

# 2020 Annual Letter

Yiqiao YIN  
Founder and President  
YIN's CAPITAL LLC

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## **Abstract**

This is the 2020 annual letter to shareholders. This year our after-tax return was 72% while S&P 500 Index Fund (SPY) returned 15%. Unexpectedly, we beat the market big time.

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# 1 PERFORMANCE

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Date	My Return	S&P 500	\$1 Simulation:	
			My Performance	Market
1/3/2011	(0.35)	0.02	0.65	1.02
2/1/2011	0.24	0.03	0.81	1.06
3/1/2011	(0.02)	(0.00)	0.79	1.05
4/1/2011	0.10	0.03	0.88	1.08
5/2/2011	0.06	(0.01)	0.93	1.07
6/1/2011	(0.04)	(0.02)	0.89	1.05
7/1/2011	(0.04)	(0.02)	0.85	1.03
8/1/2011	0.05	(0.05)	0.89	0.97
9/1/2011	0.05	(0.07)	0.93	0.90
10/3/2011	0.06	0.11	0.99	1.00
11/1/2011	0.49	(0.00)	1.47	0.99
12/1/2011	(0.27)	0.00	1.08	1.00
1/3/2012	0.10	0.05	1.18	1.04
2/1/2012	0.09	0.04	1.28	1.09
3/1/2012	0.10	0.03	1.41	1.12
4/2/2012	(0.03)	(0.01)	1.36	1.11
5/1/2012	(0.01)	(0.06)	1.35	1.05
6/1/2012	0.54	0.04	2.08	1.08
7/2/2012	0.06	0.01	2.19	1.10
8/1/2012	(0.12)	0.03	1.92	1.12
9/4/2012	(0.07)	0.02	1.78	1.14
10/1/2012	0.90	(0.02)	3.39	1.12
11/1/2012	0.04	0.01	3.51	1.13
12/3/2012	(0.01)	0.00	3.49	1.13
1/2/2013	0.02	0.05	3.55	1.19
2/1/2013	0.11	0.01	3.95	1.21
3/1/2013	0.03	0.03	4.07	1.25
4/1/2013	0.02	0.02	4.17	1.27
5/1/2013	0.20	0.02	5.00	1.30
6/3/2013	0.19	(0.02)	5.96	1.28
7/1/2013	(0.04)	0.05	5.72	1.34
8/1/2013	0.06	(0.03)	6.07	1.30
9/3/2013	0.06	0.03	6.43	1.34
10/1/2013	0.06	0.05	6.82	1.40
11/1/2013	0.06	0.03	7.23	1.44
12/2/2013	0.06	0.02	7.66	1.47
1/2/2014	0.06	(0.04)	8.12	1.42
2/3/2014	0.06	0.05	8.61	1.48
3/3/2014	0.01	0.00	8.70	1.49
4/1/2014	(0.67)	0.01	2.83	1.50
5/1/2014	(0.75)	0.02	0.71	1.53
6/2/2014	4.96	0.02	4.23	1.56

Date	My Return	S&P 500	\$1 Simulation:	
			My Performance	Market
7/1/2014	0.14	(0.01)	4.81	1.54
8/1/2014	0.04	0.04	4.98	1.60
9/2/2014	0.28	(0.02)	6.38	1.57
10/1/2014	0.01	0.02	6.47	1.60
11/3/2014	(0.20)	0.03	5.16	1.65
12/1/2014	(0.12)	(0.01)	4.52	1.63
1/2/2015	(0.34)	(0.03)	2.98	1.59
2/2/2015	(0.37)	0.06	1.88	1.68
3/2/2015	0.37	(0.02)	2.57	1.64
4/1/2015	0.27	0.01	3.26	1.66
5/1/2015	0.74	0.01	5.66	1.68
6/1/2015	(0.27)	(0.03)	4.13	1.64
7/1/2015	0.00	0.02	4.15	1.67
8/3/2015	0.12	(0.06)	4.66	1.57
9/1/2015	(0.09)	(0.03)	4.24	1.52
10/1/2015	(0.04)	0.09	4.07	1.65
11/2/2015	(0.06)	0.00	3.84	1.66
12/1/2015	(0.01)	(0.02)	3.82	1.62
1/4/2016	0.08	(0.05)	4.12	1.54
2/1/2016	(0.28)	(0.03)	2.95	1.49
3/1/2016	1.14	0.07	6.32	1.59
4/1/2016	0.23	0.03	7.76	1.65
5/1/2016	0.21	(0.00)	9.41	1.64
6/1/2016	(0.07)	0.01	8.79	1.66
7/1/2016	(0.04)	0.00	8.48	1.67
8/1/2016	0.02	0.04	8.69	1.73
9/1/2016	0.08	0.00	9.39	1.73
10/1/2016	0.06	(0.01)	9.93	1.72
11/1/2016	(0.00)	0.00	9.92	1.72
12/1/2016	(0.22)	0.02	7.72	1.75
1/1/2017	0.15	0.02	8.84	1.78
2/1/2017	(0.06)	0.02	8.33	1.82
3/1/2017	0.40	0.05	11.67	1.91
4/1/2017	(0.34)	(0.02)	7.69	1.87
5/1/2017	(0.02)	0.01	7.56	1.90
6/1/2017	(0.20)	0.01	6.07	1.92
7/1/2017	0.17	0.00	7.12	1.93
8/1/2017	0.05	0.02	7.47	1.97
9/1/2017	(0.18)	0.00	6.16	1.97
10/1/2017	(0.10)	0.01	5.53	2.00
11/1/2017	0.36	0.02	7.54	2.05
12/1/2017	0.10	0.02	8.27	2.09

Date	My Return	S&P 500	\$1 Simulation:	
			My Performance	Market
1/1/2018	0.25	0.02	10.34	2.13
2/1/2018	0.34	0.05	13.90	2.24
3/1/2018	(0.12)	(0.04)	12.28	2.14
4/1/2018	(0.13)	(0.04)	10.74	2.05
5/1/2018	0.04	0.02	11.14	2.10
6/1/2018	0.09	0.03	12.15	2.17
7/1/2018	0.01	0.00	12.26	2.17
8/1/2018	0.02	0.03	12.54	2.24
9/1/2018	0.31	0.04	16.39	2.32
10/1/2018	0.04	(0.01)	17.11	2.30
11/1/2018	(0.08)	(0.06)	15.73	2.16
12/1/2018	0.05	0.03	16.55	2.23
1/1/2019	(0.02)	(0.11)	16.19	1.97
2/1/2019	0.16	0.09	18.80	2.15
3/1/2019	0.03	0.04	19.31	2.23
4/1/2019	0.02	0.02	19.74	2.26
5/1/2019	0.10	0.04	21.64	2.34
6/1/2019	(0.06)	(0.07)	20.32	2.19
7/1/2019	0.08	0.08	21.85	2.35
8/1/2018	0.03	(0.00)	22.59	2.34
9/1/2019	(0.02)	(0.01)	22.11	2.31
10/1/2019	(0.00)	0.01	22.02	2.33
11/1/2019	0.00	0.04	22.03	2.43
12/1/2019	0.02	0.01	22.52	2.46
1/1/2020	0.03	0.05	23.11	2.58
2/1/2020	0.02	0.01	23.56	2.62
3/1/2020	(0.00)	(0.06)	23.55	2.46
4/1/2020	0.03	(0.20)	24.24	1.96
5/1/2020	0.07	0.15	25.96	2.25
6/1/2020	0.07	0.08	27.88	2.43
7/1/2020	0.07	0.02	29.79	2.47
8/1/2020	0.06	0.06	31.56	2.61
9/1/2020	0.18	0.07	37.09	2.80
10/1/2020	(0.03)	(0.04)	36.02	2.68
11/1/2020	(0.05)	(0.03)	34.29	2.60
12/1/2020	0.14	0.12	39.16	2.91
1/1/2021	0.12	0.02	43.77	2.97

## 2 ANNUAL SUMMARY

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This section quickly debriefs the audience what happened in the year of 2020 according to each quarter.

### 2.1 Q1 Summary

It is a strange thought to share with you what I am scared of, because in general I usually stay rational and I tend to focus more on risk instead of fear.

The wealth management shops, financial service props such as banks, and the government have figured out a way to “encourage” the American people to leave their money in the stock market and take it out when they retire because of “tax benefits” – last I checked this was the biggest “lie” that is not just told but legally forced upon the American people. Every month we allocate a portion of our paychecks and let the shops such as State Street, Vanguard, BlackRock, etc., take our money and put that money in the stock market while charging a fee. What could go wrong? There are 330 million American people and the average salary in this country is about \$55k. Suppose that every year we are incentivized either by us or by the “tax benefit policy” to put 7% into our 401K plan. Based on these assumptions, we are giving State Street, Vanguard, BlackRock a combined of  $330,000,000 \times \$55,000 \times 0.07 = \$1.27$  trillion dollars. No one has that kind of selling power to go against them. In other words, say I have a lot of money and I want to buy a stock right now at market price \$10 per share but at this price there are only 100 shares. That means I can only buy 100 shares and spend only  $\$10 \times 100 = \$1,000$  dollars. If I more capital and I want to buy more, there will not be any sellers at \$10 per share because sellers already know the demand is high and maybe higher than they anticipated before. There will not be sellers until the price is moved up to \$11 per share. This mechanism is based on the Dutch Auction and it is currently written in the National Best Buy and Offer (NBBO). These banks manipulate the market and they have for a very long time. They single handedly move the entire market up by writing policies so that the American people are incentivized to give them tomorrow’s paycheck to buy into today’s market. It is a cute formula for the banks and wealth managers to make money.

Now here is the karma. We are in pandemic due to COVID-19, we are more aware of our health, and we are “encouraged” to change our daily behavior in a safer way. We stay home. We no longer put in the same volume of work and we stop generating the kind of supply that United States is used to seeing (at least at this immediate stage). Then the problem becomes that we no longer have FUTURE BUYING POWER that these banks “incentivize” us to allocate.

So guess what? Your secret formula just failed, buddy. The wealth managers from State Street, Vanguard, and BlackRock are all in deep stress right now because of the lack of or restricted buying power. This is what we all saw before and during 2008. Yeah, let us just assume no one defaults on a subprime mortgage. Right now bankers are assuming everyone will have the incentivize to give them the money they make from the next paycheck. Well, it’s written in law, so that assumption holds.

Well, it doesn’t. It is not to say that these big corporations are not acting on people’s best interest. Instead, it is an immediate and urgent problem that the system is not incentivized to distribute today’s wealth efficiently.

## 2.2 Q2 Summary

The realization of this financial engineering formula that Wall Street is cooking is one key component of why I decided to liquidate most of my positions in early 2020, which forged my later success to have the capital buy a lot of stocks when the market came down.

Combined with the rise of COVID-19, the economy is facing an unexpected shaking that challenges everything this country has stood for. We have suffered. Jobs are lost. People went on protest for both asking the government for resources and simultaneously asking the Government to keep their hands off the economy. We have opposing political forces everywhere.

It is this time, though not up to us, that someone stands up to say the very democracy that we have been worshipped for many years has stopped working. We are too afraid to challenge our leaders, so mother nature helped. With over 20 million COVID-19 cases and almost 350,000 COVID-19 deaths, we finally come to a conclusion: we need help.

People have been pointing fingers here and there. Some say it is the problem of the government. Some say it is the problem of the media. Some even say it is the problem of the rich. No one questioned the root of democracy and the potential consequences that it may lead to. No one questioned that the problems might be their own. No one questioned that perhaps they need to acquire a different skill set in order to survive. How about we all take a chill pill and start reorganizing our lives and improve our skills instead of pointing fingers and blaming other people?

We are all, from when we are kids, taught the beauty and merit of the democracy. We are taught how our founding fathers build this great nation. We are taught problems can be resolved if people discuss and vote on solutions. Let us cherish these thoughts and beautiful minds. However, what people do not realize is that there are also the other end of scale where people feel like they need to eat five hamburgers because it is their God-given right to do so. They can attack people and torture others because it is their God-given right to commit such crimes. They do not have to wear masks because it is their God-given right to spread COVID-19 diseases. And perhaps sometimes  $1 + 1$  can be 3.7, because it is their God-given right to believe in such a thing. These people create a pool of the population that are poor in defenses and lack of rationale to say no, which creates an opportunity for politicians, businessmen, and lawyers to swoop in to take a huge bite of the economy in order to maximize their own benefits. Because why not? If I am an Ivy-League MBA student with money to buy \$50 hair gel and a \$2,000 Rolex watch, then I can stand on a stage to sell my ideology that creates nothing but a cult-like maneuver to swing the crowd to a certain set of beliefs that are centered around myself. Why not? I have the God-given right to do so.

## 2.3 Q3 Summary

For the rest of the year, I decided to do nothing. I profited big times when this country failed once in history. All because I realized that the United States was making a mistake, one that is worth making so a generation of people may realize what they are.

This quarter is quiet. I made my investment. I sat down. I closed my computers. I waited. And money came out.

## 2.4 Q4 Summary

In the last quarter of the fiscal year of 2020, I received the most heart-breaking news that I ever had in my mere 28 years of life. My grandma in-law passed away from a complication partially caused by COVID-19.

We quickly packed our bags and headed back home to sort things out and help the family and attend the funeral. Though it was difficult and performed with limited resources, the job is now done, and I can finally say that grandma, you rest well.

We wrap up the year 2020 back in New York City, and we pray that God gives us a brand new start with 2021.



### 3 RISE OF A.I.

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I can write a book in what I want to say about Artificial Intelligence (A.I.). But I will make this section neat and to the point. Yin's Capital would not have what we have today without A.I.

In 2013, Yin's Capital (formerly named Elgaeian Bradford) started hiring employees. I personally interviewed and sought analysts to help me out with some of the analytical section of the business. There was some work that was highly repetitive and analytical, so I set out to hire a team of people (some even full time) to help finish some of the analysis that I did not have time to do.

In 2014, I single handedly managed a team of five people to run my company. However, after a year of practicing this methodology, I regret to say that the marginal benefit did not exceeds marginal cost. It is not the case that my employees were not smart or hardworking. It is due to the nature of the work that a \$20 dollar per hour job is simply eating up a huge chunk of profits, and I felt I would be better off if robots could replace the humans.

In 2015, I closed the analysis section of the business. I started putting together an idea to re-brand my business and created the name Yin's Capital. I reassessed the business's needs, and I decided to completely refurnish what I had with programs. It took me about 8-10 months of time to first nail asset pricing, which essentially allowed me to trade human-free without loss. Then I continue to inject software programs such as Yin's Timer algorithm, portfolio builder, stock screener<sup>1</sup>, and so on into the asset pricing model to distill it into a big brain that can think and run on itself.

In 2017, I started to touch prediction-based methodologies in machine learning and artificial intelligence such as a variety style of neural network family. Things really started to fly from there. Eventually, I get my hands-on transfer learning, representation learning, reinforcement learning, and some of the most advanced A.I. technologies out there throughout my consistent study.

In 2018, I had a realization that it was not really a good idea to pursue human-free intelligence. Instead, I started to focus on A.I.-enhanced human intelligence. The latter is a very different concept than the first one and it is going against all Tech Giants and researchers out there who are pursuing Artificial General Intelligence (AGI). During this time, I was accepted to Columbia University to pursue advanced studies in statistics. I have created this potential learning opportunity to do research in interpretable machine learning, a subject which I personally like very much both in terms of conceptual knowledge and also regarding the future direction of where branch of research may lead.

Things after that are history. I am not just one person supervising and upgrading a bunch of computer software as a substitution of what can be done by 30 people together.

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<sup>1</sup>I had this idea of an advanced stock screener that watches every single publicly traded stock in the United States, a software that's called the God's Eye. I never published such idea, but it does work to some extent.

## 4 MEDIA

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I have been running the YouTube channel <https://www.youtube.com/YiqiaoYin> for a year now. It is probably one of the most fun side hobbies I picked up while running Yin's Capital. I originally, I was meant to design a channel that people can relax and laugh with, so I actually occasionally posted some of the meme-like videos such as "Data Scientist at Vineyards".

Looking back in time, I believe it is better off in long run if I stay clear of the entertainment industry and solely focus on my expertise and what I can bring to the table. I started to create Playlists such as "Yin's R Branch" and "YinsPy", both highly focused on machine learning coding. Later on, I started injecting drawing explanations such as the Playlist "Yin's Notepad" and "Lectures in Probability and Statistics", both which received high views in the first week of their creation.

Instead of following conventional YouTubers online with funny videos or videos making fun of someone or something else, I found myself more in line with providing what I truly believe is correct. There is, of course, a still grey area of getting people to watch my videos and discussing something that truly matters. I have, throughout the past year of running this channel, found a way that I believe I can have both cards in hand.

With all the playlists<sup>2</sup> I made, I have managed to create a style of videos that are both entertaining to watch, easy to understand, and state-of-the-art explanations of modern day A.I. topics. On the other hand, I cannot pretend to know everything that is important. Hence, the creation of new videos requires me to constantly learn what is newly developed in the field. In that sense, I believe in long run it will be an online learning platform that can benefit both the audience and myself, and I look forward to continuing making and learning from these videos.

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<sup>2</sup>Playlists on my channel have Yin's Notepad, Yin's R Branch, YinsPy, Lectures in Probability and Statistics.