2024

River Landscape

1882, oil on canvas

Homer Watson

Annual Report

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 Korean news. It was highlighting 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 recall stumbling upon investment gurus like Robert Kiyosaki and many others at first. Then, I learned about Mr. Buffett and Mr. Munger.

From that moment, I jumped in with both feet. I split my free time evenly between school, video games, and investments. From technical analysis to building a DCF model, the game of investing kept me far too talkative during dinner times.

In 2019, when I turned 18, I opened my first investment account. I was ready to put everything I'd learned over the past three years to the test. Like any other game I played, I intended to try out most, if not all, of the strategies I'd encountered while studying investing. I knew I'd eventually become a value investor because I had a grandfather and a father who both ran a small business that pulled us out of poverty to a middle-class life without much formal education. However, I wanted to explore other approaches first, thinking they might offer lessons that value investing alone couldn't teach.

This led me to September 2024. By then, I'd been at it long enough to step back and evaluate my results. Frankly, everything except the long-only account had underperformed the market. The strategies I employed were primarily short-term trading, ranging from a few minutes to a few months, and included the use of shorts, options, and computer algorithms.

That September, I finally called it quits on the other strategies and settled into value investing. They say compounding is the eighth wonder of the world, and while I may have lost a significant amount of capital that could have been compounded over the past five years, I believe the lessons I learned from trading are just as valuable. It was a steep learning curve, one that taught me a great deal about myself. But most importantly, I came to the conclusion 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. Funnily enough, I was on a call with my parents recently, and they brought up a story about how long it used to take me to choose a toy. They'd often set aside a three-hour block for me to roam the store and make a decision. Apparently, I'd always narrow it down to a few options and weigh them carefully for a very long time before settling on one. Hearing this story made me appreciate how much of value investing was already in me, and I'm grateful that my parents didn't scold me for taking three hours to pick a toy.

I'd like to end this short reflection with a quote from Mr. Munger: "The art of stock picking as a subdivision of the art of worldly wisdom." I can't think of a better way to frame 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.

[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.

Market
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.

Valuation
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.

Risk
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.

Diversification
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 increases as conviction decreases. 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.

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

Sale
- 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%)