



prepared for all contingencies. And I imagine if stocks don't rally or falter (which may happen around February or sooner), we can expect more monetary stimulus at "hyperdrive" levels (Abe in Japan the latest) to try to blow out asset prices. 2013 will be interesting.

## **2. Update on Yahoo and an Outline of Mongolia Growth Group**

I made a 4 paragraph bull case for Yahoo in our last newsletter and interestingly, I seem to have been spot on. We estimated a safe valuation of 19-20 dollars per share after purchasing Yahoo for clients at around \$14.91. Current price is ~\$19.29 (1/14/13) and the stock recently hit a high of \$20.32. I have trimmed some of this position as the "easy" gains have been made. From here on out, it depends on how well CEO and former Googler (and new mom) Marissa Mayer executes her mobile strategy and if Yahoo can do something with the Yahoo Japan asset. So we'll keep some to see but took some profits as all of the undervaluation based on the Aliababa asset has been realized.

### *Mongolia Growth Group*

Mongolia Growth Group is a small but interesting holding for growth clients. The thesis is simple - Mongolia is within months of a massive capital infusion from an enormous mine asset going online. A second enormous mine is set to go online in a couple of years. For a country of 3m people, this deluge of cash will be highly inflationary - for financial assets. Therefore, like the decision speculators had to make in the 1849 California gold rush, we can try to piggy back on the mine by also mining, or we can invest in a sure beneficiary - real estate prices and insurance premiums.

If you look at many examples of countries where a resource boom took place, you can see many examples of explosions in the price of the real estate. In Mongolia it's simple - most of the people are in one city - the capital, Ulan Bator. Mongolia Growth Group has nabbed strategic real estate on Peace Avenue (one of the few roads there and THE main street). With rents increasing 25-50%/year, the company's real estate assets are increasing in value but the stock hasn't moved in over a year. Frankly for 2 reasons - One, the company is small and un-noticed, especially by influential US investment firms. 2, China, Mongolia's biggest customer, has been in the dumps for 3 years. The resurgence in Chinese stocks may be what moves Mongolia Growth Group up in 2013.

One deep value investor at a well-known conference argued that the price of the stock would need to triple to adequately reflect book value and the growth projections. He also compared what happened in Kazakhstan, a country not nearly as free as Mongolia (Mongolian freedoms would likely embarrass many in the US who think they live in a free country just because they can choose their own TV station to watch). Kazakhstan real estate launched up when their natural resources were exploited and foreign capital poured in. Let's hope for the same with Mongolia Growth Group.

Along the lines of "sneaky" value opportunities like Mongolia Growth Group, I'd like to also highlight Altius Minerals, but that would take too much space. Perhaps I will cover that in our next letter.

## **3. What is a Value Investor?**

*by Alfred Angelici, MSIM*

According to Warren Buffett, the term "Value Investor" is duplicitous, because to Mr. Buffett, if you are buying something at price below a reasonable estimate of its "value", you are an "investor". To do otherwise is pure "speculation." (i.e. gambling)

Some of you may even be value investors yourself. How many of you have visited a flea market? And while you were there, perhaps you spotted an item you knew was priced below what someone else would be willing to pay you for it? Or instead, you negotiated with a seller to accept a lower price for a particular item? You probably considered yourself a real bargain hunter or keen negotiator, right? Are you aware that a *bargain hunter* and a *negotiator* are both "**value investors**"?

For financial professionals, value investing is simply the process of seeking out superior companies that are selling at a bargain price versus their underlying or hidden value. Once found, a value investor would seek to either buy the entire company, or purchase a partial ownership stake in the company through its common stock.

Value investors do not worry about making a good sale. They worry about making a great purchase. They know that obtaining a highly attractive purchase price will make even a mediocre sale return good results. And better sales will be frosting on the cake!

What are the core skills of a value investor? Three abilities are required:

- (1) Determination of the value of a company to a reasonable degree of certainty,
- (2) Understanding what makes a business superior and lasting, and
- (3) Avoiding speculation! (Staying away from businesses one does not understand)

Value investing is an often used investment method that we employ for our clients at Walnut Hill Advisors, LLC because it is sensible and resonates deeply with Chris and Al. It is our belief that value investing also offers a more conservative approach over the long-run because it helps to reduce investment risk. Why? Because we know that the chances of good things happening for our clients are greatest whenever we can buy \$1 worth of a company for 60 cents.

#### 4. Great Client Event - Look Forward to More!

We had an excellent evening on December 4, 2012 as about 40 clients joined us and co-hosts Joe DiMeo ([www.joedimeo.com](http://www.joedimeo.com)) and Jeff D'Alessandro ([www.tsbawake24.com](http://www.tsbawake24.com)) for a fun evening of excellent food, plentiful wine, raffle prizes (including some gag gifts such as can of sardines) and wonderful conversation.

Our team (Chris, Al, Lauren) was there and we invited a few of the professionals that we often work with, including attorneys Dale Tamburro and Ken Simmons, Insurance expert Steve Joyce, and co hosts Jeff on mortgages and Joe with Medford/Winchester real estate (Nancy you better be there next time!).

In addition to 10 varieties of pizza, we served 3 types of wine and many seafood style hors d'oeuvres. Salvatore, our host, provided an excellent and well appointed holiday venue (again). And many thanks to those who contributed raffle prizes including The Savings Bank (gift cards), Grapevine Travelers (gift card), Joe DiMeo (he was responsible for the sardines and rice noodles) and Steve Joyce with Welsh Parker Insurance (gift cards). Please come to our next client event - it's only for clients and friends and it's always fun.

In the meantime, if you'd like to see the photos from the event go to my Flickr album here: <http://www.flickr.com/photos/chrisgrande/sets/72157632278803269/with/8286608688/>



As always, we (including Al now) are grateful for your confidence and the trust you have placed in us.

Warmly,

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