

Motiwala Capital

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Disclaimer

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More information: www.adviserinfo.sec.gov
www.motiwalacapital.com

About Me

- MBA in Finance
- MS in Comp Science

Motiwala Capital LLC

- Founded in Dec 2010
- Registered Investment Advisor (RIA) – Fiduciary duty to serve in clients' interests
- Manage separate accounts
- Managing clients capital since April 2011
- Assets under management : ~ \$2.5million (9/20/2013)

Motiwala Capital LLC

- Fee only advisor
- Eat our own cooking
- Performance
 - 2012: 20%
 - 2013 (6/30): 15%
- Value oriented strategy with focus on downside protection

What do we do?

- Manage portfolio made up of individual stocks
- Bottom up stock picking
- Fundamental Analysis
- Long only
- All market cap

What we don't do?

- We do NOT engage in the following activities
 - Financial Planning
 - Selling products
 - Forex / commodity / futures trading
 - Day Trading

Guiding Principles

- Absolute return investing
- Goal is to generate 10-12% annual returns over full market cycle
- Focus on downside protection
 - *"To finish first, you have to first finish"*
- Honest and open communication

Investment v/s Speculation

- *“An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative”*
 - *Graham and Dodd in Security Analysis (1934)*

Investment Philosophy

- Buying a share is part ownership of a business
- Value oriented, Bottom-up investing
- Buy good businesses at bargain prices
- Avoid leverage and shorting
- Practice discipline and patience
- Always insist on a margin of safety

3 factors

- Business
 - strong balance sheet, high returns on capital and generates free cash flow
- Management
 - Management skills
 - Capital Allocation
 - Skin in the game
 - Ethical and honest
- Price
 - 10% Free cash Flow (FCF) yield or better

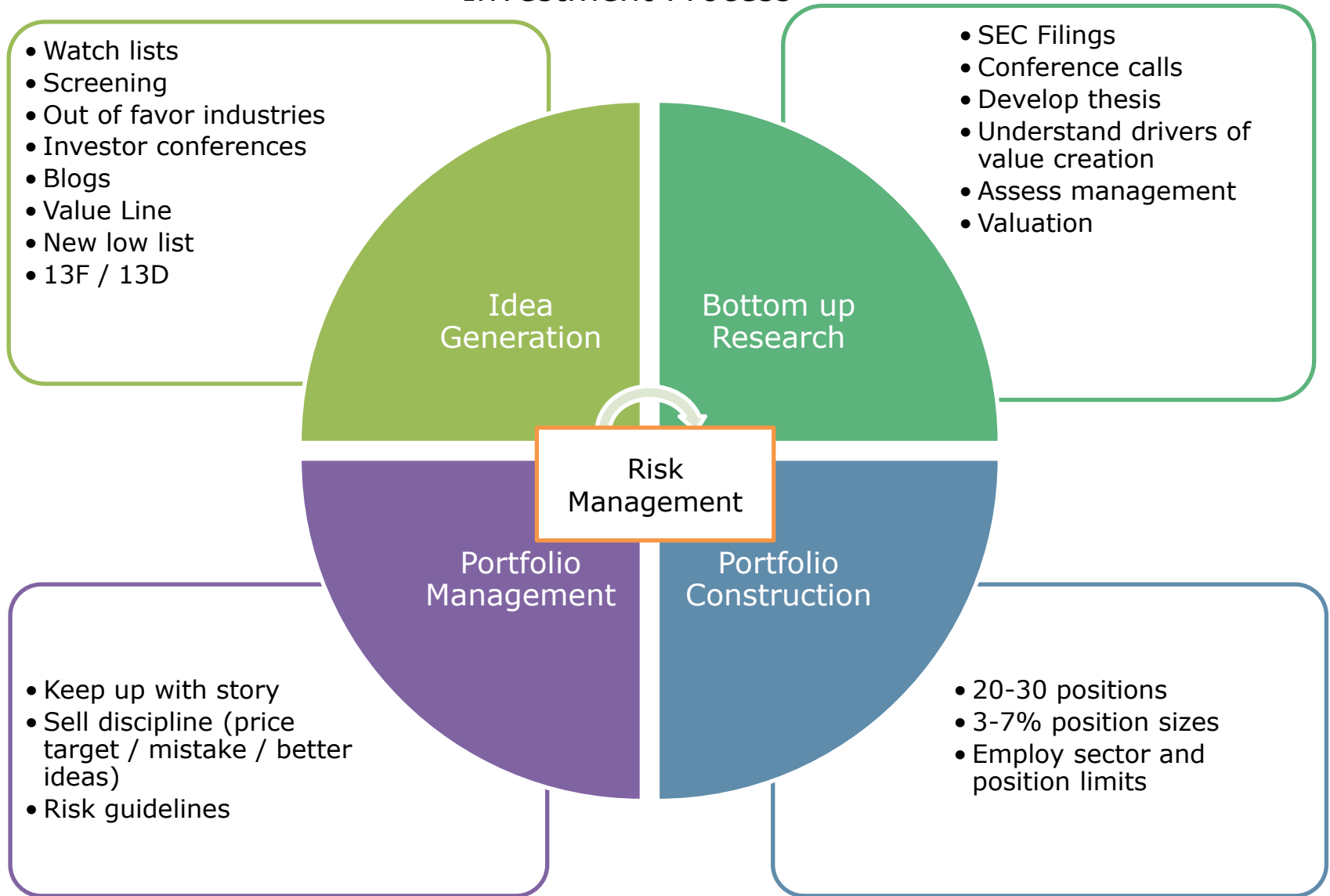
Definition of Risk

- Probability of permanent loss of capital
- Risk is not
 - Beta
 - Volatility

Investing risks

- Business risk
 - Sustainability of business model and returns on capital
- Valuation risk
 - Buying at a high price in relation to value
- Financial leverage risk
 - Risk of default, bankruptcy, shareholder dilution
- Portfolio risk
 - Concentration in single stock / industry

Investment Process



Portfolio construction

- Concentrated portfolio of 20-30 positions
- Typical Position Sizing 3% - 7%
- Employ Sector and position limits

Strategies

Generals

- Generally undervalued situations

Special Situations

- Tenders
- Mergers
- Spinoffs
- Liquidations

Option Selling

- Accounts over \$250k

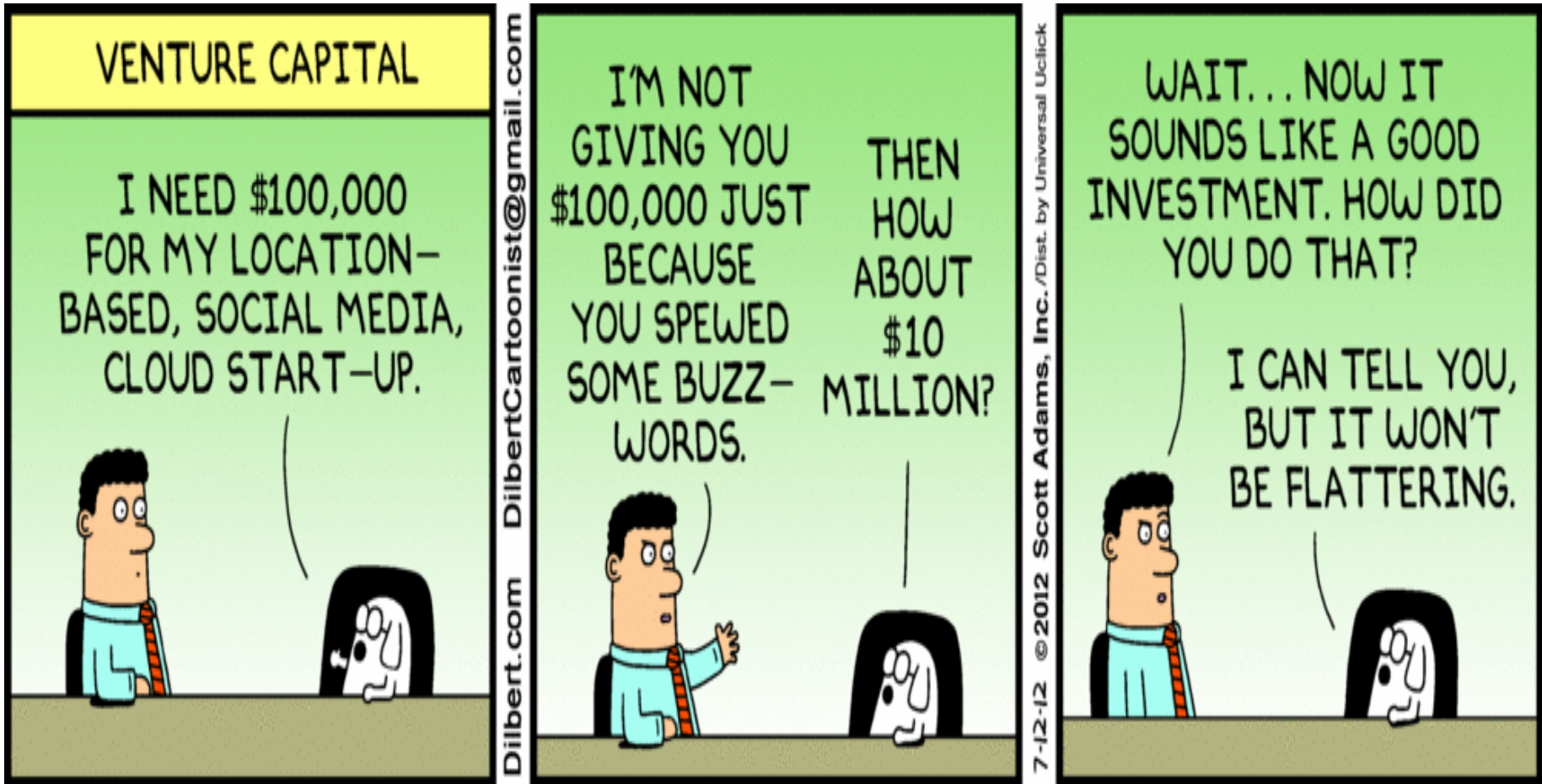
Generals

- Undervalued stocks.
- Investment time frame: 2-3 years.
- Profitable businesses with solid balance sheet, stable free cash flow, shareholder friendly management that can be purchased for a bargain price
- Examples:
 - Microsoft
 - Western Digital
 - Vodafone

Special Situations

- Event driven investments.
- Investment outcome depends on the outcome of the event rather than market levels and improvement in earnings and P/E multiple
- Types: Mergers, Spinoff, tender offers
- Investment time frame: 1- 6 months
- Examples:
 - WebMD tender offer
 - Motorola Mobility acquisition by Google

Recent IPOs



Special Situation performance

- Two accounts \$25,000 each
- Started in 2013
- Up 7% YTD (un-audited)
- 70% cash at most times.

Which strategy to chose?

- Generals + Special situations: Most clients have a combined strategy (recommended approach)
- Special situation only: For clients with shorter time horizons, liquidity needs or wanting a market neutral strategy.

STUDIES HAVE SHOWN THAT MONKEYS CAN PICK STOCKS BETTER THAN MOST PROFESSIONALS.



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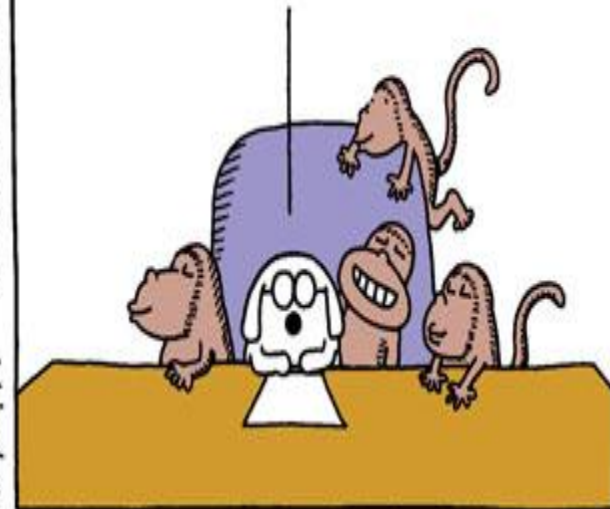
S. Adams

THAT'S WHY THE DOGBERT MUTUAL FUND EMPLOYS ONLY MONKEYS.



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YES, OUR FEES ARE HIGH, BUT I DON'T APOLOGIZE FOR HIRING THE BEST.



Would you buy this business?

- Market cap: \$80 million
- Cash : \$30 million
- Enterprise Value (EV): \$50 million
- Annual Net Income : \$12 million
- ROE : 20%+
- Founding family owns 50% and runs the business

We did....

- Conrad Industries (CNRD)
 - Owns four ship yards
 - Constructs and repairs marine vessels (barges, tow boats, tug boats, ferries)
 - Bought stock at \$13 in mid 2011
 - Stock today is \$30 (after paying \$2 special dividend in 2012)

Conrad Industries, Inc. (OTCMKTS:CNRD)

27.50 +0.50 (1.85%)

May 3 - Close

OTCMKTS data delayed by 15 mins - Disclaimer

Currency in USD

Range	27.00 - 27.50	Div/yield	2.00
52 week	14.12 - 29.00	EPS	3.22
Open	27.00	Shares	5.94M
Vol / Avg	210.00/3,865.00	Beta	0.82
Mkt cap	163.30M	Inst. own	1%
P/E	8.54		



Would you buy this business?

- Market Cap: \$180 million
- Cash : \$60 million
- EV : \$120 million
- 2013E Net Income : \$24 million

Yes, we did

- It is the same company – Conrad Industries

Why did others ignore CNRD?

- Too small
- Too illiquid (few thousand shares trade daily)
- Trades on pink sheets
- Cyclical
- Commodity manufacturing

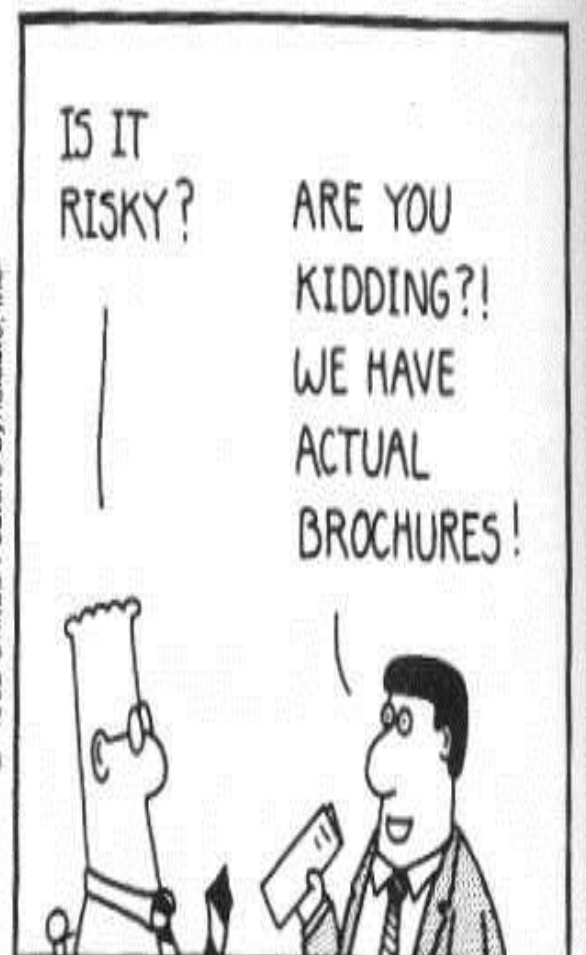
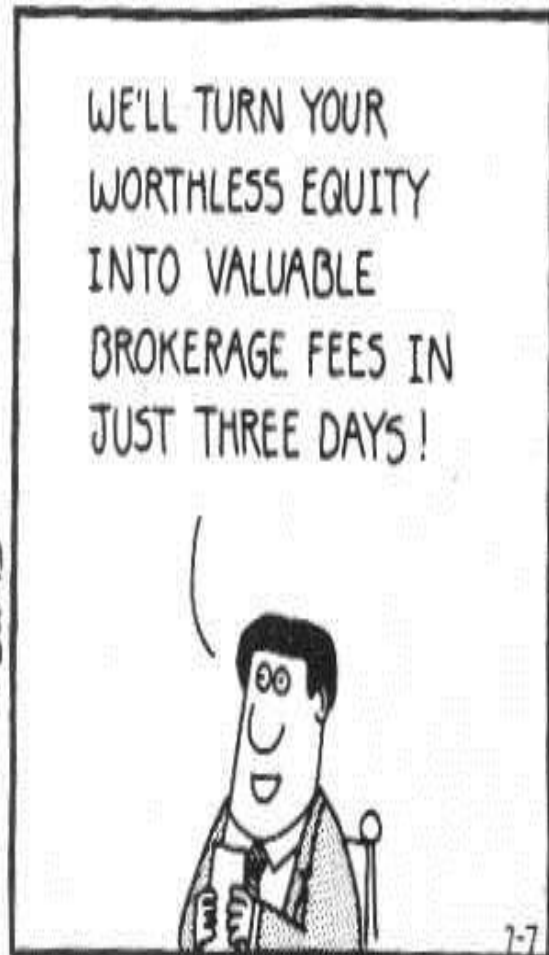
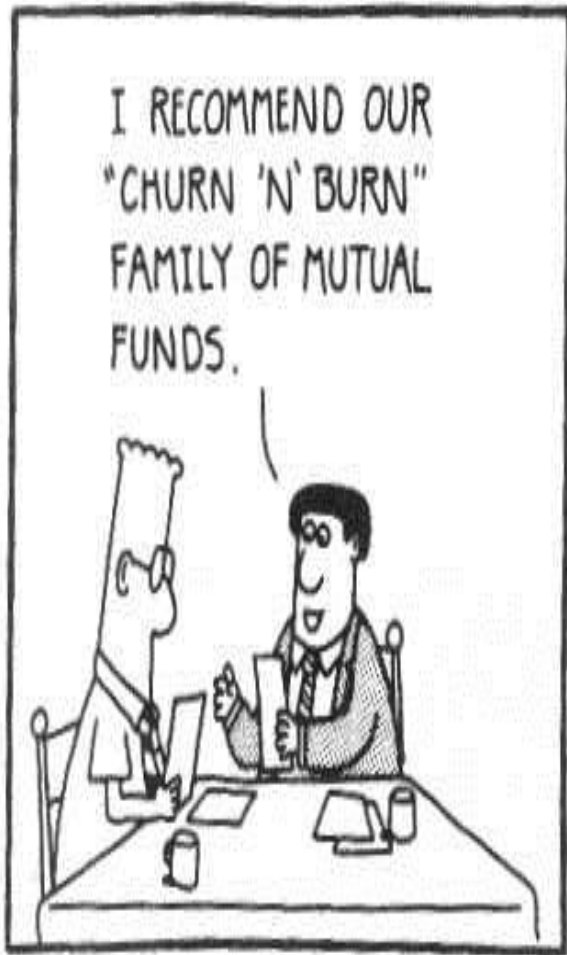
Performance

- 2011: From 3/4/2011 and based on a single \$10,000 account
- 2012: Based on two accounts \$25,000 and \$40,000. Smaller account from 2011 returned 32% and was ignored.

- | Year | Motiwala Capital | S&P 500 |
|------------------|------------------|---------|
| 2011 (3/14/2011) | 4.9% | -2.0% |
| 2012 | 20.3% | 16% |
| 2013 (6/30/2013) | 14.9% | 12.6% |

Disclaimer :

Past performance is not a guarantee of future performance.
These are unaudited numbers
Please [Read the notes on the website](#)



Why invest with Us

- Independent and off wall street
- Ability to exploit inefficiencies of market in small/nano/micro-cap world.
- Transparency – clients can see all positions and account value at any time
- Skin in the game - We invest along with you in the same investments
- No lock up period and Low minimums

Thank You

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Account Process

Apply

- Motiwala Capital emails a link to open broker account
- Client completes online broker account application
- Broker approves client application. Account in clients' name. SIPC insurance of \$0.5 million.

Fund

- Client funds his account (check/ACH/Wire/Account transfer)
- Funds are available to invest.
- Motiwala Capital has access to trade the account. Motiwala Capital cannot withdraw funds.

Invest

- Motiwala Capital invests clients account with discretionary control, following the described philosophy.
- All accounts are invested in a similar fashion and not customized for each client.

Fees

- Management fees are calculated as a % of the account value at the end of each quarter (0.375%)
- Fees are submitted to the broker. Broker verifies fee agreement.
- Fees are automatically withdrawn from the clients' account.

Trading

- New investments are made in all accounts at the same time in a block trade
- New accounts are invested over a few months depending on the attractiveness of existing positions and new investments
- Special situations have high turnover as they essentially shorter term investments
- Generals have lower turnover

Types of accounts

- Regular Individual or Joint Taxable account
- IRA accounts (Roth / Traditional / Rollover from 401(K))
- Trust
- LLC

Fees

- Fees charged at the end of each quarter as a % of account value. Example: An account with average balance of \$25,000 will incur \$375 in annual fees (i.e 1.5%/year)
- Fees are transparent
- Fees could be tax deductible
- No fees to open/close account.
- No commissions. No products to sell

Communication

- [Quarterly letters](#)
- Blog - [Subscribe](#)
- Trade confirmations
- Account statements
- Performance reports

Importance of downside protection

Initial Percentage Loss	Required gain to break even
10%	11%
20%	25%
33%	50%
50%	100%

Magic of Compounding

Years of Investment	7% return	12% return	18% return
20	4 times	10 times	27 times
40	15 times	93 times	750 times
60	58 times	898 times	20,555 times

Example : \$100,000 investment made today will be \$1 million in 20 years if investments compound annually at 12% and \$9.3 million if invested for 40 years.

A 'meagre' rate of 7% turns \$100,000 into \$1.5 million in 40 years.

Keys:

- Invest for the long term.
- Stay healthy and Live Longer!!!
- Start EARLY! Invest in your 20s and 30s regularly.
- Save money!!! 10\$ could turn into \$930 in 40 years!!! (@12%)

Why do stocks become cheap?

- Missing quarterly guidance/analyst expectations.
- Neglect from investors. (MSFT has been dead money for decade)
- Prior history of losses/ fraud/ accounting issues.
- Management issues (resignation, poor execution)
- Complicated business or unloved business (WM)
- Unrelated business in large conglomerate – Loews (L)
- Hated company (BP)
- Operates in an out of favor industry (Housing, Defense)
- Painted by a common brush (example: BP spill.)
- Small cap with no analyst coverage
- Cyclical at the bottom of the cycle.