2017 Annual Letter

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Abstract

This is the 2017 annual letter to shareholders. This year our after-tax return was 17% while S&P 500 Index ETF gained 20%, the first time I was beaten by the market. The letter also presents a summary of the past seven years I have been running this business from personal stories to trading and investing recap.

Contents

1 PERFORMANCE

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Date	My Return	S&P 500	$1 Simulation: My Performance	Market
			$1	$1
January 3, 2011	(0.35)	0.02	0.65	1.02
February 1, 2011	0.24	0.03	0.81	1.06
March 1, 2011	(0.02)	(0.00)	0.79	1.05
April 1, 2011	0.10	0.03	0.88	1.08
May 2, 2011	0.06	(0.01)	0.93	1.07
June 1, 2011	(0.04)	(0.02)	0.89	1.05
July 1, 2011	(0.04)	(0.02)	0.85	1.03
August 1, 2011	0.05	(0.05)	0.89	0.97
September 1, 2011	0.05	(0.07)	0.93	0.90
October 3, 2011	0.06	0.11	0.99	1.00
November 1, 2011	0.49	(0.00)	1.47	0.99
December 1, 2011	(0.27)	0.00	1.08	1.00
January 3, 2012	0.10	0.05	1.18	1.04
February 1, 2012	0.09	0.04	1.28	1.09
March 1, 2012	0.10	0.03	1.41	1.12
April 2, 2012	(0.03)	(0.01)	1.36	1.11
May 1, 2012	(0.01)	(0.06)	1.35	1.05
June 1, 2012	0.54	0.04	2.08	1.08
July 2, 2012	0.06	0.01	2.19	1.10
August 1, 2012	(0.12)	0.03	1.92	1.12
September 4, 2012	(0.07)	0.02	1.78	1.14
October 1, 2012	0.90	(0.02)	3.39	1.12
November 1, 2012	0.04	0.01	3.51	1.13
December 3, 2012	(0.01)	0.00	3.49	1.13
January 2, 2013	0.02	0.05	3.55	1.19
February 1, 2013	0.11	0.01	3.95	1.21
March 1, 2013	0.03	0.03	4.07	1.25
April 1, 2013	0.02	0.02	4.17	1.27
May 1, 2013	0.20	0.02	5.00	1.30
June 3, 2013	0.19	(0.02)	5.96	1.28
July 1, 2013	(0.04)	0.05	5.72	1.34
August 1, 2013	0.06	(0.03)	6.07	1.30
September 3, 2013	0.06	0.03	6.43	1.34
October 1, 2013	0.06	0.05	6.82	1.40
November 1, 2013	0.06	0.03	7.23	1.44
December 2, 2013	0.06	0.02	7.66	1.47
January 2, 2014	0.06	(0.04)	8.12	1.42
February 3, 2014	0.06	0.05	8.61	1.48
March 3, 2014	0.01	0.00	8.70	1.49
April 1, 2014	(0.67)	0.01	2.83	1.50
May 1, 2014	(0.75)	0.02	0.71	1.53
June 2, 2014	4.96	0.02	4.23	1.56

Date	My Return	S&P 500	$1 Simulation: My Performance	Market
July 1, 2014	0.14	(0.01)	4.81	1.54
August 1, 2014	0.04	0.04	4.98	1.60
September 2, 2014	0.28	(0.02)	6.38	1.57
October 1, 2014	0.01	0.02	6.47	1.60
November 3, 2014	(0.20)	0.03	5.16	1.65
December 1, 2014	(0.12)	(0.01)	4.52	1.63
January 2, 2015	(0.34)	(0.03)	2.98	1.59
February 2, 2015	(0.37)	0.06	1.88	1.68
March 2, 2015	0.37	(0.02)	2.57	1.64
April 1, 2015	0.27	0.01	3.26	1.66
May 1, 2015	0.74	0.01	5.66	1.68
June 1, 2015	(0.27)	(0.03)	4.13	1.64
July 1, 2015	0.00	0.02	4.15	1.67
August 3, 2015	0.12	(0.06)	4.66	1.57
September 1, 2015	(0.09)	(0.03)	4.24	1.52
October 1, 2015	(0.04)	0.09	4.07	1.65
November 2, 2015	(0.06)	0.00	3.84	1.66
December 1, 2015	(0.01)	(0.02)	3.82	1.62
January 4, 2016	0.08	(0.05)	4.12	1.54
February 1, 2016	(0.28)	(0.03)	2.95	1.49
March 1, 2016	1.14	0.07	6.32	1.59
April 1, 2016	0.23	0.03	7.76	1.65
May 1, 2016	0.21	(0.00)	9.41	1.64
June 1, 2016	(0.07)	0.01	8.79	1.66
July 1, 2016	(0.04)	0.00	8.48	1.67
August 1, 2016	0.02	0.04	8.69	1.73
September 1, 2016	0.08	0.00	9.39	1.73
October 1, 2016	0.06	(0.01)	9.93	1.72
November 1, 2016	(0.00)	0.00	9.92	1.72
December 1, 2016	(0.22)	0.02	7.72	1.75
January 1, 2017	0.15	0.02	8.84	1.78
February 1, 2017	(0.06)	0.02	8.33	1.82
March 1, 2017	0.40	0.05	11.67	1.91
April 1, 2017	(0.34)	(0.02)	7.69	1.87
May 1, 2017	(0.02)	0.01	7.56	1.90
June 1, 2017	(0.20)	0.01	6.07	1.92
July 1, 2017	0.17	0.00	7.12	1.93
August 1, 2017	0.05	0.02	7.47	1.97
September 1, 2017	(0.18)	0.00	6.16	1.97
October 1, 2017	(0.10)	0.01	5.53	2.00
November 1, 2017	0.36	0.02	7.54	2.05
December 1, 2017	0.10	0.02	8.27	2.09
January 1, 2018	0.25	0.02	10.34	2.13

2 WHERE I COME FROM

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Raised in a middle-income Chinese family, I went to school in Shenzhen, a modern city in Canton Province. I was raised up in the environment of studying Graham. The conventional value-investing strategy was the very philosophy I ever touched about stock market. While the same time other families were discussing Taoism or the Bible over dinner table, the text we were discussing at ours was the book *Security Analysis* by Ben Graham. I thought this was an advantage and it definitely was at first. However in time I realized trading strategies needed to be accompanied with the appropriate moral foundation (which I will explain later). I still remember buying the first stock, the Lenovo Computer, back in China when I was fourteen. I used a secondary account under my father's name and I deposited my only 50 Chinese Yuan, saved from trading pocket cards (a game I used to play with friends in China), into that account.

Why did I choose Lenovo? I happened to be reading a biography of Bill Gates the same year I opened up that account and I had access only to Chinese market (otherwise I would have bought Microsoft instead). I thought people always needed to use computer so that is why computer companies would do well. That was obvious a very naive way to make investment. However, this very trade worked and I turned 50 Chinese Yuan to just above 100, a 100% gain.

I thought I found a causal relationship. Thus, I concluded that making money from stock market would be easy if I was able to detect causation in the market. Well, eventually luck left me alone.

2.1 Walk With the Devil: A Path to Seek Causal Relationship

The path to seek causal relationship is like walking with the devil. I did not know any better back then. I thought everything had a reason. If I agree with $1 + 1 = 2$, then I must agree $1 + 2 = 3$ since $1 + 2 = 1 + 1 + 1 = 3$. If I agree with gravity, then apple must fall from trees. The list went on and I thought stock market would be exactly the same. I looked at my investment of Lenovo Computer. The premises would be "people always use computer" and "price always goes up if this is something people will always use". Therefore I concluded that "I should buy it now". I was not the only one. You would similar arguments almost everywhere. "I valued the company worth $100 and it is now traded at $70, a $30 discount. Therefore price will go up." You probably still hear these arguments today. These kind of arguments are fundamentally wrong from a fundamentally correct perspective. It is wrong because the assertion in the statement is not proved and cannot be proved by the premise given. It is, however, still possible for someone to put up a debate to claim it is right because fundamentally the mindset of the speaker who makes this statement is thinking about picking a discounted stock and he did just find one according to a value he cooked up. The next 3 years I used the same strategy and, not surprisingly, I did not make any money. In fact, it only took me less than a year to almost lose all of that 100 Chinese Yuan and it took another two years to take whatever I have left back to zero.

I finally concluded "there is no science here because investment is art". I was wrong again.

3 ALGORITHM: THE BEST HUMAN COMPANION

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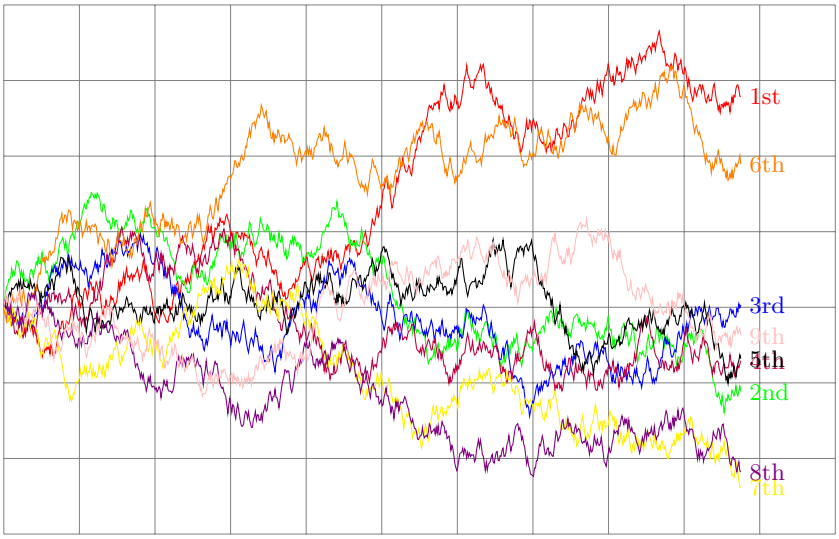
In 2010 I arrived in Rochester, New York, a city where I spent the next four years in college. Years I have been searching for causal relationship in stock market. There was not any. Everything is probabilistically stated. With that notion in mind, I started to develop algorithms I followed in math and probability theory and I simulated the situations in computer. Everything I did before I came to United States was wrong and perhaps everything I am doing now is still wrong. The only thing I did right was to record everything I did wrong and that will probably be the only right thing I do forever.

It sounds like I am being humble. Well, I am really not. I don't know the future and I will never do. I control my personal downside and I let the market take the upside for me.

3.1 Balance of Probability

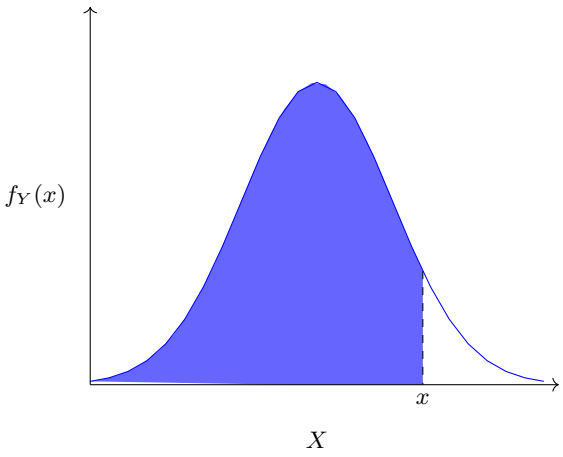
With mathematical publications aside, the story I have always believed in was the notion of "balance of probability". I can look at past data and observe that Apple returns 1% a day for most of the time but occasionally hits 3% a day. Then if there is one day Apple stock in my portfolio hit 3% that means the probability that this event occurs would likely be low. Therefore, I should not conclude "Oh, Apple is starting to do well, let me buy more". Stock market is also a martingale. This means that tomorrow's expectation given all the knowledge field out there would be exactly the same as today's expectation. In math, $\mathbb{E}(r_{t+1}|\mathcal{F}_t) = \mathbb{E}(r_t)$, which says the expectation of return tomorrow $\mathbb{E}(r_{t+1})$ conditioning on all knowledge field $\mathcal{F}_t$ as of today would be exactly the same as the expectation of return today $\mathbb{E}(r_t)$. This projection can be simulated as the following graph, i.e. Brownian Motion. The punchline is if you start from the same origin place at a time then you would go all over the places as time goes on.



Stock market is an auction market (defined under Security Act 1933 by National Best Bid and Ask Rule "NBBA"), which means the only mechanics can be extrapolated would be supply and demand on tape. Back to the Apple stock example, if I agree

with the return distribution briefly described above, I should agree that stock return follows normal distributions. That means, given a particular day with a particular return, I can probabilistically guess this event happened with some probability. All of the reasoning here is okay on paper and would suck a person into a gambling system. Based on probability theory, we have scholarly papers published on a yearly basis to study random walk, or a.k.a. Brownian Motion, and as well as gambling system or, in an advanced level, a martingale. In other words, there is no causal effect here. I trade my game plan, whatever it is I cook up, and I stick to it until my sanity or my money runs out.

As illustrated as the graph below, one can think of stock return per time unit as a normal distribution. That is, there is an average and standard deviation. If I observe Apple stock at 2% return some day, this 2% should give me a particular probability of how often it has occurred based on historical data.



This is insanely dangerous. I remember I entered a big trade in Alibaba while I was a trader on Wall Street on October 17th, 2014. The head traders at the time on my desk were Derrick and Chris. They led the team into the trade and I was one of the traders who made a killing on the trade the first three weeks and that particular trade made me about $8,000 dollars. I had given everything back afterwards when Alibaba "divestment" news hit the market. It turned out that Alibaba's loan business, Alipay, was not really making money (they were not losing money either) so they had decided to spin out that part of business. It sounded like a great decision, but the immediate fact was that the company cut off a lot of assets off its book, causing the tangible value to decrease all of sudden. I briefly looked at their books and my calculation was about 30% deduction on tangible value (and another god-knows-how-much deduction on the intangibles). This news took Alibaba stock price from $110 all the way back to $63. I never touched Alibaba ever since. Now I looked back the history Alibaba had done very well overall. Their stock is at all time high this year and their sales boost like a rocket to the moon. But my incompetence of organically absorbing probability game and fundamental thesis caused me a lot of patience and money.

Thus, I realized that purely believe in probabilities would not work either.

3.2 Algorithm: A Deep Learning Story

I had started developing my own program long before I came to United States. Originally, I had everything written on paper. I had computer relatively late so I only started

using simple platform like Excel in middle school. It was until I came to Columbia University had I started to be a little familiar with Artificial Intelligence. Although my programming skills did not start at early age, last annual letter I briefed introduced the AI assistance "Abbey" designed and developed by myself, but let us take a deeper look this year in terms of the notions behind all of this idea. An updated version of Abbey can be found in `https://yinscapital.com/underground-private-collection/` and `https://yinscapital.shinyapps.io/APAG/`, which I call Autonomous Prehensile Algorithm Generator (A.P.A.G.).

To study this market, I recorded everything in the history and I created a dataset that fits for my own needs. Then I created a unique response variable for that dataset which is a combination of big buyers entry points as well as optimal game plan I came up that adapts the market environment. This is now a data science project. Everything I have been doing follows. I can use fancy AI programs such as deep learning to learn from this dataset. Overall, I would conduct the following big scheme of research to finish strategy for one simulation (this is what AI does):

(1) Collect data;
(2) Dataset Clean-up;
(3) Feature Selection (by human or machine);
(4) Model Construction (mostly machine learning techniques);
(5) Training and Tuning;
(6) Prediction.

I would then interpret the predictions to see whether such replicable strategy can be organically understood with fundamental thesis.

3.3 How to Collect Data?

Data collection and integration is an art. It is probably the most artistic part of the entire data science world in my own humble opinion. In other words, we are trying to explain step (1) in the above subsection here.

As a starter, I would simply learn from other people's data [1]. This is what school is all about. Teachers and professors would share their understanding, the correct view of looking at past texts, to us and explain to us why it should be understood that way. It is up to us to absorb and to choose whether we want to practice that approach. One advances when one had many teachers guide him/her.

For advanced players, you should already be having multiple approaches in your mind based on previous scholars (via sources from books or from your teachers). Then you can start to practice by taking a new texts you have never read and seek understanding based on whatever it is you learned while you were a starter.

Data collection takes the similar steps. I started off using other people's data. For example, when I was in undergraduate school, I simply looked at books from SEC website because I learned to do that in Accounting class. While I was pursuing Master in Finance, I followed Professor Novy-Marx and he introduced me the entire stock universe data set created and cleaned up by a team from Wharton School of Business. The same data set was used by Professor Fama at University of Chicago who later won a Nobel Prize on his approach of looking at this data. All of these experiences I collected showed me what a good data set looks like and how to pursue a data set like this.

With that in mind, I started to create my own data set. This is something unique to me and my understanding only, which can be tailored to all my best and favorable skill sets. For now, my data set has

[1] The notion of data here is not just something like stock return in the past but can also be interpreted as your personal life data (your own learning experience).

(1) Charts (in picture format as well as in terms of price matrix).

(2) Books (all 10-K, 10-Q at least 3 years in the past, if company survived longer than 3 years, I would collect up to 10 years; I would also extrapolate key words from these books with a collective of key words learned from Warren Buffett's annual letter, whatever he thinks is important, I want to learn about it),

(3) Probability Theory (following probability theory, I recreated stock price matrix into Brownian Walk and use that as additional explanatory variables) [2].

These three aspects together form a giant data set and the goal is to create an algorithm to decide (1) what to buy, (2) how much to buy, (3) when to sell, (4) how much to sell. In other words, every day I would update this data set and all of these updates would be entered as explanatory variables for training. My algorithm will answer (generate an output) these questions far more efficiently than I do it myself.

After this, we finished step (1) from the subsection above §Algorithm: A Deep Learning Story. Then everything from (2) to (6) in the that subsection follows.

3.4 Artificial Intelligence: Man's Best Companion

I have never been a big fan of terminator movies. It is fun to watch but I never had fear that such things may come alive in our lives. Lots of people disagree. I even had a professor told me not to learn artificial intelligence because he was afraid such technology would create WWIII. To me, these words are fear speaking, like that fearful face introduced by Mozart in *Magic Flute*, or in German *Die Zauberflöte* who is following the Prince in the show the entire journey to tell him not to do things.

Artificial Intelligence, in my mind, is an artistic extension of human will executed via machine power. It is of course possible that any technology can be used in an evil way, but that has nothing to do with that piece of technology. It is because the user, who are us, humans, that are evil at the first place. Thus, I do not believe it is rational to blame everything on technology. Technology advances whether you like it or not.

A big step this year was to use machine as human companion to assist me to do the work I could have done if I had infinite time and energy.

One big feature I discovered that could organically unite "always true" and "probability true" was the notion of algorithm and data science. Algorithm can be coded because it is always true. Data science (although everybody has different definition) comes down to be a probability game and it tells me what would probably be true. One needs algorithm in any data science project. However, it is how to use these algorithms that matters, which is where art shines in data science.

To give audience a taste of what we are doing a big chunk of this year in terms of R&D, One can look at the following case study:

(1) Create a dataset: response variable (Buffett buy), explanatory variable (10-K, 10-Q, and price)[3]

(2) Model Construction: Logistic, SVM (support vector machine), Neural-Network, and ultra-deep neural Network.

(3) Training and Tuning

(4) Prediction: Will Warren Buffett buy this stock here ("here" means a stock at a price at a time)?

With such scheme designed, one aims to track or even predict when Warren Buffett would act on a stock. This is how I spot Apple stock in May 2016 when Warren Buffett

[2] In data science, experts may argue that this is redundant and that I am using apple to predict apple. This is not what I am doing. The Brownian Walk reconstructed from price matrix is free of time, a completely different information than price. It is more of using fruit features to predict apple then using apple to predict apple.

[3] Note that the data set needs to be created free of time.

bought it. One can read Warren Buffett quarterly holdings on SEC filings to check the date `https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001067983&type=13F-HR&dateb=&owner=exclude&count=40` (scroll down to check Feb. report and May report in 2016, you would see he entered 9 million shares of Apple during this period) [4]. If you ever want to add heavy in any momentum growth stock, this will be a good time to do so.

3.4.1 Probability Game

Do not get me wrong. This algorithm does not and will never predict why Warren Buffet buys it. I don't think anybody, even with decades of studying, can know why someone buys a stock. What you can do, however, is to recognize when he does it. I have been a part-time student in Long Island Fighting Club. I stood in a ring and I would face any enemy. If the opponent hit my head with a jab, I am not trying to understand why he does that. My only job is to get his rhythm and try to replicate in my head when he would do it the next time. It is a still probability game. That is, the algorithm will probably predict his action with some percentage of error. This means if I strictly limit myself to this strategy I would have an error rate of whatever.

3.4.2 Fundamental Thesis

On top of probability game, one needs appropriate fundamental thesis to support the execution so that when probability game meets the thesis one would have the ultimate conviction to execute the trade.

This answers the question, "when do you follow your algorithm?" Is it 90% of the time? Or is it 10% of the time?

A rational answer would be the following. One can lay out his plan to look at the accuracy and error rate of testing set of the data. He can then conclude that he should follow the data 90% of the time since that is how well the algorithm[5] performs. But that comes down to his experience to adjust which 10% shall he abandon his algorithm. This is a very difficult way to do it. I have only seen a few big guys who can do this (Warren Buffett, John Boggle, Ray Dalio, ..., etc. these guys all developed some kind of edge suitable for themselves).

3.4.3 An Organic Combination

I am not Warren Buffett, John Boggle, or Ray Dalio. I don't think I am even close to these guys. Am I out of solutions? Shall I just not touch the market and let these big guys do their job? Not really because they will retire soon.

I keep in pocket a few but very opposite style of trading and investing. These styles come from different background and they have their own unique experiences. I am executing on a percentage basis. In the beginning, I only learned one strategy I could replicate. Then 100% of the my buying power will go to that one strategy. Later down the road, I have learned three different strategies. Then I would just evenly divide my buying power to that three strategies. This is like I have $100 and I am giving $30 to Warren Buffett (Graham value-investing-system), $30 to Ray Dalio (Risk-neutral), and perhaps $30 to David Einhorn (Greenlight Capital, long-short value-oriented system).

[4] Later on, he added heavy. But please ignore that. The first buy is mostly decided by Warren Buffett. The buys afterwards can be decided by other managers under Berkshire Hathaway and that is more of a chasing-the-tide sort of buy.

[5] Algorithm here is not just the program in your computer. It can also be interpreted as principles in your head that you follow.

In the end, I am left with $10 extra as flexibility to add in whatever strategy I am operating.

This is like I started with Taekwondo. I felt the lack of punches so I moved on to Wing Chun. I realized the contrast of mixing stepping movement between those two so I decided to abandon high kicks from Taekwondo and focus on elbow attacks in Wing Chun, which led me to learn Muay Thai. Muay Thai was tough and powerful, yet it was a disaster on the ground when I was facing a wrestler. Then I learned a little Brazilian Jiu Jitsu while I was at Columbia University. I felt that the notion of participating in the market (doesn't matter if it is trading or investing) is very much like fighting.

In the end, I present you a list of strategies I have in hand and in practice:

(1) Value-investing (buy low sell high following strong fundamentals);

(2) Momentum strategy (buy the highest monthly return and short the lower monthly return);

(3) Brownian Motion (buy the stock at lower end of Brownian Motion and sell the stock at higher end of Brownian Motion);

(4) Chartist (bull-flag, computer recognition of bull-flag pattern ONLY in stocks in PowerShares Index)

(5) Cash. [6]

My job, in the end, is to allocate a portfolio with money spread out among these strategies in an optimal way.

The graph[7] below is a structure of my thinking process as well as the essential scheme of how I work out my algorithms. First of all, we start by collecting observations, which constructs the layer. Next, I will send these data into algorithm and do a back-test to see what I am working with[8]. This will give me some primitive results. They may not be as ideal or accurate as I want, but it is okay. We will update our data and knowledge in the next step[9]. Step 3, I will start my own experience collecting process. In this step, I will start by adding more information. Information can be anything from recreated data or brand new data. It can even be personal bias[10]. Then each time I update my data set I will send it to step $\star$, the step where AI works and back-test is conducted. I will repeat all of this at least three to four times. The first three times are for learning experience. The fourth time I will want to see some results that are consistent with my expectation. There are, however, occasions that I need to repeat more than four times which where why there is ... in Step 3 to allow more

[6] As far as I know, this will probably be one thing I can do but not the rest of the Wall Street. If I want to, I can completely liquidate from market with very few trading costs. Not many big guys on Wall Street can do that. If market acts abnormally and does things I do not understand, why should I hold my ground and still risk my money? Warren Buffett said in 2014 annual meeting that his biggest advantage over the Wall Street hedge funds is that he is able to not touch the market for however long he wants. Why should he? If he doesn't understand things sometimes, he can take a break and he should be allowed to do that. However, this is not the case on Wall Street. If you read the prospectus of most recommended ETFs/mutual funds for employees' 401K in United States, there is a clause requiring the fund manager to hold average 80% market money account, meaning that he has to use 80% of the money to do something to maintain that tracking error (otherwise the fund would get shut down and he is out of business). To my humble opinion, this is not wise at all.

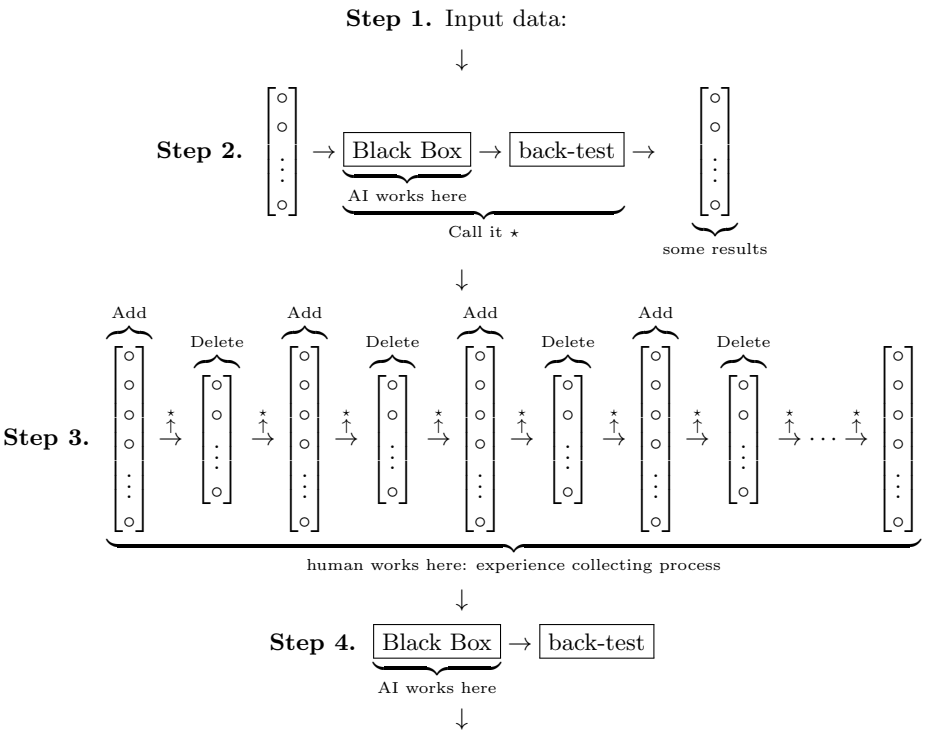
[7] It looks like a neural network architecture in machine learning. You are right. I borrowed the philosophy from that architecture and implemented my own idea.

[8] The place where AI works is more of a frequentist approach. This means that we do not know the answer but by repeatedly running the tests a lot of times we are able to get some results we believe that are close to the truth.

[9] This is Bayesian approach. You start with some prior experience. Next, you run some tests to generate dirty results. Conditioning on new results, you generate posterior information or statistics.

[10] If there is bias, chances are it will probably happen again. To be fully rational and to have all information collected, one should be aware of his/her bias.

room for more learning. Step 4 I will have AI assists me one last time and I want to see some interesting and accurate results (typically above 99%). Step 5 I will be able to use these results in real-life while the same time I will be able to collect new data. This allows me to go back to Step 1.


Step 1. Input data:
Step 2.
Black Box
back-test
AI works here
Call it ⋆
some results
Step 3.
Add
Delete
human works here: experience collecting process
Step 4.
Black Box
back-test
AI works here
Step 5. Output results and use results in practice. Also collect more data and go back to Step 1!

4 A TRINITY SET AS GUIDANCE

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I mentioned in section one that I had *Security Analysis* discussion over dining table when I was kid. I am very grateful to my parents for opening this door for me. However, if I could do it once again, I would probably add more time to study Taoism or the Bible. Why is this important?

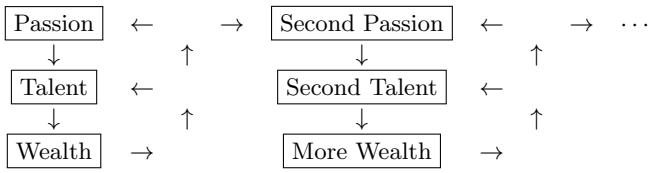
Everybody has passion[11]. I like playing soccer so playing soccer can be a passion for me. I would like to consider myself a good soccer player but I never made it into the city team. It would be costly for me to stay in this path since I am talented. This leads to discover other passion of mine. I love thinking about mathematical problems. I was in mathematics competition. Then the first passion and talent both check. I have not seen a lot of rich people doing pure math. The last one fails. If the last one fails, it is not sustainable to follow this passion. I could, however, take math as a passion and talent to become a statistician, which last I check is a position leads to average graduating salary of well above $100K in New York City. That can create wealth.

Following the above logic, I develop the following trinity set to check myself every step in my life. If I can find one thing that I like, I would very much want to put a lot of time in practicing it. If I am practicing it very often, it is likely to be developed into a talent. If talent can be matched into a field that the market values greatly, the talent can bring me wealth. If these three aspects check for one activity, one can safely bet he or she can develop a career out of that activity.

One way to lay this map out is to use left-right arrows to connect them. Logically speaking, I argue that passion is sufficient and necessary for talent which is then sufficient and necessary for wealth. The opposite of the argument holds true as well. If one has wealth, he must have talents somewhere. If one has talents, he must be passionate about some features if not all related or within that talent.

$$\text{Passion} \Leftrightarrow \text{Talent} \Leftrightarrow \text{Wealth}$$

An alternative approach to think about this philosophy is to draw the following map with arrows. Instead of arguing equivalence relationships like above, this approach says that one can develop talent from passion. Results from talent can help him/her to check and confirm his/her passion. Great talent will generate wealth and great wealth can confirm and elongate his/her passion. One additional step allows reader to go from wealth to passion. This means that given sufficient wealth one can keep on trying and exploring new passions, which then leads to talent and keep the loop going. But in this case, he/she will have two of these loops to manage.



One thing can be and shall be nurtured from an early age that governs this trinity set was a well established moral foundation. In the beginning, we can take some religion

[11] Please do not confuse passion with desire. Being a couch potato is not a passion. It is a desire. Oxford dictionary defines "passion" as a powerful emotion or its expression, esp. the emotion of love, anger, or hate. I do not believe this definition is complete. Passion needs to lead to something, a state or a result in your head you believe that is a success. For example, Merriam-Webster dictionary gives the first definition for "passion": the sufferings of Christ between the night of the Last Supper and his death, which is a good illustration of what passion is. Being a couch potato (or playing computer games) is nothing like that. Therefore, desires should not equate passion but passion may have some "desire" features in it.

or literature for granted, but one needs to constantly check and meditate himself to realize how to handle day-to-day events that was not described in early literature. For example, in the beginning I was a just a kid, then I can borrow my parents' philosophy which was developed from Confucius and Taoism. Later on I was in United States then I attempted go to churches. Out of these experiences, I still went on to live my life and I encounter day-to-day events. If these events are something I have dealt with and discussed from Taoism or Bible, then things are easy to handle. If not, then I need to make decisions, which may come from previous experience but should also be allowed room for flexibility. This meditation will guide people (myself included) to develop a bright passion, which links back to what I mentioned in the beginning: the value of including Bible study or the understanding of ancient wisdom (such as Confucius or Taoism) is essential for our development.

5 PHILOSOPHY

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For a long time, I thought the best philosophy is to have no philosophy. The origin of that conclusion comes from the linkage of philosophy and style. For a while I thought that the notion of philosophy symbolizes some sort of style in an activity that one commits. For example, Mike Tyson is best at boxing. That means he will never use any kicks and nor does he value kicks in any sort. This approach in managing assets in capital market is extremely dangerous. Only understanding one strategy means that you only understand a percentage of the market, which last I check was not enough.

5.1 Bruce Lee Water Principle

Once again, I would have to go back to search for an ultimate understanding of all styles simply because I do not think I am qualified enough to summarize everything together in one line. Henceforth, please allow me to quote from Bruce Lee.

After spending many hours meditating and practicing, I gave up and went sailing alone in a jungle. On the sea I thought of all my past training and got mad at myself and punched the water! Right then — at that moment — a thought suddenly struck me; was not this water the very essence of kung fu? Hadn't this water just now illustrated to me the principle of kung fu? I struck it but it did not suffer hurt. Again I struck it with all of my power — yet it was not wounded! I then tried to grasp a handful of it but this proved impossible. This water, the softest substance in the world, which could be contained in the smallest jar, only seemed weak. In reality, it could penetrate the hardest substance in the world. That was it! I wanted to be like the nature of water.

Please also allow me to quote Tao Tzu.

Nothing is weaker than water, But when it attacks something hard or resistant, then nothing withstands it, And nothing will alter its way.

I believe the ultimate understanding of stock market should be align with the philosophy and approach Bruce Lee took on his way of learning, studying, and practicing kung fu. The fight here is between buyer and seller, or supply and demand. They are two forces in the market with each side guided by emotions and science. Science includes everything from microeconomics to PhD level work in asset pricing as well as big data analytics while emotions can be narrow down to hope and fear. The *water principle* stated a mindset that one needs to channel to be flexible yet robust and persistent.

Be water, my friend.