

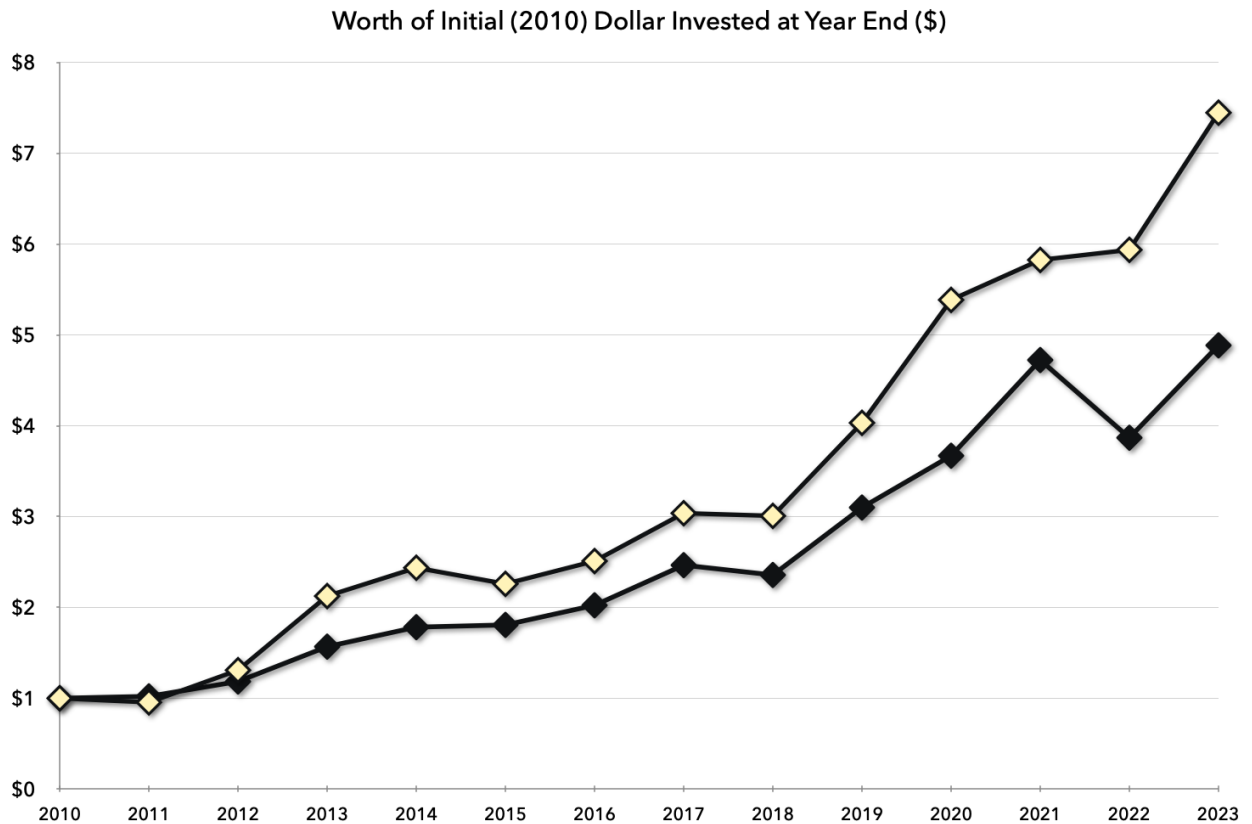
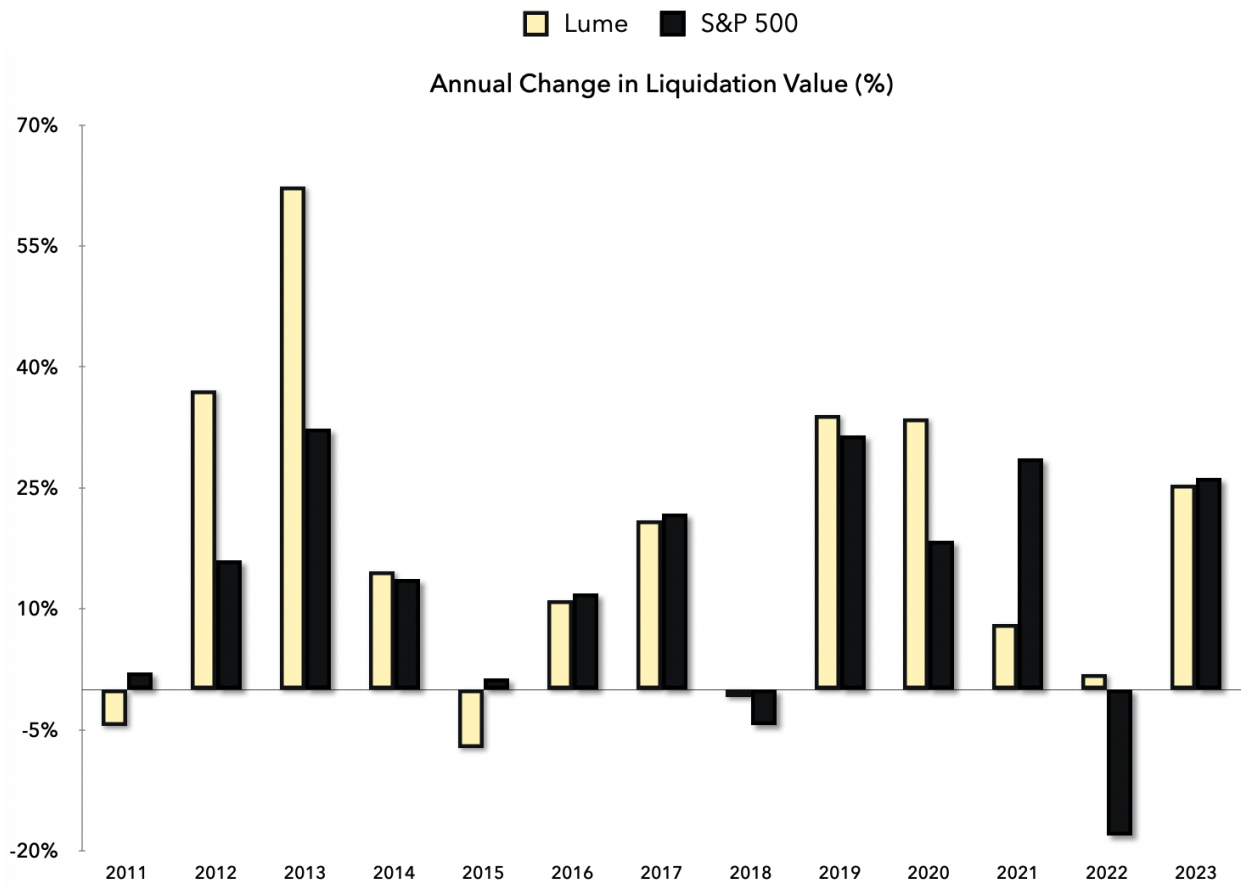


Lume Group

2023 Annual Report

"Those who keep learning, will keep rising in life."

– Charlie Munger



All figures pretax.

February 4, 2024

Lume Group's net liquidation value grew 25.4% in 2023, compared with a total return of 26.3% for the S&P 500. Over thirteen years, Lume's CAGR was 16.7% (versus 13.0% for the S&P), meaning that each dollar invested at the end of 2010 was worth \$7.45 at year end 2023 on a pretax basis.

'Hot' Topics

The S&P 500 continued its ascent in 2023 at a rate far above its historical average. A handful of technology issues, dubbed by commentators as "The Magnificent Seven" contributed disproportionately to this result. What is more notable is that this occurred during a significant rise in prevailing interest rates. The returns of broader U.S. equity indexes over recent years, notwithstanding declines in 2022, seem high. Through much of this rise, few anticipated that such glee could go on for so long—and yet here we are. Optimism now has a firm foothold in investor sentiment.

There's a lot that can be discussed when it comes to markets, interest rates, inflation, and the broader economy, but the prospect of doing so reminds me of the quote Charlie Munger once referenced:

"Making a speech on economics is a lot like pissing down your leg. It may seem hot to you, but it never does to anyone else."

– Lyndon Johnson

So, I will cut this discussion short lest I become the man pissing down his own leg.

The Rising

Though in some years my returns may appear correlated to the S&P 500, a caveat should be considered. My portfolio was not graced by the presence of any of the “Magnificent Seven” in 2023. I shunned these along with the broader technology universe of investments. So, Lume may not be as correlated with the S&P 500 as it may appear in the charts on this report. In fact, during part of the year, I actually made bets against such stocks through short positions of two ETFs. These positions were promptly closed when I realized that I have no business shorting. It’s a lesson I thought I had learned a long time ago, but unfortunately unlearned in 2023 during a momentary lapse of reason. I don’t plan on repeating this mistake again.

I do not have a problem with technology in and of itself. Indeed, technology stocks have contributed a good deal of performance to Lume in the past and many of these are strong, high quality businesses. The current valuation regime of technology equities is my key barrier to these investments. If an investor considers the true owner earnings of these enterprises, they are not valued as attractively as it may appear. Furthermore, many of these behemoths, having had monstrous growth in the past, would need to repeat this feat in the future to justify current expectations. This is something I cannot confidently foresee. If these facts change one day, then so will my investment philosophy on technology stocks.

Conclusion

"Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts... Slug it out one inch at a time, day by day. At the end of the day – if you live long enough – most people get what they deserve."

– Charlie Munger

(I have nothing to add).

Signed,

P. Dalal