VMCH Corporation performance

Year	Annual percentage change in Per-Share Book Value (NAV) of VMCH	in S&P500 with Dividends Included	in MSCI Europe with Dividends Included
2012	24.8%	16%	19.9%
2013	27.7%	32.4%	25.96%
2014	(2.7%)	13.6%	(6.1%)
Compounded annual gain	15.7%	20.4%	12.3%
Overall Gain	55%	74.6%	41.7%

To the shareholders of VMCH Corporation,

In 2014, NAV per share decreased 2.7%, compared with an increase of 13.6% for the S&P500. Our annualized return for the past three years was 15.7%, which I am fairly happy with – although quite a short time frame to look back on. I have added the MSCI Europe index (MSCI Europe NR USD) for further perspective.

Around half of the portfolio since inception has been invested in European Equities. These are denominated in EUR and GBP which have declined 12% and 5.5% respectively vs the USD in 2014, affecting us. We invest in Europe because there are many solid businesses operating there, some of which are trading at very low valuations relative to their intrinsic value. While many US companies are very pricy these days, the opposite is true for Europe – there is a lot of value to be found.

As of today, around 50% of the portfolio is comprised of new positions, which should offer great rewards for patient investors like ourselves. This was in part a result of a shift to buying and holding higher quality businesses. These did not have the time to make a contribution in 2014, but should have a big impact in the coming years. Pay no attention to the rising market – there are still a few great opportunities out there.

During 2014, I sold our stake in the Argo Group. For a few months, the company did not release updates, did not comment regarding the dividend which should have been due, and its website came offline. All of this was fairly suspicious, so I sold the shares for about the same as we originally paid for them. Subsequently the company announced that they would not pay dividends for a while and that there were some issues with its investments. As the company isn't too transparent with its reports in the best of times, it was a good call to exit even though the upside seemed enticing. In cases when strange things happen and management is silent, we don't stick around to find out the bad news.

Last year, I have told you of Gevelot SA. While we made a cool 60% return in just a few months, it appears that we sold too early – the shares continued to appreciate another 100% due to a hidden asset (which was not plainly disclosed previously by the company). Despite the risk of making the first 60% was lower than the subsequent 100%, we could and probably should have held on.

"We like to buy. Selling, however, is a different story" – Warren Buffett

Knowing when to sell is one of the hardest things there are in investing, and no one figured out yet how to do it well. One interesting solution devised by Buffet et al was not selling at all.

Buffett once said: "I could improve your ultimate financial welfare by giving you a ticket with only twenty slots in it so that you had twenty punches - representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all. Under those rules, you'd really think carefully about what you did, and you'd be forced to load up on what you'd really thought about. So you'd do so much better."

He said a few things here:

1. Be patient and wait for the perfect pitch.
2. When you see a perfect opportunity, invest heavily.
3. Don't think about selling.

Going through hundreds of companies each year, I came to realize that very few of them are great candidates for the buy and hold approach. Many have management that misallocates capital, no competitive advantage, no growth opportunities, or a bunch of more serious issues. It's a bit like searching for a girlfriend. Many are good for looking, but not for keeping.

To make it all work as spectacularly as Buffett has with his investments in GEICO and American Express, we need to search for the one big thing he had going for him – high return growth. What is that? It is a business that is growing, but at the same time doesn't need much capital to do so. The result is that investors benefit twice – Since most businesses either grow or produce cash, but not both.

Since late 2013 I have encountered not one, but two such companies at a reasonable price. Keeping with the girlfriend analogy, and being the gentleman that I am, I promptly pounced. These two ladies now account for over 25% of the portfolio. As you are reading this I'm probably busy pouncing on the next one.

The next point is regarding capital allocation. In a few instances, I was looking at a really attractive situation but did not invest heavily in it (above 10% of total capital). From now on, some of the best ideas will get 15% or even 20% if the situation is very attractive and low risk.

Holding higher quality businesses should help reduce investment risk, not only because of the better predictability and management of such businesses but also because there is no need to sell them as often and take a chance on something new and less familiar. You can sit back and relax while the cash piles on.

Finally, this solves the problem of selling. Not selling as often means less chance of selling too low. However – I will sell if the price is too high. Warren Buffett famously admitted that he should have sold Coca Cola when it was very expensive around the year 2000. Since he held on, he received a very low return on his investment for the next 14 years. So certainly there is a point when selling is the right thing to do.

As you can see, I have been hard at work this year. Investing is a process of constantly learning and developing a better understanding regarding various industries and situations. I am happy to have Ronit with me sharing the workload, and for having great partners such as yourselves.

Three years have passed. We made an overall gain of 55%, or 15.7% annually which is a good place to be. Looking at our portfolio, we should have a good run in the years ahead.

Eduard Gorban