Upslope Capital Management
ALTERNATIVE \ VALUE \ CONCENTRATED

Consolidated Learnings — Updated: October 2017

General & Personal

1. Know yourself – strengths, weaknesses, emotions
2. Align strengths, weakness, and personality w/investing style – and investing style w/trading strategy (ST vs. LT)
3. Admit when you're wrong and don't know why
4. Be flexible. If you never change your mind (in embarrassing ways) you're doing it wrong
5. Be cautious when investment narratives & political views sync up
6. Study past wins/losses. Know and admit where you were lucky. If honest, it should be a decent % of wins
7. Simpler is almost always better – financial model, business model, portfolio construction, trading
8. Don't be a defensive jerk
9. Give peers the opportunity to save face

Idea Generation

10. The "walking around method" (w/ a little direction) is generally a good process for finding new ideas (vs. screens)
11. Midcap ($1B - 15B) seems like a sweet spot for longs
12. Seek companies that have the *potential* to be owned "forever" Whether they fit the bill or not should become clear over time
13. Learn to love saying "no – for now"
14. Kill new ideas fast – but not for reasons that can be ID'ed with 'headline research' alone
    a. In fact, embrace the "ick factor" to populate your 'to-research' list
    b. But remember: contrarian =/= smart (usually opposite)
15. IPOs, spinoffs, etc. can be a great source for value dislocation
16. Some of the best short candidates are large cap and/or low multiple value traps / dying biz
17. Be overweight (gross) in sectors you know well. Deliberately expand that list (of sectors) over time
18. Be suspicious of "story" stocks – e.g. the "next CMG." Be suspicious of stocks that *are* the story (e.g. CMG) themselves

Fundamental Analysis & Valuation

19. One week of research is technically enough to enter a starter position – but process beyond that ~24/7
    a. But note: hustling through the research process & quickly opening a position has rarely worked well
20. Be able to organize your thoughts on each position in a concise, written manner: 1-page written + comps – with ~20 pages of info upstairs for answering Q's
    a. A longer, consistently structured, and detailed "pitch" *can be* useful for keeping your process organized
    b. Lay out your estimates in graphical form
    c. Don't obsess over finding and articulating a 'variant perception'
21. Consider "return on brain damage" – often not worth it
    a. "Sosnoff's Law": returns vary inversely with thickness of research file. If you find yourself working hard to justify entering a position, it's probably not worth it
22. Be able to answer: 'what do you know that someone who has read the filings/transcripts doesn't?' (this doesn't mean you have an info edge)
23. Write a 'pre-mortem' for all investments
24. Valuation pushback is the best pushback
25. Just because those with an opposing view (bull/bear) are defensive morons, doesn't mean they're wrong
26. Some of your risks should <u>not</u> have mitigants
27. Know what you're actually betting on (e.g. does YNDX move on fundamentals or on oil/RUB)?
28. Changes in fundamentals (trajectory) are usually more important than "valuation"
29. "Cheap" or "expensive" (i.e. "low/high" multiple) <u>alone</u> is never a reason to go long or short
30. FX is very important. Sell-side often flat-lines FX assumptions (FX is not their job!)
31. Assume sell-side estimates are probably wrong, but still most accurate available. Don't deviate too far unless you can ID specific sources of groupthink/error
32. Don't overestimate how much insight you've gleaned from meeting management
33. Avoid melting ice cubes – except for the occasional & very specific catalyst-driven trade (can be LT)
34. "Turnaround stories": when consensus gets on board with the "story" logical valuation rules go out the window. Know when to get on – and off
35. Family-run & controlled businesses can be a great – or terrible – thing. How do they get paid?
36. Probability of a take-out should be a secondary consideration for longs – but a priority for shorts
    a. Seek attractive take-out targets (i.e. unique assets), that can be underwritten on stand-alone basis

37. High margins are often a sign of business strength/moat – but can also be a sign of a top (does the level make qualitative sense?)
38. Be wary when consensus trots out abnormal valuation methods (e.g. disc'd future value based on 2025 P/E)
39. Things I'll pay a premium for (not exhaustive):
    a. Top quartile management
    b. Sustainable, organic growth (big runway)
    c. Sustainable, high, expanding ROIC & Econ Profit
    d. Under-utilized balance sheet
    e. Simplicity
    f. Scarcity value / elevated take-out odds
    g. Under-managed business w/new management
40. Things I want a discount on (not exhaustive):
    a. Acquisition-driven growth
    b. Fully-utilized balance sheet
    c. High capital intensity w/out pricing power
    d. Unchanging complexity
41. Beware of beloved IB clients
42. Avoid co's that tout how undervalued their stock is
43. You are not alone in preferring "quality" over garbage. Understand the performance implications

Portfolio Management

44. My ideal portfolio has 15-20 positions (< 10 longs)
    a. Longs should be much more concentrated than shorts
    b. Shorts should have higher velocity (idea generation, trading) than longs
45. Availability/quantity of good ideas should guide net & gross
46. "Long/Cash" (as opposed to "L/S") is probably a better strategy for the vast majority of investors tempted to do L/S over the LT
    a. That said, right now seems like a great time (from a career/market perspective) to bone up on short- skills
47. Assume you'll frequently be wrong and size accordingly. ~10% max @ init for single name longs seems right. Half that (at most) for shorts
    a. Size using cost basis for longs – be patient and don't break your rules here
    b. Start smaller in names further out from your core competencies – no matter how much you like the idea
    c. Size "battleground" (high short interest, DTC) shorts *very* conservatively (1-3%) – and actively manage
48. Foreign stocks often have poor visibility – consider mkt cap minimums (~ proxy for level of info. flow and – perhaps – incrementally better shareholder protections)
49. Don't ignore momentum. Know which, if any, names you're in that are momentum-driven and what the key driver is (e.g. SSS)
50. Know the investor base (and trends) for your investments – keep an eye out for potential style shifts
51. Cutting gross is almost always better than adding hedges
52. When you start getting cocky, cut back. Look at "Wall Street's Wheel of Fortune" (in the intro to *Capital Returns*) *daily*
53. Have some kind of catalyst for all shorts (valuation doesn't count)
54. Have a catalyst for exiting longs (better use of capital counts) to force yourself to let them run
55. Covered calls are not free money
56. You're usually worse off putting on an options trade vs. underlying. Avoid execution complexity where possible
57. Avoid "trading" in the first/last hours of the day
58. Move slowly (or in small size) when it comes to "trading"

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