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- Largest **winning** position in January: CIDM +30.69%
- Largest **losing** position in January: WMIH -9.57%
- New additions to portfolio: None
- New liquidations in portfolio: KCG
- Portfolio exposure as of January 31st: 86% long/14% cash

- Long positions as of January 31st: **WMIH, CIDM, BFCF**

Portfolio Highlights For January

- **CIDM** experienced a gain of greater than 30% for the month on some rather substantial buying that took place for nearly the entirety of January. This portfolio holding, constituting the second largest position in the portfolios, was solely responsible for the outperformance we experienced during the month of January.

  There was no news of note during the month of January. What seems to occurring in the stock is a run into earnings to be released in the next couple weeks. The market is surely expecting some good things out of CIDM this year. These expectations are justified when an investor carefully reviews all available information. Perhaps the clarity for the potential here explains why Q4 2013 volume in the stock was the greatest in company history AND Q1 2014 volume is on track to eclipse that. There is certainly attention being paid here suddenly.

  The reasons are obvious:

  1. Trading at an absurd multiple to projected EBITDA of around 2, when peers such as LGF are trading around 15 times current EBITDA.
  2. Their library of 32,000 film titles and growing is money in a content driven digital entertainment economy.
  3. CIDM has every conceivable distribution relationship imaginable, whether digital streaming (Netflix, Amazon, Hulu) or brick & mortar (Wal-Mart, Target, Costco).
  4. Their theatrical releasing strategy is equivalent to a call option. Very low risk/high reward strategy that can add surprise upside to the bottom line.
  5. Digital channels and “over the top” content again provide surprise upside, as these types of endeavors are fetching heavy premiums when acquired by larger companies seeking a foothold in new forms of entertainment delivery.
  6. Software services is another segment of the company that provides surprise upside as they

have yet to hit full stride.
7. Cinema services provides a steady and consistent stream of earnings.
8. Growing clout in the industry can create a “spiral up” effect for acquiring popular new content and forming future partnerships.
9. Management team is no less than stellar, with CEO having experience as COO of both Universal and MGM. Also served as President of Walt Disney Studios.
10. Duplicating Lionsgate growth strategy through acquisitions. LGF shares are up close to 500% since 2010.

Portfolio Lowlights For January

- The weakness in shares of **WMIH** shouldn't have really been a surprise following a 145% up month in December. In fact, I was happy with the performance of the stock during the month as the volatility was generally contained and downside volume was basically non-existent during the drop.

  As of January 31st, WMIH and KKR did finalize the terms of the deal that provides WMIH a strategic partner, equity partner and financing partner. I can't emphasize enough how important a role KKR plays here. KKR partnering with WMIH is the equivalent of Lebron James taking a 10 year old that has shown promise at the game of basketball under his wing to foster a future in the NBA.

  I have always been one to preach the analysis of intentions rather than pure, logical analysis derived from whatever data is at one's hands. It is only in the analysis of the intentions of participants that an investor can derive the vision necessary to see far down to road. Otherwise, an investor is stuck in the mud of current data that more often than not lags far behind the reality of any given situation.

  If an investor was to look at WMIH on the basis of intentions from the very beginning, the outcome that continues to play out should have been obvious. Obvious enough, in fact, to make this a large position when the NOLs, reinsurance entity, board of directors and collective experience of Blackstone were being sold for $25 million ex-cash in July of 2012 when I initiated the position.

  What were the intentions of the institutions who put up a ferocious court battle against the equity committee in an effort to keep the former Washington Mutual assets private?

  What were the intentions of putting together a board of directors who is a who's who of restructuring and financial industry specialists?

  What were the intentions of having Blackstone, a top 3 private equity firm in the world, as a strategic advisor for M&A?

  What were the intentions of a two separate option grants to the board of directors since shares reemerged in March 2012?

What are KKR's intentions, another top 3 equity firm in the world, in becoming a substantial shareholder in WMIH upon exercise of warrants?

Multiple answers can be given to each of these inquiries. Every single answer, however, points to valuable assets being in play here that are being cultivated very carefully and deliberately. That careful cultivation has multiple ends in mind, the primary of which is a substantial tax shelter. Secondarily and perhaps equally as important, an appreciation in share price that will be commensurate to the scale of the opportunity ahead.

The intentional analysis here lays it all out. Just takes the ability to look past one's nose to see it. By the time any reliable financial analysis is able to be done on this deal, the share price will be nowhere in the range it is now.

– **BFCF** fell more than 2% for the month on what can only be categorized as general disinterest in trading the stock. Volume was extremely light during the selling that took place.

Of note during the month BFCF released an 8-K with financials for BFCF subsidiary BlueGreen Corporation (formerly BXG:NYSE). The presentation simply reinforces everything I have discussed regarding the company since taking a position and publishing research in October:

- Generated free cash flow of $71 million during 9 months ended September 2013
- Full year free cash generation of near $100 million
- $46 million in EBITDA through first 9 months of 2013
- Full year estimate EBITDA close to $60 million
- $337 million in sales during 9 months ended September 2013
- Full year sales estimates near $450 million

- 20% growth in top line vs. 2012
- 11% growth in bottom line vs. 2012
- Timeshare industry as a whole experienced highest one year sales growth since 2006

Important to note that BXG is just one sub of BFCF/BBX. We know of three other subs that were acquired just over the past few months: Renin Corp, Hoffman's Chocolates, William & Bennett. Don't have much insight into the financials of these companies. However, we know the modus operandi of the company is to purchase niche businesses with a proven history of cash flow generation.

On a post-merger basis, assuming the merger is consummated between BBX/BFCF, we are talking about a company that is trading at less than 4 times free cash flow AND has real estate assets throughout Florida that are impossible to value correctly due to a) vastness of portfolio b) various stages of development c) murky path to discovery of assets gained through foreclosure.

- KCG was liquidated entirely from the portfolios during the month of January for a near 15% profit since inception. The need to raise cash simply superseded any upside benefit that

KCG could provide. Additionally, the general correlation in KCG to the volatility taking place in the markets isn't something that I am comfortable with at this point.

KCG is certainly a future candidate for investment once general market conditions firm up.

Looking Ahead To February

Since 2011, I have published over 1000 articles containing commentary, charts and analysis that is of a decidedly bullish nature. I have had my moments where I thought that it was time to reign in the bull horns for a period of time. Those periods, however, have been short-lived and infrequent in nature.

I can easily become bearish if a set of data presents itself that causes me to change my bias. Since I am not a macro analyst, that data would have to be both technical and micro in nature, on an individual company basis. There are also sentiment measures, liquidity gauges and pieces of anecdotal evidence that I look for in determining my bias. In other words, I am by no means married to the bullish case.

It is no secret that I was bullish coming into January. In fact, I was under the impression that this would be a rip-roaring month based on the analysis that had correctly led me to believe the S&P would rebound strongly from its government shutdown fears during early Q4, ending the quarter in as strong a fashion as possible. I ended up being correct in this assessment, having no reason to believe that a January interruption in the bullish upswing would be possible.

After all, January is the time that stewards of investor capital aggressively allocate funds into the market following a bullish year where they are comfortable and confident in the path the markets are headed. They are looking for beta, often times bidding up small-cap names with a preference towards technology. It is a rush to position oneself correctly so that you can emulate or perhaps exceed the success of the prior year.

2014 seems to have forgotten January, however. Not only did the stewards of investor capital decide not to participate, they sold rather aggressively as the month progressed. Everything was in place for a solid foundation from which the markets could mount a substantial rally. Semiconductors and Dow Transports were in new high territory, setting the stage for the leading averages to follow. Earnings across a wide variety of sectors were exceeding estimates. The right sub-sectors of technology were leading. It was a Garden of Eden for the markets to frolic around in with nothing but grape leaves around its waist in an expression of perpetual freedom.

This expression of rebellion by the market at the most opportune time to continue its run is a cause for concern. Not the type of concern that equates to a few weeks or a couple months of selling followed by a dramatic resumption of the uptrend. But rather the type of concern that could influence trading for the remainder of the year. Yes, January is THAT important.

Allow me to present some data: I went back to 1980, looking over years where the S&P 500 had a gain in excess of 25% (we were up 29% in 2013) for the year. I then looked at whether January was up or down in the following year after that type of outstanding performance.

25% plus years: 1980, 1985, 1989, 1995, 1997, 1998, 2003, 2013

Of these years, there were only two Januarys that were negative following such a strong year: January 1981 & January 1990.

1981 & 1990 were the only years that finished down -9.73% & -6.56% respectively out of all those years.

Every year that experienced an up January experienced an up year. The two years where January was down, finished down. Two samples by no means creates a study of statistical significance, I realize that. However, given the peculiarity of the weakness against such a powerfully bullish backdrop, this is something to consider strongly.

Yes, January is important for how the year fares. This by no means equates to a powerful drop occurring in the market anytime this year. In fact, I think the volatility will be generally contained within a 10% range. However, that 10% range will be mostly on the downside. In other words, we fluctuate between flat and down 10% for a majority of the year.

This type of environment will be favorable to competent stock pickers. No longer will the market oblige to pick investors up, carrying them by the collar to the promise land.

The sea is about to come in and we will soon find out who has been swimming naked.

Stay vigilant.

Regards,

Ali Meshkati