing its long-term economic prospects. Here, quantitative data, such as financial statements, provides a structured framework to support and validate qualitative insights, solidifying the assumptions made throughout the analysis.

<u>Risk</u>
The risk of an investment lies in the performance of the underlying business relative to the price paid for its shares, therefore, good risk management naturally follows from a sound valuation. Assessing this risk requires evaluating the degree of certainty regarding the business's economics and the management's integrity. The former reflects the business's natural money-making ability, while the latter points to the potential utilization of its economics to maximize shareholder returns.

<u>Diversification</u>
Diversification is the segmentation of capital to minimize the impact of a failed investment. Without strong conviction in any single investment, it is rational to spread capital widely so that each decision carries minimal weight. However, when one has logical conviction, it is only rational to deploy capital toward the best ideas, as the likelihood of a blunder should, in theory, decrease. Ideally, this approach would focus on a single, unquestionable idea, but fortunately, the game of investing allows for a margin of error. In my view, holding between 3 to 10 companies in a portfolio ensures that investment decisions remain meaningful while still providing room for mistakes.

<u>Criteria</u>
Acquire
- Understandable
- Consistent earning (pricing) power
- Good returns on equity with little to no debt
- Competent management with an excellent track record

Exit
- Lose confidence in the management team. (100%)
- Initial investment thesis doesn't play out in 2~5 years. (100%)
- Economics of the business changes - the business is no longer exceptional. (100%)
- The market offers a chance to sell shares at a price far above their intrinsic value. (5~15%)