

Deep Research Whitepaper

From Complexity to Clarity: The Art and Science of
Deep Research from a Contrarian Perspective

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01. Background Deep Research

In the vast realm of investing, the term research is often thrown around, yet its depth and rigor vary significantly across the industry. At its core, deep research is an intensive, thorough exploration into the intricacies of a potential investment. It's not just about skimming the surface or relying on popular opinion; it's about delving into the very fabric of a company, understanding its ecosystem, and predicting its trajectory in the market landscape.

The investing industry, unfortunately, has been plagued by a superficial approach to research. Many investment entities lean heavily on headline figures, growth rates, and prevailing market sentiments. This surface-level analysis, while quicker, often misses the nuances and underlying factors that truly drive a company's value and potential. It's akin to judging a book solely by its cover or its popularity, without ever reading its pages.

This white paper aims to shed light on the essence and paramount importance of deep research. Readers can expect insights into the pitfalls of shallow analysis, the transformative power of a meticulous research approach, and the tangible benefits of making informed, data-driven decisions.

Pragmatic Capital stands distinct in this landscape. Our research methodology isn't just about depth; it's about clarity, logic, and verifiability. We believe that to challenge the market's herd mentality and uncover its misconceptions, one must be armed with a profound understanding of the subject. This understanding, derived from our unique research process, instills in us the conviction essential for successful contrarian investing. After all, in the world of investing, true value isn't always where the crowd is; it's often where the crowd hasn't looked deeply enough.

DEEP RESEARCH IS NOT JUST A PROCESS, BUT A PROFOUND JOURNEY INTO UNDERSTANDING. ITS POWER LIES IN ITS ABILITY TO UNVEIL TRUTHS HIDDEN BENEATH THE SURFACE, TRUTHS OFTEN OVERLOOKED IN THE RUSH OF MODERN INVESTING. IN A WORLD AWASH WITH SURFACE-LEVEL INSIGHTS, GENUINE DEEP RESEARCH IS A RARE BEACON, ILLUMINATING THE PATH TO TRUE VALUE AND INFORMED DECISION-MAKING.



MESSAGE From Fund Manager

Mark A. Jones

Founder and CEO, Pragmatic Capital

Dear Readers,

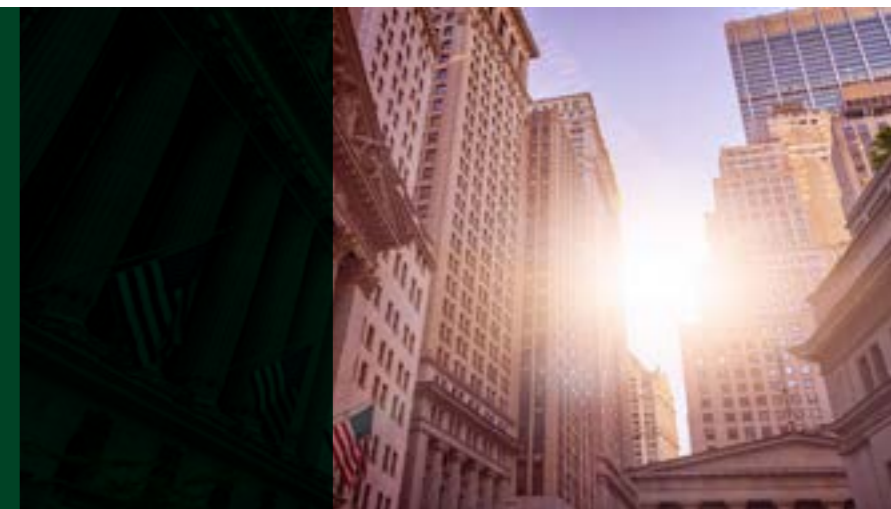
There's an insatiable curiosity that drives me, a burning desire to unravel the mysteries that lie beneath the surface of every business and industry. To me, every company has a story waiting to be told, every sector a narrative unfolding in real-time. This passion, this relentless quest for understanding, led me to the art and science of deep research. While many in the market fixate on tickers, weightings, and sectors, I've always believed that true insight comes from a profound understanding of businesses, their customers, competitors, suppliers, and the intricate web of value chains they operate within.

It's disheartening to see the broader market often sidelining genuine research, prioritizing fleeting trends over foundational knowledge. But this white paper is my invitation to you, an opportunity to embark on a journey of discovery with me. It represents the essence of my life's work, a dedication to deep research that I hope will continue to evolve and inspire for decades to come. I'm thrilled to share this with you and hope it offers a fresh perspective on the profound power and importance of truly understanding the stories behind the stocks.

Warm regards,

Mark Jones

Research & Investing



What is the Role of Research?

Investing without deep research is like navigating blindfolded; the true researcher seeks clarity, always hungry to unveil the unseen.

Research, especially in the realm of investing, is not a straightforward, linear journey. It's not about moving from point A to point B in a predictable manner. Instead, it's a dynamic process, akin to navigating a labyrinth. There are twists and turns, dead ends, and hidden passages. The path isn't always clear, and often, the researcher must double back, retrace steps, or even forge a new path entirely.

As outsiders of the businesses we invest in, researchers face a unique challenge. Without the intimate, insider knowledge that comes from years within a company or industry, we start from a place of relative ignorance. This is where humility becomes crucial. Recognizing the depth and breadth of what one doesn't know allows for a more genuine and profound exploration.

The research journey is multi-dimensional. Sometimes it propels you forward as you uncover a trove of insights. At other times, you will find yourself backtracking, re-evaluating previous assumptions in light of new information. And often, it's the sideways tangents, the seemingly unrelated bits of information, that offer the most profound insights. It's a dance of progression, regression, and lateral exploration.

Every piece of information is like a puzzle piece. Individually, they might not make much sense. But as they are meticulously and patiently pieced together, a clearer picture emerges. It's a test of patience, perseverance, and perspective, as the researcher fits each piece into its rightful place, revealing the broader narrative.

The craft of research demands an unwavering dedication to detail. It's about diving deep, not settling for surface-level information, and relentlessly pursuing the truth. It's about recognizing that every detail, no matter how minute, has the potential to change the trajectory of one's understanding.

A true craftsman of research is comfortable with uncertainty. They embrace the unknown, recognizing that the gaps in understanding are not setbacks but opportunities. It's in these gaps, these uncharted territories, that the most profound discoveries are often made. The craft is as much about the questions as it is about the answers.

What is Deep Research?

Deep research is an intensive, data-driven exploration into the very fabric of businesses and industries. It's not about merely scratching the surface; it's about delving deep, employing rigorous methodologies, and analyzing expansive datasets. It's about understanding the economic intricacies, leveraging quantitative analysis, and applying advanced reasoning techniques. It's about identifying patterns, understanding shifts, and making decisions based on a true understanding of the underlying dynamics.

Why Most Aren't Doing It?

The market is saturated with large institutions that, by their design, are not equipped to undertake in-depth analysis. Their primary focus often leans towards accumulating assets under management rather than achieving superior performance through insightful research. Moreover, their vast teams are often more versed in traditional finance than in the specialized realms of economics, accounting, or quantitative analysis. As a result, they focus on following the herd and increasing AUM by marketing "skill".

02. Pragmatic Approach

Deep Research Framework

At Pragmatic Capital, our approach to deep research is both methodical and innovative. Rooted in a meticulously crafted four-stage research process, we delve into a broad universe of potential stocks, employing sophisticated algorithmic screening to flag intriguing candidates. From exhaustive data gathering, which includes studying company and competitor data, to investigative techniques like industry trend analysis and interviews with informed industry participants, we ensure full understanding is built.

Our research doesn't just stop at data collection; it's about understanding the intricate narratives of businesses that the broader market might have misunderstood or overlooked. Our deep research culminates in the creation of a concentrated portfolio, each investment reflecting a high degree of conviction. These aren't just random picks; they are well-reasoned bets on businesses that the market has largely bet against. By delving deep into subjects like business models, product features, industry dynamics, and customer demand attributes, we aim to see the business in its entirety.

This comprehensive view allows us to understand both the individual story of the business and the broader narrative of its industry. Our research process, refined over years, is a blend of proven methodologies and unique techniques, ensuring both reliability and validity in our conclusions. While many in the investment world might stop at surface-level analysis, we believe in extracting as much meaning from the data as possible.

Our research involves extensive reading and processing, ensuring we grasp the nuances of each business and its industry. We tap into a variety of sources, from financial statements to industry reports, and from customer surveys to academic studies. All supported by our standardized data analysis techniques, we aim to go beyond what's immediately apparent. The methodologies and techniques are designed with the knowledge of what we're searching for, how to know when we've found it, where to look for it, and tools to leverage our energies. In essence, the research process is designed to transform data and information into actionable insights.

Ideal Candidate

The quintessential candidate emerging from our rigorous research process is not just any business; it's a unique situation characterized by a confluence of concrete conditions. We're seeking a business underpinned by a robust business model and a proven go-to-market strategy. It should offer a product or service witnessing high demand, bolstered by a product roadmap primed to sustain this demand. The ideal candidate operates within an expanding industry, steered by a highly competent management team.

Efficiency is key, reflected in its cost structure. Yet, despite these strengths, the stock should be undervalued based on historical multiples and have experienced significant sell-offs. Such a situation is a contrarian's goldmine. It presents an opportunity to challenge the market's perception, betting on a company with evident structural growth drivers. In essence, while the market assigns a low probability of success, our deep research unveils a business with a palpably high probability of thriving.

Tools and Sources

At the heart of our research process lies a suite of bespoke tools and a rich tapestry of sources, meticulously curated and refined over years of dedicated exploration. Recognizing the essence of business research, we've engineered specialized tools that streamline our analysis, ensuring we delve deep without getting lost in the weeds.

Our arsenal includes a full stack of standard operating procedures including criteria sheets, uniquely tailored checklists, scoreboards, intuitive data visualizations, automated analyses of pivotal financial metrics, and proven documentation methodologies. Complementing these tools is a vast reservoir of sources: the business being studied, their competitors, related businesses, elite market research entities, and a wealth of government data. Our experience has honed our ability to pinpoint exactly where the most impactful information and data reside.

Triangulation in Action

Triangulation, a method rooted in academic research, is a cornerstone of our investment thesis formulation. By its nature, triangulation involves leveraging multiple methodologies and techniques to study a single phenomenon, ensuring that the insights derived are both comprehensive and robust. The power of this approach lies in its ability to cross-verify findings from different angles, thereby significantly enhancing the reliability of the evidence.

At Pragmatic Capital, we employ triangulation by intertwining various research methodologies and techniques. This multifaceted approach not only deepens our understanding but also fortifies our investment theses, ensuring they are grounded in evidence that has withstood rigorous scrutiny from multiple perspectives.

Standard Operating Procedures

At the heart of Pragmatic Capital's deep research lies a foundation of meticulously crafted Standard Operating Procedures (SOPs). An SOP, in essence, is a set of detailed, step-by-step instructions designed to perform a specific task or procedure consistently. Originating from industries where precision and repeatability are paramount, SOPs represent the pinnacle of organized processes.

By integrating these into our research framework, we ensure a level of consistency that eliminates variability, enhancing the reliability of our findings. Moreover, SOPs drive efficiency by providing a clear roadmap for our research endeavors, ensuring every critical aspect is addressed. The result is a comprehensive, systematic approach to research that leaves no stone unturned, ensuring our investment decisions are always informed, deliberate, and robust. Additionally, they serve as guidelines to prevent one from getting lost in the weeds or falling into rabbit holes thus decreasing the odds of confusion.

Checklists and Scoreboards

In the realm of meticulous research, the utilization of checklists and scoreboards stands as a testament to our commitment to precision and clarity. Checklists, a tool often associated with industries where errors can have significant consequences, serve as a systematic guide to ensure comprehensive analysis. Within our investment framework, these checklists meticulously break down data, guiding us through dozens of steps (per checklist) designed to unearth the underlying health of a business, its competitors, and the broader industry.

On the other hand, scoreboards provide a visual representation of a business's vitality. By capturing key metrics spanning lines of business, geographies, operational indicators, efficiency, and earnings growth, these scoreboards offer a snapshot of a company's performance, ensuring our investment decisions are grounded in tangible, quantifiable data.

Foundations and Frameworks: Effective and Efficient Deep Research

THE ODYSSEY OF DEEP RESEARCH

Imagine standing at the threshold of a vast labyrinth. This is where every investment researcher begins. The walls, tall and imposing, are made of stacks of data - a mix of the vital, the unnecessary, and the downright misleading. The dim lantern in your hand represents your initial domain knowledge, casting light, but only just enough.

Every corner turned introduces an intertwined web of entities, products, industries, and market dynamics. The very air is thick with distracting voices—market buzz, telling you what to think, urging you to believe the latest trend or panic. These are the voices you must learn to filter out, focusing instead on the signposts: your own questions that lead you to deeper insights.

You wade through pools of raw data, seeking patterns and truths. Along the way, you must reconcile facts against your internal compass—your established criteria. There are reflective chambers where you challenge your assumptions and weave your understanding into a cohesive thesis.

Your aim? The heart of the labyrinth, a place of clarity. But the journey there is as complex as the world of investment itself.

ODYSSEY TO METHODOLOGY

The journey through the labyrinth, as intricate and daunting as it might seem, isn't ventured blindfolded. Just as every explorer relies on a map and compass, the investment researcher equips themselves with methodologies and techniques to decipher the maze of information and distractions. It's these tools that offer the guiding light amidst the overwhelming darkness, ensuring that each step is calculated and every decision informed.

While the story captures the essence of the deep research journey, the subsequent section delves into the granular details, providing clarity on the very methodologies that deep researchers employ. It's one thing to understand the challenges faced; it's another to know how to tackle them head-on.

We'll unravel the frameworks used to assess and analyze data, the techniques applied to sift through noise, and the strategies that ensure a holistic understanding of an investment opportunity. This section will serve as a handbook, providing actionable insights into the art and science of deep research.

Dive in, and discover the tools that turn the daunting odyssey into a navigable journey.

Dynamics of Deep Research

Research in the domain of investment is far from a linear journey; it is a multifaceted endeavor marked by complex dynamics. While navigating the vast ecosystem, researchers grapple with the paradox of limited high-quality information yet an overwhelming quantity information, all raw and scattered. This intricate landscape demands more than mere reading—it requires meticulous processing, distillation, and synthesis to carve clarity from chaos.

Research Toolset Evolution

Navigating the multifaceted challenges of investment research necessitates a specialized set of methodologies, conceptual frameworks, and techniques. These tools, honed over time, offer structured approaches to dissect complex data landscapes and derive insightful narratives. Together, they form the evolved compass guiding researchers through the intricate maze of investment analysis.

COMPLEX

No business exists in a vacuum; it's embedded in a complex ecosystem comprising competitors, industries, suppliers, and customers.

For a researcher, this presents a significant challenge: to truly comprehend a single business, one must navigate and decipher this intricate web, demanding a scope that extends well beyond the immediate entity in focus.

It's not just about understanding the business, but about situating it within its broader context and untangling the myriad connections that influence it.

UNSTRUCTURED

In the realm of research, the unstructured nature of information and data stands as a formidable obstacle.

Unlike a neatly organized textbook or a curated database, real-world data is often scattered, inconsistent, and hidden in unexpected places.

Beyond just finding the data, the researcher grapples with an even more daunting task: discerning what's essential from what's extraneous. Without a predefined roadmap or a checklist, one must navigate this chaos, constantly sifting, evaluating, and piecing together fragments to construct a coherent understanding.

OVERLOAD

In research, the sheer volume of available information and data can be both a boon and a burden.

While it promises comprehensive understanding, it often submerges the researcher in a deluge of potential tangents and irrelevant details.

The challenge lies not just in sifting through the vastness, but in efficiently discerning what's pertinent from what's peripheral. Without strategic filtering, one risks getting lost in the noise, wasting valuable time and energy on what doesn't truly matter.

RAW DATA

Confronted with vast expanses of raw data, a researcher faces the formidable task of extraction and interpretation.

This undifferentiated mass doesn't neatly parcel itself into actionable insights; instead, it demands a specialized skill set for meaningful analysis.

The challenge pivots on the researcher's capacity to transform the unrefined into the intelligible, turning abstract numbers into coherent narratives or discernible patterns.

LIMITED

Navigating the realm of investment research, an external researcher grapples with an inherent limitation: a vantage point from the periphery, lacking the insider's intimate knowledge.

This constraint transforms the research journey into a puzzle-solving expedition. Armed only with observations and indirect insights, the researcher must craft a comprehensive understanding, much like piecing together a jigsaw with missing segments.

PROCESSING

In the intricate tapestry of investment research, raw data and information aren't simply accepted at face value.

Instead, a researcher faces the demanding task of delving deep beneath the surface, extracting hidden meanings and subtle insights.

This intellectual excavation is crucial, requiring rigorous processing and interpretation to unveil the true essence and narrative buried within the data.

03. Deep Research Dynamics Interconnectedness

To truly grasp a business' prospects and vulnerabilities, it's imperative to widen the scope, capturing the complexities and nuances of the vast interconnected web they're a part of.

CONCEPTUAL FRAMEWORKS

Systems Thinking: Focusing on the way a system's constituent parts interrelate and how systems work over time and within the context of larger systems. For example, researching AMD would lead to a study of the semiconductor ecosystem, which will produce material insights.

METHODOLOGIES

Indirect Inference: This involves making determinations about a situation based on related events or evidence rather than direct observation. For example, noting a surge in high-end gaming device sales, one might infer AMD's latest chip is a favored component.

Associative Learning: This is a principle of understanding based on the association between two events or pieces of information. For example, seeing a pattern where AMD graphic card releases align with graphics software advancements, one learns to link the two events.

TECHNIQUES

Data Triangulation: This technique involves gathering and comparing data from multiple sources to validate, corroborate, or refine research findings. For example, when evaluating AMD's market share, one might consult tech industry reports, independent consumer reviews, and vendor sales data to ensure a comprehensive understanding.

Proxy Indicators: These are stand-ins or surrogates for the data you're truly interested in but might not have direct access to. For example, if one lacks direct data on AMD's chipset sales, a surge in high-end PC sales might serve as a proxy indicator for increased demand for AMD's products.

Deep Research Dynamics Limited Observations

To navigate the constraints of research, one must discern, synthesize, and extrapolate from available data, ensuring that information is accurately weighed for its relevance, materiality, and implications.

CONCEPTUAL FRAMEWORKS

Signal vs. Noise: Differentiating valuable information (signal) from irrelevant or misleading data (noise). For example, in studying The Trade Desk, discerning programmatic ad growth (signal) from competitor management changes (noise) is vital.

METHODOLOGIES

Information Theory: Originally developed for electronic signal processing, this has been adapted to assess the value, uncertainty, and quantity of information. For example, in assessing The Trade Desk, a researcher could use information theory to prioritize the relevance of industry ad spend growth over specific platform adoption rates.

Holism: Approaching research with an understanding that systems and their properties should be viewed as wholes, not as collections of parts. For example, examining The Trade Desk's ad transaction surge holistically reveals insights into broader digital advertising ecosystem shifts.

TECHNIQUES

Abductive Reasoning: Involves forming conclusions from the information available, even if it isn't complete. For example, noticing an uptick in The Trade Desk's ad transactions during a sports season might lead one to infer that their platform is favored for sports-related ad campaigns.

Critical Thinking: Actively analyzing, evaluating, and synthesizing information to make informed decisions. For example, upon observing a surge in The Trade Desk's partnerships with streaming platforms, a researcher might critically assess the broader implications for its position in the evolving digital advertising landscape, rather than simply taking it as a positive sign.

Deep Research Dynamics

Unstructured Environment

An unstructured research environment necessitates continual self-assessment, recognition of knowledge voids, and iterative questioning to inform and direct the investigative journey.

CONCEPTUAL FRAMEWORKS

Metacognition: Being aware of one's own thinking process, understanding what one knows, and regulating one's own learning. For example, when analyzing Zoom's rapid growth, a researcher might use metacognition to recognize their own biases towards remote work trends.

Active Learning: Involves the researcher actively engaging with the material, often through problem-solving, discussion, or experimentation, rather than passively receiving information. For example, a researcher studying Zoom might initiate various virtual meeting scenarios to explore and assess the software.

METHODOLOGIES

Gap Analysis: Systematically identifying where one currently stands, where one aims to be, and the gaps in knowledge or resources between the two. For example, in analyzing Zoom, a researcher might be well-versed in its market share and growth metrics but realize a knowledge gap concerning its integration capabilities.

TECHNIQUES

Socratic Method: A form of cooperative argumentative dialogue to stimulate critical thinking and illuminate ideas. For example, when exploring Zoom's competitive advantage, a researcher might engage in a Socratic dialogue, asking what makes Zoom stand out from its competitors, followed by asking if these features can be easily replicated guiding deeper reflection on Zoom's unique value proposition.

Inquiry-Based Learning: Encourages researchers to ask questions, investigate scenarios, and use their findings to drive further inquiry. For example, after observing a surge in Zoom's daily active users, a researcher might investigate the specific features or campaigns that led to this growth, driving further inquiry into user preferences and market trends.

Deep Research Dynamics

Raw Data

Intelligent data analysis necessitates a profound understanding of the metrics, the contextual value of data, advanced analytical capabilities, and the links between the quantitative and the qualitative.

CONCEPTUAL FRAMEWORKS

Empiricism: Knowledge derived from observed and measured phenomena, largely grounded in quantifiable facts and their patterns. For example, by observing and measuring Etsy's multifaceted data—spanning from revenue growth and platform spend to the number of active buyers, sellers, and broader e-commerce sales trends—an empiricist can derive a comprehensive understanding.

METHODOLOGIES

Comparative Analysis: Examining and contrasting data sets or entities to glean insights from their relative positions or changes over time. For example, one might juxtapose Etsy's revenue growth, seller metrics, and platform activity against similar metrics from peer e-commerce platforms, shedding light on Etsy's competitive standing and market dynamics over time.

TECHNIQUES

Time Series Analysis: Analyzing data points ordered or indexed in time order, often to understand underlying patterns or forecast future points. For example, by employing time series analysis on Etsy's quarterly revenues and platform traffic over several years, one can identify cyclical trends, seasonality effects, and potentially predict future revenue trajectories.

Regression Analysis: Examining the relationships between one or more independent variables and a dependent variable. For example, a researcher studying Etsy might use regression analysis to explore the relationship between the number of active sellers and total platform sales, aiming to better understand how seller activity correlates with overall revenue.

Deep Research Dynamics

Micro-Processing

Effective research demands an agile mental dexterity to intuitively sequence myriad processing activities, harmonizing disparate information fragments into a comprehensible whole.

CONCEPTUAL FRAMEWORKS

Analytical Frameworks: Structured sets of criteria or concepts against which information can be compared and analyzed. For example, when analyzing Pinterest, a researcher might apply their internally developed analytical framework that prioritizes criteria such as go-to-market effectiveness, expense-to-revenue ratios, and user acquisition costs, offering a tailored lens through which to evaluate Pinterest.

METHODOLOGIES

Deductive Reasoning: Deriving specific conclusions from general truths or premises. For example, using the premise high user engagement often leads to higher ad revenue, a researcher might interpret Pinterest data based on this premise.

TECHNIQUES

Essence Extraction: Delving into the core or fundamental nature of a piece of information, to understand its most crucial attributes. For example, by analyzing Pinterest management's comments on strategic initiatives, a researcher discerns a coherent plan that prioritizes user experience enhancements, ultimately driving higher engagement and increased revenue streams.

Synthesis: Combining multiple pieces of information or ideas to form a coherent whole. For example, after examining Pinterest's user growth metrics, ad revenue data, and platform enhancements, a researcher synthesizes these insights to understand a holistic growth strategy emphasizing both user acquisition and monetization.

Deep Research Dynamics

Boundlessness

Efficient research is paramount; unchecked exploration can spiral into confusion and lead to herd-like decision-making, diluting original insight.

CONCEPTUAL FRAMEWORKS

Information Saturation Point: The threshold at which accumulating more information does not add significant value to understanding or decision-making. For example, when researching PayPal's market penetration in various regions, after collecting extensive data on user adoption, transaction volumes, and merchant partnerships, a researcher might reach an information saturation point where additional data no longer meaningfully refines their understanding of PayPal's growth trajectory in that region.

METHODOLOGIES

Efficiency and Opportunity Cost: Evaluating the trade-offs between the time and effort put into a task versus the potential benefits from other activities that could have been pursued. For example, a researcher might consider if extensively analyzing PayPal's user behavior in a niche market is efficient, or if that time could be better spent evaluating broader global trends that offer greater insights.

TECHNIQUES

Checklists: Itemized lists used to ensure consistency and comprehensiveness in carrying out tasks. For example, when diving into PayPal's quarterly report, a researcher might employ a checklist to methodically assess key metrics, management commentary, and regional performance, ensuring no crucial detail is overlooked.

Scoreboards: Visual displays of progress or performance metrics to guide decisions and actions. For example, when analyzing PayPal's operational efficiency, a researcher might employ a scoreboard, highlighting metrics such as user growth, transaction volume, and revenue per user, with assigned weights indicating the strength and significance of each metric in assessing overall business health.

03. Pragmatic Process

Applied Deep Research

At Pragmatic Capital, our approach to research is a harmonious blend of depth, precision, discernment, and efficiency. Our meticulously refined four-stage research process serves as both an expedition of understanding and an exercise in discernment. Each stage is a critical juncture, prompting a decision to delve deeper into the intricacies of a potential investment or to pivot in search of more promising opportunities.

In the vast sea of investment possibilities, our methodical approach ensures that we're not merely casting a wide net but are laser-focused on identifying those rare gems that align with our stringent criteria. But our methodology is about more than just identification. It's about comprehension. We strive to unearth the underlying drivers of growth, to decode the strategies propelling a business forward, and to gauge the management's capability and intent in steering the ship.

This deep dive doesn't just end with understanding; it culminates in a grand act of quantification. We synthesize our extensive insights into precise financial projections, setting them against prevailing market estimates. The outcome is telling. Our forecasts, grounded in rigorous research, consistently outshine the predictions of Wall Street.

Recognizing the value of premium insights, we've made substantial investments in accessing top-tier market research data and reports. While this commitment is costly, it's a testament to our unwavering dedication to obtaining the most accurate, comprehensive, and timely information available. In the ensuing sections, we'll peel back the layers of our applied deep research, offering a transparent look into the Pragmatic Capital blueprint. It's a journey that showcases our meticulous, resource-intensive, and, above all, effective approach to navigating the complex terrain of investment.

Game of Strategy

At its core, business is a sophisticated game of strategy, a complex dance where entities within an industry craft and deploy strategies they believe will most effectively capture demand. Each business operates like a meticulously designed machine, calibrated to produce products or services that resonate with consumers, offered at a price they're willing to pay, and delivered in a manner they desire.

Every maneuver a business makes translates into economic activity, painting vivid scenes that, when connected, narrate intricate tales. They are tales shaped by both strategic vision and execution, revealing businesses that consistently craft winning strategies, standing out in their respective industries. Pragmatic's deep research approach is rooted in this perspective. We delve deep, aiming to uncover and study these stories, discerning the nuances and intricacies that define them. Then we take one of two actions- invest or ignore.

THE 4 P'S

At Pragmatic Capital, we employ a refined approach to evaluating a business's strategy, drawing inspiration from the foundational 4 P's of marketing: Product, Promotion, Price, and Placement. Our process begins with a comprehensive understanding of each strategic component, delving into their effectiveness in efficiently capturing demand. Crucially, we analyze the evolution of these strategies over time, providing insights into management's proficiency in executing profitable shifts. This historical and current strategic landscape then informs our assumptions for future revenue and earnings, ensuring our forecasts are rooted in both past performance and anticipated strategic pivots.

FLYWHEEL EFFECT

In the intricate game of business strategy, there's a pivotal concept that stands out as the hallmark of truly successful enterprises: the flywheel effect. At its core, a flywheel represents a self-reinforcing loop made up of a series of well-executed steps that feed and accelerate off each other. It's this momentum, once initiated, that allows businesses to scale efficiently and sustainably. We firmly believe that every business destined to triumph in its strategic endeavors possesses a robust flywheel, whether overtly acknowledged or operating subtly in the background. However, uncovering this flywheel is seldom straightforward. It's rarely handed to researchers on a silver platter. Instead, it demands a meticulous deep research process to discern its components and understand its mechanics. At Pragmatic Capital, our research is geared towards revealing these hidden flywheels, understanding their dynamics, and assessing their potential to drive future growth.

Pragmatic Process

Level I: Sophisticated and Efficient Algorithmic Screening

Through a meticulously crafted four-stage filter, we sift through a vast array of candidates, narrowing down to a list of businesses ripe for deep research.

INTERESTING

These businesses have valuations steeply discounted from multi-year averages and have seen stock declines of over -40% in the last year. We compare this with recent and projected revenue and earnings growth. Any clear divergence between stock performance and business fundamentals propels the business to our next research stage.

INSPECTION

We examine the durability of revenue, earnings, and margins. We assess momentum by comparing compounded growth rates for each of the last three years with recent rates. We identify trends across revenue, earnings, and margins to spot consistent patterns and gauge efficiency. Only businesses showcasing growth and momentum advance to our next phase.

ATTRACTIVE

Here businesses begin to resonate more distinctly. We delve into earnings history, gauging management's track record against market expectations, hinting at internal predictability. The latest earnings releases and presentations offer insights into management's perspective on current and future trajectories. Each business is rated on a 1-5 scale for momentum and leadership, with only those scoring an average of 4 or above advancing.

COMPARISON

In the decisive final stage, we force rank remaining businesses against each other and major indexes, prioritizing those with pronounced revenue and earnings growth and those most steeply discounted from their historical averages. This stage is more than just a screening; it's the beginning of hypothesis formation, rooted in the belief that business success is far from random. The businesses that pass this stage are poised for deep research.

Through years of meticulous study
of businesses and investment
scenarios, we've cultivated a
discerning eye, pinpointing key
performance indicators that
only the most robust businesses
consistently exhibit.

Pragmatic Process

Level II: Exhaustive Data Gathering and Analysis

Level II delves deeply into understanding the business in its unique context, utilizing our proprietary analytical procedures.

BUSINESS OVERVIEW AND STOCK TIMELINE

We actively dissect the business model, diving into products, markets, and customer segments using the latest annual report, the company's website, and recent investor presentations. Concurrently, we chart the stock's trajectory, pinpointing days of significant movement. Each notable shift is scrutinized to determine the underlying events, ensuring a clear understanding of cause and effect in the stock's behavior.

FINANCIAL AND SUPPLEMENTAL DATA ANALYSIS

We pivot to an intensive data analysis phase, ensuring we approach the data without biases from earnings calls. This unbiased lens lets the data narrate its unique story, revealing the business's performance nuances. Utilizing two meticulously crafted standard operating procedures, we delve into both financial and supplemental data, guided by comprehensive checklists of over 50 analytical steps (per checklist). This microscopic examination encompasses momentum shifts, efficiency trends, cash flows, and capitalization. The supplemental data, acting as the backbone to the financial figures, offers a wealth of operational metrics.

EARNINGS CALL DECONSTRUCTION

We delve deeper than just listening; we dissect years of quarterly earnings call transcripts, aligning them with our belief that business is fundamentally a strategic game. Each piece of information is meticulously categorized into one of four distinct areas: strategy, its effectiveness, anticipated adjustments, or expected outcomes, all anchored in the four P's of marketing. This methodical approach unveils the evolving narrative of the business, shedding light on the strategic maneuvers and their results. By doing so, we not only grasp the business's strategic trajectory but also enrich the insights derived from our prior data analysis.

Subsequently, we study the industry comprehensively to grasp the business within the broader ecosystem it operates in.

MARKET RESEARCH

In our pursuit to understand the broader industry landscape, we tap into exclusive reports from premier market research firms. These reports, crafted by seasoned researchers, offer deep dives into industry dynamics, consumer behaviors, and insights from industry leaders. With unparalleled access to company insiders and aggregated industry data, these reports serve as an accelerated, reliable crash course on the sector. Notably, these documents are tailored for industry professionals, ensuring they deliver value even to those deeply entrenched in the field. Our commitment to studying what industry insiders read sets us apart, ensuring our investment decisions are grounded in comprehensive industry knowledge.

INDUSTRY DATA ANALYSIS

Building on our foundational understanding, we apply our proprietary data analysis process to industry data, pinpointing momentum and detecting pivotal shifts. By comparing growth rates, we discern intricate relationships within the industry. This rigorous analysis not only deepens our insights but also reinforces the conclusions drawn from our earlier research stages.

PEER COMPANY ANALYSIS

In our pursuit of a holistic understanding, we delve into close competitors and related businesses, applying our proprietary analysis method. By scrutinizing their data, we gain a comparative perspective, ensuring our investment decisions are grounded in a comprehensive market context. This peer analysis is crucial, shedding light on industry benchmarks and potential market dynamics.

Pragmatic Process

Level III: Investigative Research Techniques

An investigative dive, tailored to address specific, central questions about the business, shaped by the research journey itself, enriched by interviews with industry insiders, and underpinned by advanced quantitative analysis to discern pivotal financial and operational relationships.

KEY TOPIC RESEARCH

We delve into precise inquiries central to the business, be it the product, customer dynamics, or industry nuances. These questions, sculpted by our preceding research stages, aim to finalize our understanding. Engaging directly with industry insiders becomes pivotal at this juncture, as their insights either bridge any existing knowledge gaps or further solidify our findings. This meticulous approach ensures a comprehensive grasp of the business, preparing us for informed investment decisions.

ADVANCED QUANT ANALYSIS

In Level III's advanced quant analysis phase, we employ sophisticated techniques to decipher the intricate relationships between pivotal financial and operational variables. Utilizing regressions and time series analysis, we meticulously examine key performance indicators, seeking variables with the potential to forecast future outcomes. This stage is the cornerstone of our research, offering not just insights, but scientifically-backed evidence that bolsters our investment predictions. Through this rigorous analysis, we ensure our decisions are grounded in data-driven certainty.

Pragmatic Process

Level IV: Meticulously Quantified Research

We meticulously project economic data, analyze valuations from informed perspectives, and identify key catalysts, ensuring our predictions are deeply rooted in understanding.

FORECASTING

Our projected earnings stand as a benchmark against consensus estimates, acting as the primary influencer of stock price movements when perceptions meet reality. Through time series models enriched by our research insights, we craft these projections. Unlike many peers in the investment realm, we excel at translating research into quantifiable estimates. We pride ourselves on crafting firsthand projections, steering clear of relying on secondhand estimates. Our methods are deeply anchored in discerning the relationships between various quarters, spanning the entirety of the income statement.

VALUATION

Our valuation approach is distinct; we don't arbitrarily assign what we deem a fair value. Instead, we let the market's historical behavior guide us, indicating what it might pay in the scenario we've forecasted through our earnings estimates. Historical valuation multiples often correlate closely with market sentiment, sometimes even more than with revenue growth. As contrarians, we recognize that current market sentiment might not align with our vision of a business' future after executing its strategic plan. Thus, determining our price target becomes straightforward math: our earnings estimate multiplied by a conservative valuation multiple, reflecting the market's past optimism towards the stock.

Interested in Learning More?

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