

**ELGAEIAN BRADFORD
2013 LETTER TO SHAREHOLDERS**

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FOUNDER AND PRESIDENT

1 Performance Comparison

Date	Elgaeian Bradford Portfolio Return	S&P 500 ETF Fund Return
1/3/2011	(0.35)	0.02
2/1/2011	0.24	0.03
3/1/2011	(0.02)	(0.00)
4/1/2011	0.10	0.03
5/2/2011	0.06	(0.01)
6/1/2011	(0.04)	(0.02)
7/1/2011	(0.04)	(0.02)
8/1/2011	0.05	(0.05)
9/1/2011	0.05	(0.07)
10/3/2011	0.06	0.11
11/1/2011	0.49	(0.00)
12/1/2011	(0.27)	0.00
1/3/2012	0.10	0.05
2/1/2012	0.09	0.04
3/1/2012	0.10	0.03
4/2/2012	(0.03)	(0.01)
5/1/2012	(0.01)	(0.06)
6/1/2012	0.54	0.04
7/2/2012	0.06	0.01
8/1/2012	(0.12)	0.03
9/4/2012	(0.07)	0.02
10/1/2012	0.90	(0.02)
11/1/2012	0.04	0.01
12/3/2012	(0.01)	0.00
1/2/2013	0.02	0.05
2/1/2013	0.11	0.01
3/1/2013	0.03	0.03
4/1/2013	0.02	0.02
5/1/2013	0.20	0.02
6/3/2013	0.19	(0.02)
7/1/2013	(0.04)	0.05
8/1/2013	0.06	(0.03)
9/3/2013	0.06	0.03
10/1/2013	0.06	0.05
11/1/2013	0.06	0.03
12/2/2013	0.06	0.02
1/2/2014	0.06	(0.04)

Dear Shareholders of Elgaeian Bradford Inc.,

As you already know, Elgaeian Bradford started on the basis of value investing. The ability to retain earnings is the most essential part in Elgaeian Bradford. We look at retained earnings when making sound investment decisions. We operate to achieve the goal to retain as much earnings as possible. We survive because we have an above average understanding of retained earnings.

2 Major investments

Although briefly mentioned in our 2013 Annual Report, I want to explain in details the major investment decisions we have made in 2013.

First of all, I have been holding Berkshire Hathaway since it was traded at \$86 per share. Indeed, I kept its shares largely because of its Chairman and CEO, Warren Buffett; however, my models also kept telling me this company is traded below its book value. Although prices have been fluctuated up and down, Berkshire Hathaway is almost always able to ?maintain? its price at 80% of its book value. This sounds impossible, because a company has no way to control its price. Yet, from our calculation, it seems like this is the case.

The second investment in 2013 is about Jeffries Group. We picked up Jeffries at a little more than ten bucks per share. Originally, we did not foresee the acquisition coming. Models told me that the price would be going up to \$17 per share based on its book value, which indicates a ?buy?. We all know Wall Street has Goldman Sachs, JP Morgan, Bank of America, and Morgan Stanley for quite a long time. It is not likely that someone is going to acquire one of these four banks. However, Jeffries Group can be acquired. Shortly after we realize this is the case, we got in immediately. In other words, we believe that someone out there is willing to purchase the shares away from us at a significant premium. As it turns out, it is the case as we expected.

Our third investment is on the leading Indian metal conglomerate, ArcelerMittal. It is managed by the Mittal family from Indian but located in Luxemburg. Three generations of the Mittal family have been managing this company. Although hard to tell from its financials, I do believe this company can come back up from a price at \$14 per share. Since it is not incorporated in U.S., I had a hard time reading the financials and interpreting its values, because ArcelerMittal is filing reports 20-F instead. Despite its negative earnings and unattractive retained earnings, there was not much left on its report that can prove its abilities. Just as I gave up on this company, I realized that I still needed to run my model to see how the market reacts. Again, models indicated that the company was oversold. Especially after financial crisis, the company has a price that has been dropping from close to \$50 per share. I talked to several Indian friends. I provided them stories about the Mittal family and tried to understand what information could I get. It turned out the Mittal family are all very practical, especially the father (CEO). Information has shown that he does not like high technology but rather prefer daily utility of metal use. Then I got in at \$14 per share. Shortly after I had this company in my portfolio, there is a contract signed saying that ArcelerMittal will be the main provider of soda cans for major beverage companies in U.S. because its thin materials could decrease the sales cost by over 30%. This has largely affected the price because the market will be irrationally happy and glad to offer huge bucks

to buy the shares away from me despite the red numbers on financials. We liquidated the shares close to \$17 per share.

The last major investment this year was on JC Penny. Even until now, I almost regret this decision, though it was a gain on the portfolio. We had a position in JC Penny shortly before the Black Friday sales, and the reason was also because the market oversold JC Penny. However, shortly after this position, a hedge fund manager liquidated almost 5% common shares outstanding of JC Penny, and the position dropped a significantly 10%. Luckily, Elgaeian Bradford had a lot of cash waiting for situation like this, so this position is saved and secured a positive return. We liquidated the position of JC Penny at a little over \$9 while the average cost is at \$8.7 per share. This was a regret because we were targeting on Chipotle Mexican Grill at the same time we were looking at JC Penny and Chipotle Mexican Grill had a way better performance. The total return of our portfolio could easily go up another 10% if we chose Chipotle Mexican Grill over JC Penny.

3 Value investing and behavioral finance

Value investing is always the key to successful investment management of corporate finance. The ability to retain earnings will never shift away from our concentration. It never did, and never would. This year, I have discovered another aspect of looking at financials - behavioral finance. It incorporates psychology into financial activities. It aims to answer one simple question, "Why do people trade"? The leading professors of this subfield have won the Nobel Prize. Please allow me provide their names: Eugene Fama, Peter Lars Hansen, and Robert Shiller. It is their paper that provided the economic and financial foundation for the development of my models; and it is why my models worked out well because it is based on a foundation that has been agreed by the society. They are the ones deserve all the credits, and my models are merely specific applications. In the founding of Elgaeian Bradford, Inc., I specifically said that I aim to create an objective approach subjectively on analysis of irrational securities rationally. Value investing is objective. It is like science, but it does not necessarily give us huge gains. To make money from differences of transaction prices, I need to understand what is the willingness to pay of the other side even what will be the willingness to pay of the other side. Behavioral finance can answer this question better than everything else. Personally, I would argue behavioral finance has a lot to do with Mr. Market Hypothesis, but more many famous scholars have their understanding and not many research has been done. Hence it is too early to define. To wrap everything up, without this integration of behavioral finance into our investment philosophy, we would not have achieved this gain in 2013.

4 Summar

As we always believed, great assets come from externally clients and internally employees. I will always be seeking the best approach to help serve our people financially. This year is a good start! From my perspective, the future goal of this company will always focus on how to manage and understand retained earnings. Hence I can be confident to transfer fiduciaries into comfortable client experiences for my people.

Best Regards,
Yiqiao Yin
Founder and President
December 31, 2013