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Dear Esteemed Clients,

In 2014, our investments returned 4.9% with a total return of 20.5% since 2013. 2013 was a remarkable year for the major indexes and that trend continued into 2014. The beginning of 2014, from an historical perspective, the market looked fully valued and expensive. It was a year of multiple expansion rather than quality earnings growth. This simply means investors were willing to pay more for stocks than previously. We are now 5 years into this bull market and I continue to hold a significant cash position of 20-25%.

Parker Logan's significant winners

- Apple: The shares of Apple (AAPL) gained 39.7% in 2014 and up 70% since my accumulation began in 2013. Averaging down the cost per share, while irrational negative sentiment thrived, proved to be very profitable for our long-term position. Apple's aggressive share repurchases and 7-1 stock split were the starting catalysts that drove the shares higher in the first half of the year. Later on, the new iPhones broke sales records with the largest refresh to date. My belief is over time with the correct execution, Apple will be the world's first $1 trillion market cap company.
- Corning: The shares of Corning (GLW) gained over 29% in 2014. Leading producer of specialty glass for LED televisions, smartphones, and tablets continues to grow with world-class product innovations and diversification in multiple sectors.
- Blackberry: The shares of Blackberry (BBRY) gained 46% within 6 months of my purchase in 2014. I sold the majority of our position because it unexpectedly met my two-year price target. I suspect volatility will be a friend to us in 2015 and may give us another opportunity to buy-in if the turnaround story continues.
- Yahoo: The shares of Yahoo (YHOO) gained over 56% in 2014. Yahoo was not a large holding but I feel it is worth mentioning. It is significant because I suspect the Alibaba IPO signaled the peak of our bull market. My thesis proved correct that YHOO was very inexpensive based on a sum-of-all parts analysis. They held a 25% ownership in Alibaba (the Amazon of China), which IPO'd late summer with enormous success. We sold our position based on it reaching my price target in less than 12 months time.

Parker Logan's most significant misunderstood position

- Nuance Communications (NUAN): The shares have fallen victim to volatility and speculation while strong fundamentals remain overlooked. Shares took a rollercoaster ride in 2014 from $15 to $19.50 and down to $13.50. Nuance is a leader in voice recognition and natural language understanding technologies with business entrenched in the healthcare, mobile/consumer, and enterprise sectors. Through a sum-of-all parts and private enterprise value analysis, Nuance is currently priced at a 70% discount. The business model has evolved from an up-front license fee model to a recurring model where sales are transactional and contingent to usage. While growth in annual revenues has stalled, long-term deferred revenues are growing by 11% per quarter for the past two years. Continued customer growth will fuel operating margin improvement, as the company is able to leverage operating expenses.

Parker Logan's fallen star investment

- Nintendo (NTDOY): The shares have fallen due to a plethora of challenges. Nintendo is an entertainment/gaming company with a long successful history. A home-console cycle stumble, disruption in mobile gaming by smartphones & tablets, and self-inflicted wounds perpetuated by management has given us the opportunity to buy them at ~book value. Approximately 3/4's of their market capitalization sits in cash and the company has no debt. I consider their challenges to be small hurdles rather large expensive ones. The company has many levers to pull to improve and create lasting shareholder value. The devaluation of the Japanese Yen will buy it time to execute. (Most of their sales are in US dollars which means they make more money from the same sale) With a correct strategy in place and new product releases on the horizon, I believe shares can double by the end of 2016.

We had one significant loser during the fourth quarter of 2014. Transocean (RIG) shares collapsed from $36 to $17. This was driven by oil prices falling ~50% which slashed sales and profit expectations for 2015 energy sector companies. I believe Transocean is in good position to weather cyclical storms based on its size and longevity (largest fleet and oldest running company). Their rigs are mostly contracted long-term and will face major headwinds throughout 2015 with an oversupply of rigs set to hit the market in 2016 and the largest drop in oil prices since 2009. Presently, I believe all the bad news is priced into the stock and we have hit "bottom" without any black-swan events occurring. The dividend looks safe going into this year but may be at risk in 2016 if conditions do not improve.

We had a significant loss in our basket of specialty retail stocks purchased throughout the year. Shares of this basket of specialty retail lost a total of 28.6%. Most of our companies showed signs of improvement but not enough to rally valuations from their depressed levels. Some of my investments in the retailers need more time to appreciate while others turned out to be mistakes.

At the end of the year, I started making purchases in two infrastructure companies hit hard by the large decline of oil prices, Chicago Bridge & Iron (CBI) and Fluor (FLR). While these companies have exposure to energy markets, they have a diversified project backlog and the companies are fundamentally sound. Increased government spending on roads, water systems, and bridges will be a positive catalyst for both companies. I believe the market gave us a great long-term entry point. This year was a remarkable year personally for my wife, Jennifer and me. We became proud parents of our baby boy, Jack Theodore. He has been a blessing and daily reminder of the miracles God has to offer.

My next formal communication will be on April 10th where I will discuss our investments for the first quarter of 2015. Until then, enjoy the winter and stay warm.

Sincerely,

Ted Rasa
Chief Investment Officer