Fellow Investors,

Every quarter, I have a lot to say about investing. Much more than most of you would probably like to read, and even more than I have time to write. To keep things brief, I've decided to use these quarterly letters to talk about… well, the latest quarter.

However, I still want to be transparent about my core investment strategies and how they're different from most investment firms'. And so, I'd like to introduce my new "owner's guide." It's designed to introduce my investing style to new investors and I'm attaching it here for you. And if you want to know even *more* about my core investing philosophies, just ask.

The first quarter of 2010 has ended, and it's been a good one: I've made a number of promising new investments for us both, and results have been fairly steady. Here are the details.

Last quarter, I mentioned two on-going investments, NRG and CIT. During the first quarter, NRG fell by about 12% while CIT went up by about 41%.

First, NRG. My multiple-year investment thesis for NRG, an electricity company, hasn't changed: in the short-term, a surplus of electricity generation means that NRG's profits (and stock price) moves around with fluctuations in the weather and natural gas prices. But in the long-term, as the population and economy grows, electricity prices will rise to encourage the building of necessary power supplies. NRG has the best management team in the business, and despite the decline in its share price, I think we acquired shares of the company at a very attractive price.

CIT, a financial company which lends to small and medium-sized businesses, is approaching fair value today, and is getting near a price where I'd sell it.

Critically, the way I value either of these companies does not change when the company's stock ticker flashes green or red. That CIT's stock grew almost 50% over a span of 4 months does not mean I think the company's fair value has increased. And I also don't think NRG's fair value has shrunk just because its stock price has fallen.

Moving on to this quarter's purchases… I've invested in a variety of companies (in differing quantities for each of you) spanning a number of industries. Those include HALL, an insurance company; PNDMF, a photo software company; NE, an oil-rig company; and VOD, a mobile phone company. For brevity's sake, I will just talk about the last two, but if you are curious, please ask: I should be able to give you a precise investment thesis for any stock I've bought on your behalf.

Noble Corporation (NE) builds huge oil-drilling rigs they rent to oil companies for up to $600,000 per day. They own billions of dollars of rigs, and they've paid off their borrowings related to that equipment. So, as they collect their huge daily paychecks, some of it will be directed towards very deserving people – namely us. They already tripled their dividend last quarter, and I think over time they will increase it even more.

Vodafone (VOD) is the largest mobile phone company in the world, with mobile subsidiaries and investments all over the world. Mobile phone companies are experiencing growth in areas like iPhone sales and data plans for smartphones and laptops, and mobile phone revenues have proven relatively recession-resistant. All of this means you are buying a relatively stable company with a 5% dividend that should grow over time. There's more: Vodafone and Verizon Communications co-own Verizon Wireless, the largest mobile company in the US. Verizon Communications has publicly stated it wishes to own all of Verizon Wireless, and I believe any such transaction would be very beneficial to Vodafone shareholders.

Have a great spring! Until next quarter! Sincerely --
Kai Shih