Investment thesis with capital allocation rule

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My key theme when constructing a portfolio is "**biggest bang for a buck**" with diversified investment duration, in a technical term, efficient allocation perspective.[1] In other words, allocate capital to firms that need the most. This does not necessarily mean the stock price will go up the most, as price of a stock is determined by buyers and sellers of the stock. Firms who get investment will return the investment with interests in several forms including dividends or buybacks. For example, while I have little doubt that Amazon, Google, Microsoft, and Nvidia are great companies, those companies have enough (sometimes more than enough) capital from other investors, that they would not need my money. Some of those companies with rosy prospects tend to have excessive capital injection, which later reveals that the excessive funding was not necessary. I look for companies that have potential to generate profits, but are struggling in the short-term due to a binding cash constraint at the moment.[2]

1 Funds structure

1.1 U.S. holdings (with WISE, LSE)

I have two other funds (two other brokerage accounts) with different risk profile: (ii) Opportunistic and (iii) Hypergrowth. (ii) Opportunistic fund is an relatively new and I am experimenting with smaller portion of capital (less than 20 %). I impose bigger margin of safety (much lower entry point), but with higher risk-taking when commiting by buying longer duration options rather than stocks. The rule is, do not spend more than 25% of capital inside the fund at once, load up only once at max per position, don't reenter until half of the duration passes. (iii) Hypergrowth fund is the fund with the stocks with Hypergrowth category. My assumption

[1] Like a social planner

[2] This can be called "Social planner's allocation vs an agent's allocation." I dare to think from the perspective of a social planner, but purely in terms of profit maximization of firms.

Table 1: U.S.; As of October 9, 2025

Holdings	Entry	Category	Rebalance	(Expected) Duration	Proportion (Percent)
KMX	50.11	Growth	45	2 - 3 years	10.0
ABNB	118	Hypergrowth		5 years	(8.2) x 3
CPNG	16.8	Hypergrowth		5 years	(6.1) x 2
WISE (LSE)	$\approx$ 650	Hypergrowth		5 years	$\approx$ 6 x 2
JBLU	5.4	Value	Covered call	1 - 2 years	10.8
KHC	30.9	Value	38	1 - 2 years	10.9
STLA	12.7	Value	16.3	1 - 2 years	(11.6) x 2
STLA	(Call)	Value	16.3	Less than 2	1.4
ZM	62.8	Growth	120	2 - 3 years	7.3
PYPL	64.5	Growth	112	2 - 3 years	(8.4) x 2
UAA	7.2	Growth	12	2 - 3 years	9.8
UNG	(Call)	Macro		Less than 2	0.4
NVDA	(Put)	Hedge		Less than 2	1.2
UBER	(Put)	Hedge		Less than 2	1.4

is that those firms tend to be more volatile but more profitable, and it requires longer holding period ("Venture" stage). I decided to have two separate accounts as a real-world experiment to find out the winner between a reasonable diversification and a portfolio with highest conviction. I expect the flagship to have a lower standard deviation. I plan to rebalance between funds if only one fund exceeds the half of flagship fund's NAV, and within fund at most once a year.

- Flagship fund has stocks form Value (45%), Growth (25%), Venture (20%), Macro & Shorts (10%). Each category has 2-5 stocks. I try to keep the entire number of holdings less than 12, and holding period on average is 2 years (0-5 years).
- Concentrated fund has 3-4 stocks that is picked from each category, ones that I deem the best (potentially highest upside).
- Venture fund has hypergrowth firms only.

1.2 Korea holdings

- Every equity in Korea is **Value**, I have been unable to find attractive Korean stocks that will go to "**Growth**" nor "**Venture**". I would like to add **Growth** and **Venture**, but cannot find any in Korea now.

Notes

1. U.S. and Korea's allocation are about 50:50. I don't plan to do cross-border rebalancing.

Table 2: Korea; As of July 16, 2025

Symbols	Holdings	Entry	Category	Proportion (Percent)
A005490	POSCO Holdings	238375	Materials	10
A139480	E-Mart	66154	Consumer Staples	6
A007070	GS Retail	14620	Consumer Staples	7
A032640	LG Uplus	10679	Communication Services	8
A097950	CJ Cheiljedang	253320	Food Products	11
A000120	CJ Logistics	87088	Logistics	8
A007310	Ottogi	444650	Food Products	12
A005930	Samsung Electronics Co Ltd	58750	Information Technology	16
A010950	S-oil	58245	Oil, Gas	11
A530036	Inverse Crude Oil 2x	69	Hedge (Macro)	2
A261120	Inverse USD 2x	6625	Hedge (Macro)	3
A253160	Inverse KOSPI 2x	5610	Hedge (Macro)	4

2. With current policy rates ($\approx$ 4%), I do not own banks, as banks are very susceptible to interest rate drop (among many other reasons), which may happen in the next few years.
3. I also do not own Bitcoin or related ETFs as cryptocurrencies are inherently speculative. Hence it is hard to forecast (guess) the price.

2 Classification

1. Value
   (a) No more than 2 trades per holding; Only one trade per quarter and per holding. E.g. If I add more positions to INTC in 2024Q1, no matter how lower the price goes down, I don't add more at least during the quarter.

2.1 Value

I stick to strict concept of value firms (P/B ratio close to 1 or less than 1). Intuitively, these firms at least face temporary concerns or have some default risk. I intend to hold these firms 0–2 years, based on how fast the price reaches the appealing price to sell. I currently own **JBLU**, **AAP**, **STLA**, **KHC**. I try to stick to conservative notion of "value" firms, firms with price-to-book ratio less than 1 or close to 1.

2.2 Growth

These are firms with revenue growth rate close to 20% in recent years, but either the revenue growth rate dropped or for an external factor (e.g. CEO scandal, NFLX subscription growth drop), the financial ratios deviate from the historical mean. My thesis for this allocation is to aim to see mean-reversion of financial ratios. I currently own **UAA**, **ZM**, **PYPL**

2.3 Hypergrowth (startups)

These tend to be firms with no profit, and “expensive” in terms of financial ratios. Qualitatively, they are viewed as “glamorous” and “future-oriented” firms. I own **CPNG**, **WISE** (LSE), and **ABNB**.

2.4 Macro

Depending on extreme price movements (e.g. Crude oil hitting close to $100), I sometimes open a asymmetric risk-reward position either through ETF option or leveraged ETFs. I almost never short (naked) or sell options unless the loss is defined (e.g. Spread, Iron condor) and it is cash settled (e.g. **SPX** options). I do not have any Macro positions, but I have limit orders on **TLT** (call), **USO** (put), **SPY** (put).

2.5 Hedge (short, Put options, inverse ETF)

As 80-95% of portfolio is long position, I devote 2.5-10% of portfolio to short, buying far out-of-money options. I currently have put options on UBER, NVDA

2.5.1 Potential option trades (hedge)

1. **NFLX, META, HOOD, DUOL**, as of July 4th, all look potentially good short (buying put options). I would put **NFLX, META** into Growth category (Growth short), and **HOOD, DUOL** as Hypergrowth short (startups) if the price moves more than 5% within a month, my limit order on far out-of-money put option may go through.

2. **TLT** can be a good long (call option); I view the recent U.S. Treasury market fluctuation as temporary in terms of 1-3 year horizon. The tariff news was a news shock, not a real shock (tariff was “announced”, and investors reacted to it. No party paid the tariff at the time of the announcement). Such response tends to be transitory (unlike inflation), so I

expect it to work as a good hedge for long only or long concentrated portfolio as mine (80-90% long).

3 Margin of safety and rebalancing

From my investment journey, I have noticed more often than not, the price I am happy pay now drops significantly further many times and vice versa. This is tradeoff between either missing an opportunity vs Entering a new position at a discount. I have realized from experience that setting a limit order 5-10% higher or lower than the current price yields much higher return, working as “margin of safety” as many finance professionals call it.

4 Reasoning behind capital allocation rules

4.1 US

- Intentional 50:50 split between US and Korea to handle and benefit from country-specific shocks and innovations.
- Best of each category: Equally allocating capital into three factors with Macro & Hedge components, the upside is open while protecting big downfall to a large degree.
- Cost of carrying hedge and macro bets is tiny (less than 5%). This gives me downside convexity (windfall gains) without hurting long equity profits much.

4.2 Korea

- Almost entirely Value with a small macro hedge via inverse ETFs.

5 Verification (Backtest to do)

Although I included human element (e.g. pick a few from Value), I can backtest whether this will have higher Sharpe ratio than investing in SPY, one of the index that is known very hard to beat.

1. Select firms with price-to-book ratio between 0 and 2, recent drop (more than 30%) while p/e ratio or cash flow per share stays more or less the same (less than 10% drop).

2. Growth firms with market capitalization more than 2 billion USD (to guarentee liquidity), recent price drop (p/e ratio compared to the 3-year average and last 3 quarter).

3. Hypergrowth firm with revenue growth (Peg ratio) at least higher than 30% last year and 3-year average is higher than 20%.

6 Other ideas

6.1 Buy SPY puts with low VIX ($<$ 1st quartile in 1 year)

From experience, this is successful if I buy SPY put options when VIX is lower than the 1st quartile value per year. Sell at 1.5x. The only downside is the chance exist only 1-3 times per year. Advantage is that this is really good hedge for long-focused funds.

6.2 Oil price movement asymmetric bets (Binary)

Global crude oil has supply elasticity of nearly zero for 3-4 months. In other words, if demand drops or sharply increases, oil price is inherently volatile. Having far out-of-money options at small cost sometimes produce large asymmetric gains.

- Everything else equal, USD appreciation causes the oil price to drop.

6.3 Pair trading between TLT and long-term US corporate bonds (HYG)

Yield differential between long-term treasury and long-term corporate bonds have narrowed (deviation from historial gap). We can long TLT, and short HYG. I am less sure about this strategy, hence it would need a lot of backtesting as the risk is potentially unlimited.