# Performance

Over the first 5 years the company compounded @ an average annual growth rate (CAGR) of 20%. The strategy of investing on leverage while limiting the downside risks with option trading worked out fine.

In 2017 I decided to scale down tremendously on leverage and follow the advice of Warren Buffett: "You really don't need leverage in this world much. If you're smart, you're going to make a lot of money without borrowing," he said. "I've never borrowed a significant amount of money in my life. Never. Never will. I've got no interest in it."

I started a new approach, called “Intelligent Cloning” and I will continue using this approach probably for many, many years and I will optimize it, if necessary, as I move forward. You can read about this approach on my website.

So here are the stock picks of the Intelligent Cloning Portfolio thus far.

| When? | What? |
|---|---|
| **2H ‘16** | Deere & Co @ 87 USD |
| | Allison Transmission @ 29 USD |
| **1H ‘17** | Davita Inc. @ 65 USD |
| | Verisign @ 83 USD |
| **2H ‘17** | Tegna @ 13 USD |
| | Monro @ 47 USD |
| **1H ‘18** | Sinclair Broadcast @ 30 USD |
| | Esterline Corporation @ 72 USD |

These stocks are selected with the idea to hold on to these companies for many, many years. Preferably decades, as long as the company remains a good company. And to sleep well let’s agree we start looking at the results only after a 3 year holding period.

Successful stock picking is important, but there are many more considerations:

- If you are already overloaded in financials and e.g. Seth Klarman buys into Citigroup, you might argue that that’s a good idea, but probably not for your portfolio at that time.
- Another example is a security that has been performing very well and its weight in the portfolio has gone up significantly. Its contribution to the risk in the portfolio has increased. That might result in trimming the position. Do you want to sell part of the holding when the price increases with 50% and take some money of the table?
- A third example is the decision whether or not to hold cash and wait for better investment opportunities. How much cash do you want to hold as a hedge against possible market corrections? It is hard though, to remain liquid, defy the steady drumbeat of performance pressures, and wait for the prices of at least some securities to drop.
- And what do you do when a stock goes down. Do you sell or do you buy more?
- As we all know, the market has repeated similar cycles throughout history, and by knowing where we currently are in that pattern you have to adjust accordingly. That can be very hard.
- Establishing and maintaining an unconventional investment profile is not easy and requires acceptance of uncomfortably idiosyncratic portfolios and decisions, which frequently appear downright imprudent in the eyes of conventional wisdom. Are you able to do just that?

What I am currently working on is an approach called “dynamic portfolio hedging”. Perhaps this may lead to interesting results and perhaps not. Let’s see. It is an approach where you add long term PUTS on the SPY ETF to your portfolio that will increase dramatically in price when the markets crash. But it is a very costly approach and what you try to do is earn back the costs for hedging with active options trading. Although the stress test results look promising, I believe it has to be tested under real world pressures for a few years. Keep you updated.

Let me know your thoughts: peter@thevaluefirm.com.



*Peter Coenen. 10 October 2018.*