Marble Investments

December 26, 2023

Dear Investors,

As our current round winds down, the purpose of this letter is to reflect on our Q4 investment decisions and performance.

Over the past 4 months, Marble Investments generated a return of **42.07%** compared to the **5.33%%** gain of our principal benchmark, the S&P 500 index. Incorporating this with our earlier quarterly returns in the year, we have achieved an annual return rate of **63.95%** and a compounded return of **163.11%** since our inception.

Portfolio Summary

90 Day GIC (%)	SP500 growth (%)	Marble's growth (%)
2.75	6.44	42.07

Values in CAD

Investment Value ($)	Final Portfolio Value ($)	Net Profit ($)
10,260	14,583	4,323

Prices in USD

Name	Ticker	Portfolio (%)	Buy Price ($)	Sell Price ($)	Change (%)
Roblox	RBLX	50.76	26.14	41.23	57.73
SolarEdge	SEDG	7.62	117.82	96.32	(18.25)
Geo Group	GEO	20.95	8.09	10.44	29.05
Livent	LTHM	6.75	17.38	17.25	(0.75)
Stone Co	STNE	13.90	10.74	17.01	58.38

Marble Investments

Market Conditions

Our second round commenced during a period characterized by predominantly negative market sentiment. The AI hype that headlined the 2023 market had notably diminished, giving way to a more cautious outlook. Investors grappled with the dual uncertainties of elevated inflation and interest rates and the tense macroeconomic atmosphere was further compounded by geopolitical tensions. From September-November, the S&P 500 index saw an **(8.83%)** decline**.** However, towards the end of our round, the Federal Reserve surprisingly announced “penciled-in” dovish interest policies that caused a large-scale bull run, causing a **13.69%** increase of the S&P 500 index in December alone, bringing the cumulative Q4 growth to around **5.33%.**

Investment Strategy

We started the round agreeing with the pessimism surrounding the market. The S&P 500 had just come off near record highs in August and it was clear that a pullback and market correction were imminent. Given the uncertain status of the economy, we began our round investing very slowly and conservatively, ramping up with the market towards the latter end of November, implementing options trading throughout the quarter.

Roblox Corporation (Ticker: RBLX)

For the first two weeks of Q4, we delayed our investment with Roblox until their earnings reports were released. Roblox is a company to which Marble has historically committed significant time and resources in researching.

After the release, we utilized financial modeling tools and valuation analysis to determine a fair price of around **$45**. Therefore, when the stock plummeted to **$26** following a release deemed 'poor' in earnings, we identified a significant investment opportunity. The term 'poor' is nuanced; despite Roblox achieving record revenues and user growth, investors were disenchanted by the less favorable profit margins. A deeper dive into the financials revealed that this apparent underperformance was misleading. The decrease in profit was primarily due to substantial long-term investments in server and technological enhancements — a non-recurring expenditure.

This negative indicator was, in reality, a testament to the company's expansion, necessitating more server capacity. Consequently, our position in Roblox, predicated on this insight, was our largest and most successful investment.

Marble Investments

SolarEdge (Ticker: SEDG)

SolarEdge is a leading firm in the solar panel industry with both a strong financial background as well as several moats. We discerned that SolarEdge's two most significant moats are their technological advantage and their market position. Their core products which include PV inverters, power optimizers, and monitoring services have shown to increase power efficiency at a significantly better rate than their competitors. However, what was unique about SolarEdge is how poorly its stock performed in 2023 compared to its competitors, being down **(75%)** at its lowest.

This was mostly due to high interest rates heavily impacting highly subsidized industries like renewable energy as they require a lot more debt to compete with traditional energy. With Solar Edge being one of the more backed up firms too, our long position was our biggest loss this round.

SolarEdge Calls

As previously mentioned, near the end of the quarter, the Federal Reserve expressed the possibility of more rate cuts than expected in 2024. In general this is bullish news for the stock market as a whole, and recalling our previous research, our analysts immediately made a decision to buy SolarEdge calls. Knowing that SolarEdge's stock was broadly cyclical, we predicted that news of reduced rates would impact SolarEdge and other solar stocks extremely heavily, more so than any other industry. On December 11, SolarEdge saw a **15%** increase in stock price and we exercised our call options, returning **268%** in the same day.

Stone Co (Ticker: STNE)

Stone Co is a niche company that appeared on our radar while doing research on investment opportunities in emerging economies. As a Brazilian fintech company focusing on digitizing banking Stone Co quickly caught our eye given that Brazil is one of the world's fastest growing economies with a population that is rapidly embracing technology. Our experience with similar companies like SoFi made us ultimately decide to take a risk on this small company.

Stone Co is a niche company in the populous market of financial technology, capturing our attention during an analysis of prospective investments in emerging economies. As a Brazilian fintech firm committed to digitizing the banking experience, Stone Co stands out against the backdrop of Brazil, one of the world's fastest growing economies, and its population that is rapidly embracing new technological advancements. Our prior investmenting success with similar companies like SoFi Technologies (Ticket: SOFI), ultimately fortified our decision to take a risk on this venture, despite a modest stature. This decision reflects Marble's investment strategy at the beginning of the year in identifying and investing in small-middle market, high-potential businesses at the forefront of technological and economic transformation.

Marble Investments

The GEO Group (Ticker: GEO)

Acknowledging the inherent risks associated with our heavily tech-centric investment portfolio, we wanted to seek out diversification by venturing into more stable sectors. Our research led us to Geo Group, a company specializing in the investment of privatized mental health facilities.

Our analysts conducted a financial analysis of Geo Group and discovered a standout metric; the company's exceptional price to book ratio of 0.7. This indicated that the value of the company's assets, alone, exceeded its equity value/market capitalization, signaling a potentially undervalued opportunity.The result of this investment was a substantial return of **29.05%** on our 'safety pick.'

Livent Corp (Ticker: LTHM)

We initiated our long position in Livent due to its strong financials and our belief that the dip in its share price earlier in the year was an overreaction to a temporary slump in lithium demand as electric vehicle sales slowed down. This investment allowed us to indirectly tap into the high potential EV market while avoiding the high volatility typically associated with actual EV company stocks. Additionally, we conducted research on the merger arbitrage potential and were optimistic about the results from a potential merger with Allkem. While our long-term outlook on Livent remains bullish, our mistake was that our anticipated timeline for realization was too short. Despite a minor setback, we are encouraged by the recent uptick in Livent's share price, driven by a resurgence in lithium demand, easing interest rates, and the Livent-Allkem merger, keeping Livent as a company on our radar for the upcoming quarter.

Mistakes and Lessons

Trying to Time the Bottom

Our biggest loss was our long position in SolarEdge. At the time, the stock had already plummeted by **66%** since the start of the year, a decline we naively interpreted as a buying signal. This was a mistake since we failed to account for the persistently high interest rate environment, which further pressured the stock and had no indication of ending soon.

Our initial investment in SolarEdge was marred by a lack of due diligence. Market dynamics are tricky to navigate and without solid backing from financial metrics or macroeconomic shifts, ‘enough’ of a fall doesn't equate to an investment opportunity as there is always room to fall further.

In response to our losses, our analyst team convened to reassess our position on SolarEdge. Despite our detailed analysis yielding a bullish outlook on the future of SolarEdge and the renewable energy industry, our identity as a trading firm necessitated a focus on immediate portfolio returns over long-term value investing. The continued downward spiral of the stock price, coupled with our assessment that a near-term recovery was unlikely, led us to exit our position. This decision proved beneficial as SolarEdge continued to fall by another **(27%)** following our sale, prior to the Fed announcement.

Marble Investments

Being Fearful when Others are Fearful

At the beginning of our round, we were extremely interested in cybersecurity and cloud companies. We were particularly drawn to these industries for their consistent profitability, which stood out as particularly valuable amidst a time of economic uncertainty.

Despite our interest, we found ourselves reluctant to commit, as we also became too worried by the prevailing market pessimism. In hindsight, this cautious stance led us to miss out on substantial growth opportunities—a reminder of Warren Buffett's quote "Be greedy when others are fearful."

Throughout Q4, our focus was selective and concentrated; only investing in 5 companies. However, this was not for lack of opportunity. Our team reviewed over 50 companies, some which went on to yield significant returns that we foresaw, yet didn't invest into because of the fear. This experience serves as a lesson in the importance of our measured risk-taking in the pursuit of maximizing shareholder value.

Addressing Marble's Returns

The average hedge fund, run by a team of seasoned professionals, returns **9.75%** a year. The average mutual fund, managed by a team of skilled analysts, returns **6.29%**. Since our inception in 2023, Marble's performance has boasted a **compounded** return of **163.11%**. While we take immense pride in our performance, we also recognize the importance of expectations. Promising similar future returns would be financially irresponsible. This year, the S&P 500 saw growth of over **24%**, marking one of the highest in its history. Additionally, the majority of the growth was concentrated in the tech sector with select industries like semiconductors experiencing nearly **65%** growth.

Our ability to foresee and capitalize on these trends early was instrumental in achieving our remarkable returns. However, we understand that such conditions were exceptional and not perpetually replicable.

As we move forward, we remain committed to our rigorous analytical approach and the pursuit of superior returns, but remind investors that our primary objective is to consistently outperform the market, quarter by quarter. While the past period's success is encouraging, it serves more as a testament to our strategy and adaptability rather than a baseline expectation for the future.