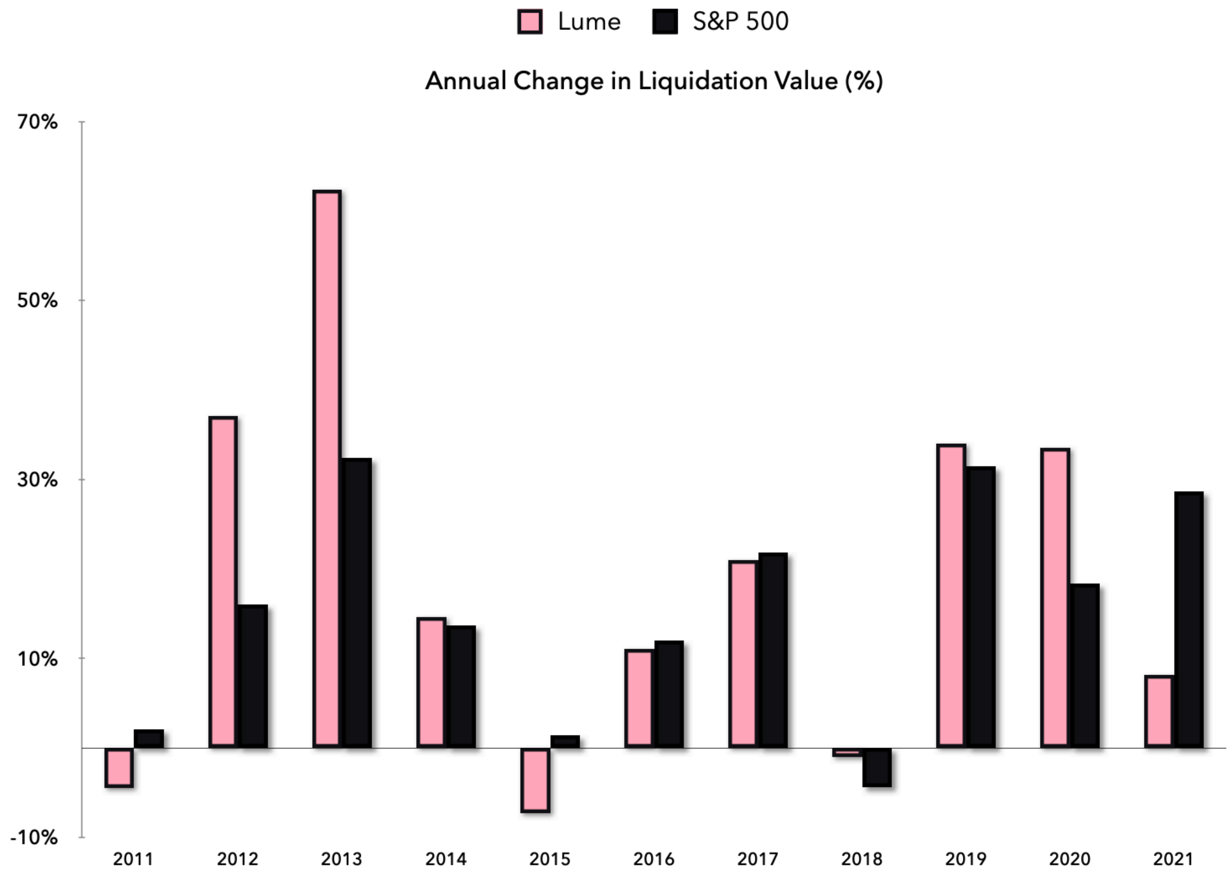
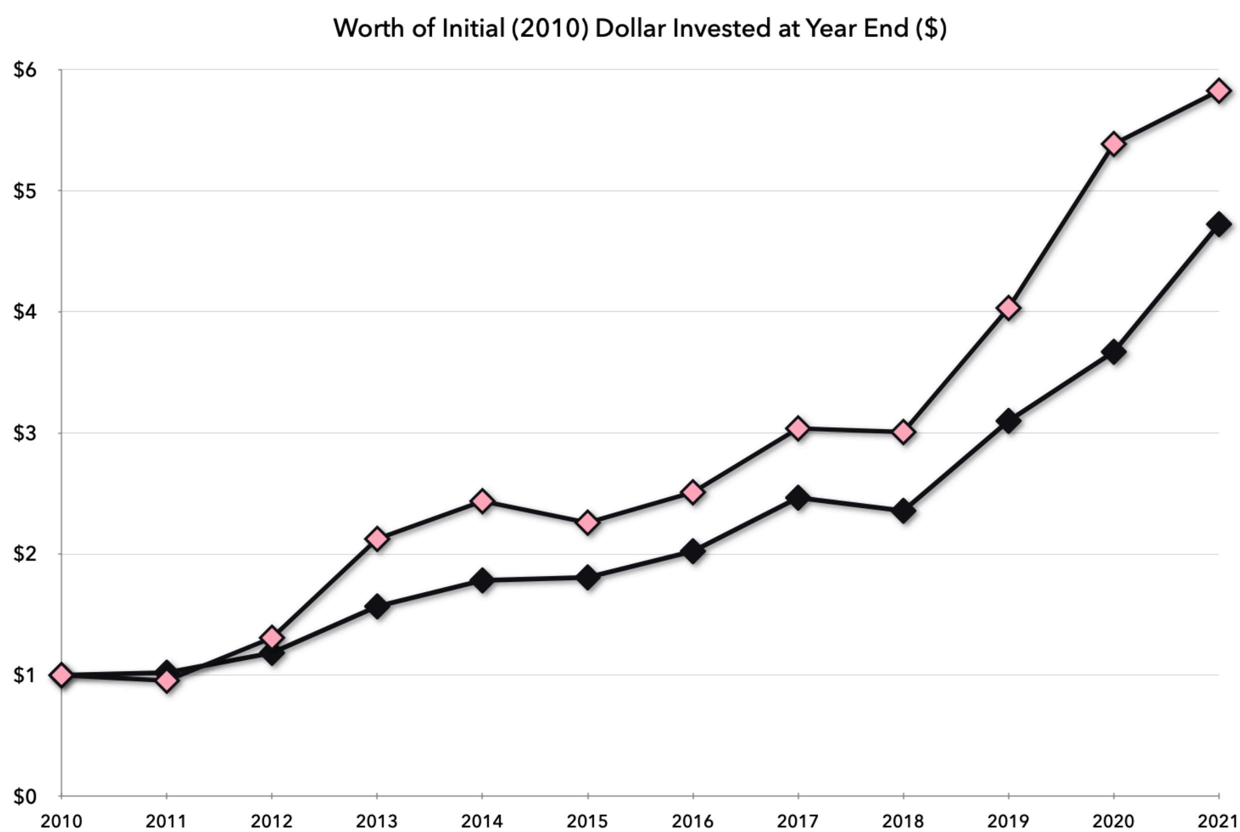
Lume
Group

2021 Annual Report

"Industry and patience are the surest means of plenty."

– Ben Franklin





All figures pretax.

January 16, 2022

Lume Group's net liquidation value grew 8.2% in 2021, compared with a total return of 28.7% for the S&P 500. Over eleven years, Lume Group's CAGR was 17.4%, meaning that each dollar invested at the end of 2010 was worth $5.83 at year end 2021 on a pretax basis.

Practicing Patience

I write this letter after a year of truly **inferior** relative performance to the S&P 500. I track the S&P because that is the alternative to choosing my own investments. Lume Group is at its core a project to prove to myself that I am better off choosing my own investments (among which cash is a big one) rather than just plowing it all into that index. While I've done alright since inception, 2021 put a dent in that thesis. And yet, throughout this (suboptimal) performance, all of my self-education in the field of investing has left me muttering some version of this mantra throughout 2021 and now into 2022:

"Rational people don't risk what they <u>have</u> and <u>need</u> for what they <u>don't have</u> and <u>don't need</u>."

– Warren Buffett

Simply put: if I cannot find reasonable investments at reasonable prices, I will do nothing, even if everyone else around me is getting rich. This is where learning from Stanley Druckenmiller's mistakes comes in (transcript from a May 2021 interview with Trung T. Phan):

"In January of 2000, after riding that tech boom to a T and making billions of dollars in 1999, I sold everything.

I had a couple of internal portfolio managers at Soros who didn't sell out. They had smaller portfolios but made 30% after I sold.

And I just couldn't stand it anymore. And I'm watching them make all this money every day. For two days, I'm ready to pick up the phone and buy this stuff back.

I pick up the phone and I buy them.

I might have missed the top of the Dotcom Bubble by an hour.

I ended up losing $3B on that trade alone."

— Stanley Druckenmiller

I'm learning from what Stanley refers to as, "One of my biggest investing mistakes". There is a chance that I am wrong, of course, as many so-called value investors were throughout the past decade when proudly forgoing investment in fundamentally strong businesses that subsequently performed in stellar manner. However, I view the current situation as distinct from the "growth at reasonable price" opportunities of yesteryear, notably in the "reasonable price" component of that equation.

Note that despite the general euphoric state I find myself in, there are still (in my opinion) very strong businesses available at reasonable prices. I am invested in those firms and they have underperformed relative to the go-go assets of our current era (as of course has my cash pile). So, **I am actively declining Mr. Market's invitation to join the party.**

Conclusion

Time will tell if I'm making a wise choice. So, let's keep things brief and let my recent (under)performance and these few words speak for themselves.

After all, why would you want to hear more from someone who did so poorly last year?

Signed,

P. Dalal