We are here

30Jun14

To my Partners:

The future you have, tomorrow,
won't be the same future you had, yesterday.
Chuck Palahniuk

I find often in the financial industry, the expectation is the future will be like the recent past. This may be frequently true and it is certainly the easiest for financial analysts "to model" in an earnings calculation or market prediction. Of course the most money is made in recognizing when this is not the case.

As a value investor, my job is to seek situations where this is not the case on a stock by stock basis. It is not my style to try and guess where the market is going. I view market predictions a little like looking at the weather as I leave the house in the morning. Sometimes it makes sense to grab the umbrella as you go out the door in spite of the forecast.

I agree there is a lot of uncertainty today in both political and economic matters. My focus however is not on uncertainty but on risk. I view these as very different with risk really being a matter of pricing. Putting this in a market context, as I look around me today the things I think about are liquidity, valuation and sentiment. All of these "signposts" suggest some cautiousness is warranted.

More importantly, our investment decisions are driven by what bargains we are finding. We have been a better seller the last little while so as a result our cash levels have increased. This of course can change very quickly with a couple of good ideas regardless of "the market".

What does that mean for us

Having said all that, the Trust's net asset value very roughly is 30% cash, 40% top 5 holdings and 30% everything else. Clearly the top 5 holdings are important to the Trust's performance. The key drivers of their stock market performance will not be the direction of the TSX or S&P Index. All of our top five holdings are undergoing some type of transformation. The outcome of this transformation will be critical to their valuation. Without a doubt there are execution risks but I view these as much different from stock market risks. Between this fact and our cash position, I feel comfortable with our positioning today.

You will find our semi-annual financial statements attached. We realized gains of some $2.6 million in the first half primarily from the sale of our holdings in Howard Hughes Corp, EGI Financial, Monex Group and Ten Peaks. On the other side of the ledger, most of our unrealized loss was due to MBAC Fertilizer. We initiated one new position of substance which was Navient Corp. This US based servicer of student loans was a spinoff from Sallie Mae. Discounted valuation and large insider ownership were two key items in our purchase decision.

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A couple of administrative issues

Later this month, we will be moving our offices from downtown Victoria to Oak Bay Village. Our phone number will remain the same and we will update our website with our new address once we move.

In the fall, we will be changing the firm who does our monthly valuation and unitholder recordkeeping. I think this will lead to improved reporting and a quicker turnaround in monthly valuations. I will talk about this a little more as it gets closer.

Let's rumba

As I have said in the past quite often we are doing the rumba while everyone else is doing the waltz. While this is not pretty, it does show we stick to our knitting. Especially at times like this, I think it is smart to have part of your portfolio in something different from the typical TSX and S&P fund. If you would like to add to your account or make a new investment with us, please email us (info@mcelvaine.com) for an investor package.

Performance:

The McElvaine Investment Trust's 30Jun2014 net asset value for the Series B units was $20.8816. This represents a gain for the first six months of 2014, net of all fees and expenses, of 3.6%. During this period, the S&P/TSX Composite Total Return Index rose by 12.9%.

Conclusion:

As always, many thanks for all your support and confidence. I appreciate your trust.

All the best,

Tim McElvaine
22Aug2014