SMOAK CAPITAL

Dear Fellow Investors,

First and foremost, I'd like to thank you for entrusting me with a portion of your hard-earned savings. I intend to treat your investment account as if it were my own and have nearly all of my net worth invested alongside you.

My approach will inevitably undergo periods of underperformance, but I believe it will outperform relevant market indices over the long term. In order to outperform over the long term, I believe it is imperative to concentrate in a small number of core positions which are undervalued and exhibit attractive risk/reward characteristics. Undoubtedly, this concentration will lead to fluctuations in the market values of our investment accounts, but it's important to remember changes in market prices are nearly always more pronounced than the fair value in our underlying business ownership.

Additionally, our investment positions will typically be small-cap or micro-cap companies. In plain English, this means their total value is much smaller than most publicly-listed companies, i.e., a company worth $100M rather than $100B. These small and micro-cap companies provide distinct advantages when investing much smaller amounts of money as compared to hedge funds, mutual funds, or other investment vehicles. First, they likely have little or no investment analyst coverage. This lack of coverage often leads to pricing inefficiency due to fewer people following the company. Second, most funds and institutional investors won't invest in small companies that won't ever make meaningful impact on their portfolio, e.g., investing in a $25M company will never move the needle for a $500M fund. Third, many funds have limitations on what stocks they can invest in based on how often they trade or what market they trade on and many of these small and micro-cap companies don't trade often or on a national exchange.

Although performance varied by account for 2018 based on when it was opened throughout the year, all accounts outperformed the S&P 500 over their respective time periods. The last quarter of 2018 was especially volatile with the S&P 500 dropping almost 15%. Macroeconomic and monetary policy concerns spooked investors late in the year and a sell-off ensued. I don't worry much about market trends, but instead focus on business conditions of our investments. Trying to understand individual businesses is a much simpler task than worrying about general market conditions and economic uncertainty. And although you may hear countless people forecasting where the market will go in the next 6 months or year, predicting market moves over the short-term is often a fool's errand.

Despite this recent economic uncertainty, I'm encouraged by the business trends of our core positions and believe 2019 should be a strong year for many of the business we own. Again, I sincerely thank you for allowing me to invest and manage your account. I have high hopes for what it can grow into with patience, focus, and a process-oriented mindset.

Please feel free to reach out with questions at any time. Here's to a healthy and prosperous 2019!

Sincerely,

For those so inclined, see below for a brief overview of two of our core positions:

Hemacare (OTC:HEMA)

Hemacare is a former blood banking company located in LA which pivoted from the low-margin whole blood market to serving pharmaceutical companies in the smaller but faster growing cell therapy market. Hemacare's CEO realized their blood banking experience and extensive donor pool were key advantages in collecting specialized cells and blood products which are used throughout the research and development process for groundbreaking cell therapies. Although overly simplistic, cell therapies generally consist of using a patient's own re-engineered cells or a donor's re-engineered cells to target and fight cancer cells with much less harm to a patient's healthy cells as compared to chemotherapy or radiation. While relatively few cell therapies are currently FDA approved, the therapies that work well have shown remarkable results against fighting cancers. These promising results and the massive potential market of treating various types of cancer are driving substantial investment in R&D by many large pharmaceutical companies.

Because of this keen business redirection, Hemacare has grown rapidly over the past 5 years into a highly profitable, cash-rich business with a long runway for continued growth. Throughout this period of rapid expansion, management has executed on it's goals and remained frugal in spending for future growth. While the company is valued much higher than it was a couple years ago, I still believe there is considerable upside due to tailwinds in their business niche and their valuable customer relationships.

Xpel (TSXV:DAP.U/OTC:XPLT)

Xpel is a manufacturer and distributor of paint protection film (PPF), window tint film, and other related products primarily for the auto market. PPF is a transparent, durable, thin film applied to automobiles that protects the paint from scratches, rock chips, and other damage, which can maximize resale value. Xpel is one of a few leading players in the PPF market and has developed a competitive advantage by forming close relationships with installers (small shops which install PPF on customer's cars) with top-notch training programs, superior pattern cutting software, and helping installers win business through online leads or marketing materials/promotional work for their install shop. Xpel was one of the first PPF manufacturers to introduce "self-healing" PPF years ago and has cemented its place as one of the premier brands in PPF since then.

Xpel has a stellar management team who understands the global PPF market very well and are heavily invested in the company alongside shareholders. Management has grown the value of the company at an impressive rate of the past 5-10 years and I believe growth will likely continue. I believe Xpel's stock is undervalued relative to how high quality of a business it is and their future growth prospects.
