Linden Rose Investment

First Quarter 2019

Letter to LRI Clients

Quarterly Return

Period	**Linden Rose Investment**	**S&P 500 Index**
Q1 2019	20.78%	13.65%
Since Inception	*90.78%*	*42.71%*
2018	*-14.22%*	*-4.39%*
2017	*55.51%*	*21.82%*
2016 2nd Half	*18.41%*	*7.82%*

Dear Partners:

The first quarter of 2019 marked the strongest quarter for the benchmark stock index since the second-quarter of 2009, when stocks were recovering in the wake of a global financial crisis that led to the Great Recession. The return of Linden Rose Investment ("LRI") was 20.78% on a consolidated basis versus 13.65% for the S&P 500 index, which represents a relative out-performance of 7.13 percentage points. **It was our best quarter ever since inception.** The first quarter of 2019 recovered all the losses posted during the previous quarter, when the market was in turmoil due to the fear that the Federal Reserve would continue to raise interest rates throughout 2019 and the threat of a looming U.S.-China trade war. **Since July 1, 2016, our consolidated return was 90.78%, versus 42.71% for the S&P 500 index.** As we repeated many times in our previous quarterly letters to our investors, we want to focus on generating long-term compounded return and beating the S&P index by 3-5% annually and focus less on the ups and downs of the overall stock market.

Be fearful when others are greedy. Be greedy when others are fearful.

The major U.S. stock market indices suffered their worst quarterly declines in a decade, and the emotion of fear seemed to be spreading and dominating the stock market in the fourth quarter of 2018.

Fear is the most dangerous emotion for investors. While it might be our instinct to respond to the rapid decline of stock prices with the fear of loss, it prevents investors from thinking rationally. Many people with an IQ over 150 decrease to 50 once they are in the stock market. The biggest reason is that they can't restrain "fear" and "greed". Many people couldn't help to sell the stocks to cut losses in the aftermath of the stock market crash.

Once our family was enjoying a hot pot, my daughter tried to reach the pot and my wife stopped her immediately. Since then, my daughter has the fear of "touching a hot pot", although she has never been burnt by a hot pot. This is how "fear" is injected in everyone's mind. Many people who experienced 1987, 2000, or 2008 also have "fear" injected in their minds When a stock market tumbles, the emotion of fear of loss emerges and many people can't help but sell their stocks to cut losses.

Actually, the fear related to the hot pot is real, it can prevent people from being burnt. However, in the stock market, the more you are controlled by fears, the less rational you become. When the prices of our stocks plunge, we should re-examine our research and make sure our understanding of the business is still correct. If we find that the fundamental judgment is wrong, we must correct it immediately. If the decline is just caused by the panic sales, we must remain calm and, if possible, buy more at cheaper prices. If the intrinsic value of the stock is much lower than the stock price, isn't this a good buying opportunity for investors? As Warren Buffett said, "**Be fearful when others are greedy. Be greedy when others are fearful.**"

There is another "fear" to conquer for investors. This is the "fear" of missing out. For people who sold their stocks in December 2018, they were probably painfully afraid of missing out on the opportunity to grow their wealth when the stock market strongly rebounded in the first quarter of 2019.

For long-term investors, market volatilities are just noise. The stock market moves up and down every day. We have to ignore the noise and focus on long-term results. As we stated in our last investor letter: Since we are making long-term investments, the simplest and most feasible way is to actually invest money in great companies and ride the waves of the stock market up in the long run. "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

So how can people overcome fear and remain rational? We find it requires self-training during our daily lives. For example, reduce the frequency of watching stock prices, fully understand the business, focus on what is happening inside the company, etc. In addition, we also would recommend meditation which we believe is very helpful in controlling stress and anxiety. Meditation is to exercise our mind, just like we go to the gym to build muscle. It could help to build our mind muscle and stop us from instinctively reacting to certain events.

China's economic development prospects

In 2018, U.S. listed Chinese companies were hit by the escalating trade tensions between the U.S. and China. Many stocks of Chinese companies suffered 20-30% declines because of the ongoing trade war and the signs of weakening economy.

However, Warren Buffett's partner, Charlie Munger, said at 2019 Daily Journal annual meeting: "The water's fine in China. Some very smart people are wading in. And in due course I think more will wade in. The great companies of China are cheaper than the great companies of the United States." We very much agree with Munger's point of view.

In our second quarter 2018 investor letter, we expressed our cautious optimism on the trade war between the U.S. and China because we believe the real trade war will only be lose-lose for both countries and the benefits of free trade are enormous. The Chinese economy has come a long way in the past 40 years. But we believe China still has many years to grow its economy, and it will be at a slower but healthier pace. We as the investors should see big and long-term trends, because it is easier to be identified and make judgments. Just as we stand at the source of the Yangtze River, we should not only stare at the shoals along the way, but should see that the Yangtze River will eventually flow into the sea.

It could take many pages to discuss why the Chinese economy still has a lot of room to grow, but let us just give a short summary here. First of all, China has 1.4 billion diligent people and Chinese traditional culture has always advocated hard work. Many young entrepreneurs and innovators want to go up-class. They work very hard to save money and invest in the business they start up because they have dreams to become rich and successful. Second, China has one of the largest markets in the world with a world-class infrastructure. China is the world's largest e-commerce market and China has also become a major global force in mobile payments with 11 times the transaction value of the United States. This market can and will cultivate many great companies like Alibaba and Tencent. Third, China has seen more and more innovations over recent years, especially business model innovations. We have seen more and more outstanding Chinese companies emerging in the Chinese huge market and evolving the business models that are very different from the US market.

Although investing in China may have different political risks than investing in the U.S., we have maintained certain positions in Chinese companies since our inception for the above reasons.

Updates of Our Core Holdings

Although the stock market in the past 2.5 years has been relatively volatile, it has been an extraordinary 2.5 years and one that has been very rewarding for our early investors. After the ups and downs, we are more convinced that the best investment strategy is to buy great companies at reasonable prices and hold them for the long-term.

So, if we take a look at our five core positions as a whole in the portfolio, which were held since our inception, they have grown their revenues by 34.9% in the second half of 2016, 38.8% in 2017 and 30.8% in 2018 on average. This results in a 157% increase in revenues of the companies since our inception on July 1, 2016. If we look at individual companies: Apple, Google, Facebook, Alibaba, and Tencent have delivered 18%, 84%, 209%, 270% and 204% in revenue growth since the second half of 2016, respectively. We expect these positions will continue to generate excellent results in 2019. And we will continue to hold them for a long time as long as the fundamentals have not changed.

Conclusion

We are committed to growing our portfolio at a higher rate than the S&P 500 index and preserving our capital. We will continue to see volatility as we experienced in 2018, but we will focus on long-term results and avoiding permanent capital losses. We will take this opportunity to review the past 2.5 years: what we did well and what we did not do so well, how can we further improve ourselves, etc. We remain conscious about the future and we are also very excited about the prospects of our future. While our short-term results may be volatile, as we have seen in the last two quarters, we are confident that the future gains will be substantial. For the partners who have been accompanying our journey so far, we appreciate your strong support. This is still just the beginning and we will continue to grow and evolve. It remains day 1.

Again, if you have any questions about your accounts, please feel free to contact us. You can call us at (973) 841-7158 or email us at bing@lindenroseinvestment.com. If you know any friends who need investment advisory services, please refer them to us.

Stay hungry, stay foolish!

Thank you very much!

Yours truly,

Binglin Li	Feng Peng
Partner	Partner

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