ELGAEIAN BRADFORD
2016 LETTER TO SHAREHOLDERS

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Founder and President

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Preface

Dear all,

This year has been very unusual for me. Our alpha position finished with a little over double the account size, that is, an outstanding 115% return. I would really love to boldly claim that I am a good fund manager, but, as a mathematician myself, I did not see any eye-catching significance in my alpha. Once again, I have been very lucky to have caught two dips. The first dip was in February and the second dip was the Presidential Election.

I want to take a moment to thank all my friends and those who supported me. I could have not done it without you guys. I certainly hope this letter could cheer you up a little during New Year along my greatest gift, a book I have been written, as a present for you all.

Yiqiao Yin

December 31st 2016

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1 §Performance§

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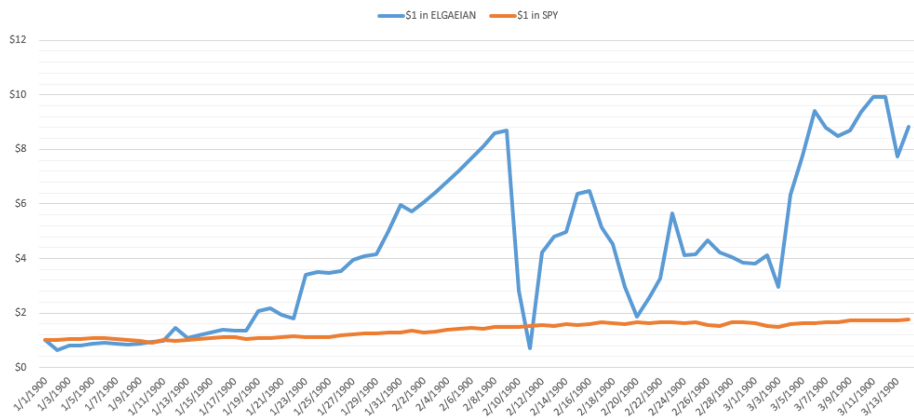
Date	Elgaeian Bradford Portfolio Return	S&P 500 ETF Fund Return
1/3/2011	(0.35)	0.02
2/1/2011	0.24	0.03
3/1/2011	(0.02)	(0.00)
4/1/2011	0.10	0.03
5/2/2011	0.06	(0.01)
6/1/2011	(0.04)	(0.02)
7/1/2011	(0.04)	(0.02)
8/1/2011	0.05	(0.05)
9/1/2011	0.05	(0.07)
10/3/2011	0.06	0.11
11/1/2011	0.49	(0.00)
12/1/2011	(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)
2/2/2015	(0.37)	0.06
3/2/2015	0.37	(0.02)
4/1/2015	0.27	0.01
5/1/2015	0.74	0.01
6/1/2015	(0.27)	(0.03)
7/1/2015	0.00	0.02
8/3/2015	0.12	(0.06)
9/1/2015	(0.09)	(0.03)
10/1/2015	(0.04)	0.09
11/2/2015	(0.06)	0.00
12/1/2015	(0.01)	(0.02)
1/4/2016	0.08	(0.05)
2/1/2016	(0.28)	(0.03)
3/1/2016	1.14	0.07
4/1/2016	0.23	0.03
5/1/2016	0.21	(0.00)
6/1/2016	(0.07)	0.01
7/1/2016	(0.04)	0.00
8/1/2016	0.02	0.04
9/1/2016	0.08	0.00
10/1/2016	0.06	(0.01)
11/1/2016	(0.00)	0.00
12/1/2016	(0.22)	0.02
1/1/2017	0.15	0.02

We plot account size for $1 invested in Elgaeian Bradford versus S&P 500 Index Fund below.



2 §Bruce Lee Water Principle§

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I believe everyone is familiar more or less with Bruce Lee's *Water Principle*. I believe, whether the audience realizes or not, that this principle lives in our daily lives. It is a philosophy that we are programmed to possess; and I am merely pointing it out to you. I am not going to describe or define what this principle is. Because if I am able to do that, it would not be called *Water Principle*. However, I can share with you my experience and understanding of this principle.

We all start our lives going to school. We are taught certain things. We study and practice. Years of experience nurture us, teach us, and change us to become who we are today. This process takes many forms, yet there is one root that it follows. A person is at first shown what is a "correct" way. He or she goes out there in real life to practice whatever it is he is shown to be deemed to be "correct". This person practices these seemingly correct methods consistently until one time that this practice no longer works in a new situation. He or she will have two options: change and adapt, or suffer and die. Often times the decisions we make will lie between these two extreme nodes.

This is exactly what we all experience in stock market. I have seen countless amount of times that money managers (myself included) are losing money not because money managers are not smart but really because they are fighting their own emotions.

Money management is an art. We learn, correct, and implement science; we do not do that for art. Art is something we admire, care, and adore. We money managers manage money because this is something we care. "Care" takes a lot of emotions and that means we embrace this piece of art. In other words, money managers will be at their best efficiency to interpret the market when his emotions are correctly managed. True power comes between rage and serenity. Neither Sith nor Jedi is powerful enough.

Money managers need to balance between these two forces. You need to be an aggressive money maker, so you can efficiently correct the “low” prices in the market. You also need to stand at a moral high ground, because profits without valuable ethics will be evil or even illegal (Pablo Escobar was listed in Forbes Magazine 1987 issue to have net worth of $2 billion dollars, but you would never see a successful money manager do anything similar to what he did). This is what we should do to manage our savings and certainly what I am aiming to do for what I will be doing for my business.

3 §Global Horizon§

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This is the first year I had my concentration outside of U.S. equity class. Although going against major Wall Street firms, I have heavy positions in Gold and Oil for a short period of time, which I believe is the sole reason guaranteed the return this year.

First of all, I started 2016 with an incorrect thesis under a correct logic. We all knew FED would increase rate. As a matter of fact, they did. Traditional finance theory tells us that an increased interest rate would give investors an incentive to take money out of equity market to buy bond. The reason is that, with interest rate increases, the discount rate increases. With discount rate at the denominator, the present value of major equity classes would decrease. On top of that, we also had a bullish run all the way from 2008. It is reasonable to guess that there will a bigger correction ahead of us. Nope, it did not happen.

In other words, I entered 2016 with a short thesis. I have never experienced a crisis. Frankly speaking, I actually hope to experience a crisis for my own personal learning purpose. However, as usual, market did not give me what I want. The dip in February 2016 was a relatively bigger “dip” than the little ones we were discussing in early years. My short positions were not early enough to book profits and I knew I was not the only one. The same time I saw my short positions were not making any more money I immediately entered huge positions in high-beta names (contra direction as my short positions [1]), marking my above-par return just by the 2nd quarter. Surprisingly, I did not lose money on my short positions as I closed these positions a little after I entered my long ones.

A big name composing my alphas this year in small/mid cap growth stocks. Russells have been outperforming market since I started following this sector in 2014. I still believe there is tremendous potential in this sector and I remain my long thesis.

Another big thesis I had entering 2016 was Gold. There were a few weeks of time that I had almost 70% of Gold weighted in my portfolio, marking a historical high. I was never a commodity trader and nor do I understand Gold.

[1] At this point, my aggregated beta is approximately 0, which is equivalent as if I did not buy or sell anything.

This was a trade played in consistency with Game Theory as well as speculating potential heavy buyers into the market. It played out well. I remain long thesis with this sector entering 2017.

Oil played a major part in the end of 2016. It was a little after the election that I allocated no more 10% of the wealth in oil. They returned an outstanding of over 300% return on my related positions. I hold my long thesis in Oil Sector entering 2017.

I will explain each section in the following.

4 §Abbey§

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This year a big project I have been working on was the theoretical part of my Artificial Intelligence Assistant — Abbey. It documents every single information I have known and have dealt with in five years of career in this market. It is a fairly technical reading and I believe the abstract framework can deliver my ideas in an efficient manner.

In the beginning, Abbey was just a simple pricing model. Observed fundamental data, Abbey pops out "correct" efficient prices with significant coefficients.

Gradually, the more I learn the more I realize that fundamentals only play a few parts of the market. This market is also formed by technical, macro, pricing, quantitative information, and so on. It is time to implement, to develop, to criticize, and to correct.

After a year of work, Abbey can read information (observe from Google engine) and **generates a buy/sell signal with relative strength**.

I am very happy with Abbey since Abbey takes away almost 99% of my labor and I only need to decide whether to listen to her or not. I did not stop developing her, and I intend to make her more advanced the more I learn. [2]

5 §Major Positions§

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Following my own document and philosophy, I discussed three aspects in this section: Alpha Protocol, House Party Protocol, and The Winter Contingency.

Briefly speaking, a specialist observes data and use whatever model that he thinks would fit the data. Observed data would be prior distribution. As time goes on, there will be new information and data being observed. New information can rest in the range of prior distribution. Based on fund managers' preferences, this piece of new information can be deemed "normal" or

[2]For more information about Abbey, feel free to go to my site. Under Research tab, you will find the document named "Art of Money Management".

"abnormal". New information falling in "abnormal" range would trigger *Alpha Protocol* [3]. New data can also fall outside of prior distribution. In this case, it could fall above or below the range. Falling above the range would trigger *House Party Protocol*. Falling below the range would trigger *The Winter Contingency*. Abbey's job is to identify exactly what threshold I should use and why [4].

5.1 Alpha Protocol

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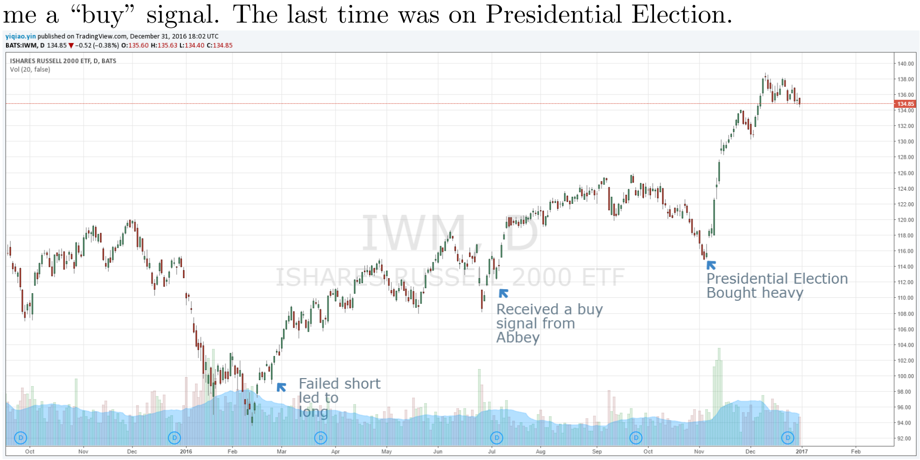
As discussed above, the majority of alphas came from the investment of small/mid cap sectors [Russells 2000, IWM], a name in small cap growth section. I barely traded this name since I considered it as a major long-run investment. I only took a look at this name three times. The first time was when I entered 2016 with short positions. The second time was during July period when Abbey gave me a "buy" signal. The last time was on Presidential Election.



I entered 2016 shorting this market and a heavy "buy" in Gold. I am not a commodity trader nor am I an expert analyzing Gold market. But when the market gave me an imbalanced supply and demand in this product, I just could not control myself to buy Gold. A major alpha position was done by buying AU, GLD, and KGC at the same time. For AU and GLD, I knew Ray Dalio had positions in them so I left them as alpha positions in the section of Gold.

I also entered the third quarter buying Oil (SDRL, WTI, USO).

A major position I held for almost 3 quarters is the position in small cap growth stocks. This is the position that promised me an above-par return for 2016 (IWM).

5.2 House Party Protocol

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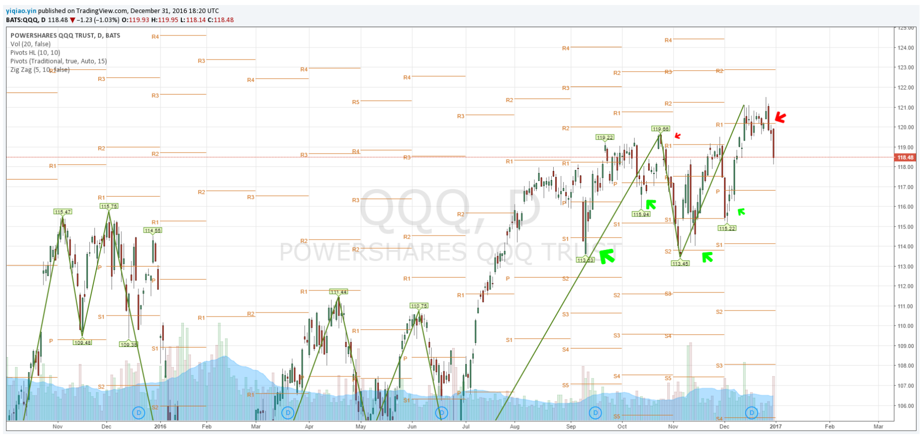
[3] Reliable models can be FF3, DCF, FF5, Momentum-Factor, Short-run or Long-run Reversals, and etc.

[4] More information can be referred in "Art of Money Management".

In Gold Sector, I liked KGC a lot because of its volume, so I picked KGC to trade around it for beta. Ray Dalio had a billion-dollar position in KGC from average price \$1.8 and this told me I probably missed the "best" entry point. That being said, I still entered pretty heavy in this name during late February and March. The street often times would look for a "bull" flag. As volume kicks in at the bottom of the flag, I bought extremely heavy. This is something I would never do with clients' portfolio. For my clients out there, please do not get discouraged seeing this return because there is a huge chunk of luck in this position and my experience tells me your money is a lot safer if I choose not to do things like these. I entered KGC with an average price of \$2.7 and then eventually \$2.8 when it makes new highs. In April, KGC went to \$5.80, marking the peak of Gold in 2016. As usual, this where my weakness kicked in. I often times find it difficult to persuade myself to admit a peak in stocks (i.e. equity classes). However, this is Gold. My mistakes were made when KGC was fluctuating from \$5.60 to \$4.20 range. A lot of quick large profits can be made and a lot of quick big mistakes can made as well.

I traded frequently with light tier size in technology industry this year. Couple of the big names are Amazon, Google, and Facebook. I finished with a loss in AMD, which was a big mistake I made. The following chart presents large cap growth stocks I have dealt with. Green arrows are buying and red arrows are selling. The size of the arrows represents relative volume.



Another name that executed after the trigger of *House Party Protocol* was SDRL, an oil name. The same time period I have put around less than 10% in each of these names including USO, CHK, and WTI. It was a simple trade. I bought after election, and I got out when market hit new highs.

5.3 The Winter Contingency

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As mentioned above, I entered 2016 with a short thesis. My short positions were actually healthy in the beginning of 2016. I got warning signal from Abbey that it was not a short environment and my positions would be in great danger once short sellers rewind their positions (a short squeeze). I checked her algorithm multiple times. I could not find any mistakes. Then the only conclusion, however improbable, must be the truth. That is, I was trading emotionally.

In fact, I did entered 2016 with a big personal purpose. I have never experienced crisis and I was really hoping this 2016 could give me some big short environment for me to learn, but it did not happen.

6 §Presidential Election§

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I was advised to put this section up. I am no expert in presidential election and nor do I understand in depth about any plans the politicians came up.

I graduated out of University of Rochester, a big libertarian school. By definition, I probably would want Gary Johnson to be president. However, he was not even in the debate. Nothing I can do there.

One thing I need to mention is that social media used this election to boost online traffic (probably by a lot more than they ever did). This, as we all know of, is a major force to make the crowd think about whatever it was they are thinking. All kinds of emotions were raised, greed and fear.

I am simply sticking to my own rationale. I had Abbey looked for couple of research papers. Wong and McAleer (2008), Huber and Kirchler (2013), and Chuang and Liu (2013) all show the same results, that is, stock market had been consistently going down before election and up after. Before I have any solid evidence to prove that either candidate will be good or bad, I simply stick to the statistics the research showed me. In other words, Abbey executed this position without any of my emotions interfere. It played out well and Abbey did a great job.

7 §Conclusion§

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This has been a great year. I hope my work can act as a reference and I love sharing my experiences with you. Please contact me without a doubt if you have any questions. Any critics are warmly welcomed from each and every one of you.