

**ELGAEIAN BRADFORD  
2014 LETTER TO SHAREHOLDERS**

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FOUNDER AND PRESIDENT

## 1 Performance Comparison

Date	Elgaelian Bradford Portfolio Return	S&P 500 ETF Fund Return
1/3/2011	(0.35)	0.02
2/1/2011	0.24	0.03
3/1/2011	(0.02)	(0.00)
4/1/2011	0.10	0.03
5/2/2011	0.06	(0.01)
6/1/2011	(0.04)	(0.02)
7/1/2011	(0.04)	(0.02)
8/1/2011	0.05	(0.05)
9/1/2011	0.05	(0.07)
10/3/2011	0.06	0.11
11/1/2011	0.49	(0.00)
12/1/2011	(0.27)	0.00
1/3/2012	0.10	0.05
2/1/2012	0.09	0.04
3/1/2012	0.10	0.03
4/2/2012	(0.03)	(0.01)
5/1/2012	(0.01)	(0.06)
6/1/2012	0.54	0.04
7/2/2012	0.06	0.01
8/1/2012	(0.12)	0.03
9/4/2012	(0.07)	0.02
10/1/2012	0.90	(0.02)
11/1/2012	0.04	0.01
12/3/2012	(0.01)	0.00
1/2/2013	0.02	0.05
2/1/2013	0.11	0.01
3/1/2013	0.03	0.03
4/1/2013	0.02	0.02
5/1/2013	0.20	0.02
6/3/2013	0.19	(0.02)
7/1/2013	(0.04)	0.05
8/1/2013	0.06	(0.03)

Date	Elgaeian Bradford Portfolio Return	S&P 500 ETF Fund Return
9/3/2013	0.06	0.03
10/1/2013	0.06	0.05
11/1/2013	0.06	0.03
12/2/2013	0.06	0.02
1/2/2014	0.06	(0.04)
2/3/2014	0.06	0.05
3/3/2014	0.01	0.00
4/1/2014	(0.67)	0.01
5/1/2014	(0.75)	0.02
6/2/2014	4.96	0.02
7/1/2014	0.14	(0.01)
8/1/2014	0.04	0.04
9/2/2014	0.28	(0.02)
10/1/2014	0.01	0.02
11/3/2014	(0.20)	0.03
12/1/2014	(0.12)	(0.01)
1/2/2015	(0.34)	(0.03)

Dear Shareholders of Elgaelian Bradford Inc.,

As you already know, Elgaelian Bradford started on the basis of value investing. We look at companies' ability to retain earnings. The extrinsic value from the market can be volatile and we have no prediction on the price per share of targeted security. However, we do have a trend analyzed from past earnings on securities' intrinsic value, which usually vary from market price. We discovered a link between extrinsic value and intrinsic value this year. We experienced on this discovery with one position. It worked and we aimed to integrate this method in more potential opportunities in 2015.

## 2 Link Between Intrinsic Value and Extrinsic Value

We category all sorts of values to be two kinds: intrinsic or extrinsic. Intrinsic value is a subject concept dependent on its observer. It is a value on a fact from the observer and the value reflects the past experience of this observer. Extrinsic value is an objective concept referred from facts. Extrinsic value can almost always be found from a certain resource. Applied into stock market, the price per share can be understood as a type of extrinsic value. It is a value the market "thinks" how much the security worth. This value can be smaller or bigger than the value you think about the security.

Now we have had a confusing idea. What is market? Mr. Market can be moody or excited any time he wants. How do you know that? This is why the link between intrinsic value and extrinsic value is so important before you place your position. The question we need ask ourselves is when does Mr. Market reverse from being moody to complete excitement or the other way around. The answer to that question is lying between supply and demand.

I am always to the long side of the market, so I will use long position as an example to illustrate how I interpret this ?link?. The price goes up because at that price there are no more sellers. The remaining buyers still want the stock and they are willing to pay at higher prices. You want to make sure that the moment you place your position there will be more buying power behind you. Buying/selling power should be understood as two parties in warfare. One party owns the more powerful firearm will push the other party backward. Until a time that this party has exhausted its firearm power, the other party will push the front line backward. It is the same mechanism between supply and demand in U.S. secondary market. You want to place your long position when you see an exhaustion of selling power and you want to get out of your long position when you see an exhaustion of buying power.

Let us take a step back to talk about the ?link? itself. As a money manager, I do my research and I come up with couple of ideas about how my target companies should be valued at. I looked at the market and I want to make sure some time in the future the market gives this stock a similar valuation. How do I know whether or not the market is doing that? I need to know if there is an underlying buying power assisting me to push that price above to my target price. It is probably not going to be exactly the same, but it could be within a certain range.

Now we are seeing a little variance in Mr. Market. I want to know if there is underlying

buyer. If I see him, he probably already had the position. That means he is probably smarter and earlier than I am. This is correct and it should be this way. I am not the top 1% smartest people, but I can be the top 10% smartest people. I let Mr. Market showing me a lack of moody before taking a position and waiting for the rest 90% of the market to be sober.

As a conclusion, the link between intrinsic value and extrinsic value is timing. I will come up with several plans a year about some stocks I want to buy. I need to let the market to show me a lack of selling power before I place my long position.

### 3 Major investments

The major investment of 2014 for my fund is in CMG. Chipotle had \$32 billion in sales in 2013 and it can easily outpace its peers in the upcoming decade. I personally do not eat chipotle that much, but every time I go there I felt this convenience in life that I have never felt before. I can easily imagine a white-collar worker working on the street going there every day for lunch for the rest of his career as long as he does not change his job.

Does the company provide healthy consistent cash flow for its business? Yes, it absolutely does. Does the company look like it has been undervalued? Of course it does. Does this sound like a value investing to readers? It sure does. Shall I buy on the first day of 2014 and sell the stock after New Year? That will give me an entry price at \$530 and an exit price at \$686, which is 29.43% return. Does that sound like a good deal for me especially when SPY has been very choppy this year? It sure does. However, that was not what I did.

CMG showed me extremely small volume in the beginning of 2014. It was almost out of the sight of major investors. If the market were not even looking at this name, it would not be sound for me to be involved. I wait. The stock went down to 40 points. After earnings, the name gaps up with a giant volume bar. It did not give me an entry. I do not see potential buying power behind me. In fact, I see the opposite. I saw potential selling power ahead of the price if I were to take the stock now. In late February, technicals traders would tell you they see a bull flag and it was time to buy. I did not enter the position. The stock did go up 50 points in March, but it failed miserably in May, hitting an all time low at \$472 per share. It did not puke. Usually, if the stock is really not a piece of gold, it will keep going down tremendously without any stop. In May, the stock stopped going down. I saw an underlying buyer in CMG. I knew the market is soaking up the stock and it is underperforming. I did not pick a bottom. I waited patiently till the end of May. On May 27th, I took max amount of CMG from \$521 per share. I opened up my account two months later and the stock was traded at \$600. I was 80 points in the money. A lot of my peer investors were trying to persuade me to get out of my position. However, I did not. I did not see an exhaustion of buying power. I held max amount of my position after earnings. The stock surged another 40 points. I waited for another two weeks. The stock gave another bull flag. A lot of the technical traders were involved. They lost a lot of money simply because the stock failed to break out. I knew there is an underlying seller above \$688 per share. Hence, on August 15th, I liquidated whole position in CMG at \$677 per share.

## 4 Value investing and behavioral finance

Value investing is always the key to successful investment management of corporate finance. The ability to retain earnings will never shift away from our concentration. It never did, and never would. This year, I have discovered another aspect of looking at financials ? behavioral finance. Last year, I tried to incorporate behavioral finance into my trading system. I did not do so as I expected mainly because it was way too subjective. I kept asking myself “why do people trade”. All I am getting out is fear and hope. I do not want anything to do with fear and hope. I know it can be used as a great tool if I can understand. However, I do not think I am a master in understanding of fear and hope. I would rather look at price action and let it dictates my trades.

## 5 Summary

As we always believed, great assets come from externally clients and internally employees. I will always be seeking the best approach to help serve our people financially. This year is a good start! From my perspective, the future goal of this company will always focus on how to manage and understand retained earnings. Hence I can be confident to transfer fiduciaries into comfortable client experiences for my people.

Best Regards,  
Yiqiao Yin  
Founder and President  
December 31, 2014