

# Investment Failure - Blue Sky Funds, held from 2017 to 2019.

Blue Sky Alternatives was an investment management fund across a portfolio of Realestate, Private Equity, and Hedge Funds. The company is based in Brisbane, Australia.

The investment thesis was made after watching the company for some years, attending events, and meeting the founder. I concluded that growth would continue based on underlying demands for student accomodation and sound agricultural investments linked to the growing Chinese middle class. I believe personally meeting the founder and key management gave me a bias towards this stock and may have clouded my analytical judgement. Investment was made on 04/08/2017 at \$9.49 and 23/08/2017 at \$10.95. Stock was sold 09/04/2019 for all of \$0.45. The bulk of stock price declines occurred in 2018 as shown in Chart One below.

The following insights were gained.

- Overconfidence in the future growth of the business brought on in bias from having met the founder.
- Overconfidence in management being local people.
- Business model in alternative investments lacked clarity. It was not possible to see the performance and risk of all exposure Blue Sky had in each of its investments. This business model would not come up in our current screening as we need to be able to clearly understand the mechanisms of price and volume revenue streams and do not consider investment funds.
- Revenue was being overreported with inclusion of debt in total assets under management. We now use a manipulation checksheet which seeks out any attempt by management to make its earnings look better than they actually are or should be. This checksheet covers 143 data points and 46 calculations and considers interrelations between those data points and calculations.

- Portfolio allocation was at a low 4% given some recognised risk in the business model at the time and proved to be correct and instrumental in avoiding substantial loss.

The proximity of Blue Sky in my home town of Brisbane, familiarity with its local projects and having watched it perform well for a number of years led to overoptimistic bias and somewhat unfounded comfort in investment in 2017. The current rigour of our investment screening and analysis does not allow for this type of opportunity in that we can not accurately identify risk in price and volume in this business model, we do not invest in investment services, and this opportunity will not pass our manipulation checksheet. Thankfully the portfolio allocation on investment was correct at 4% and allowed us to absorb the portfolio loss of -6.76% in 2018 and still record a portfolio gain of 49% in that year as shown [here](#).

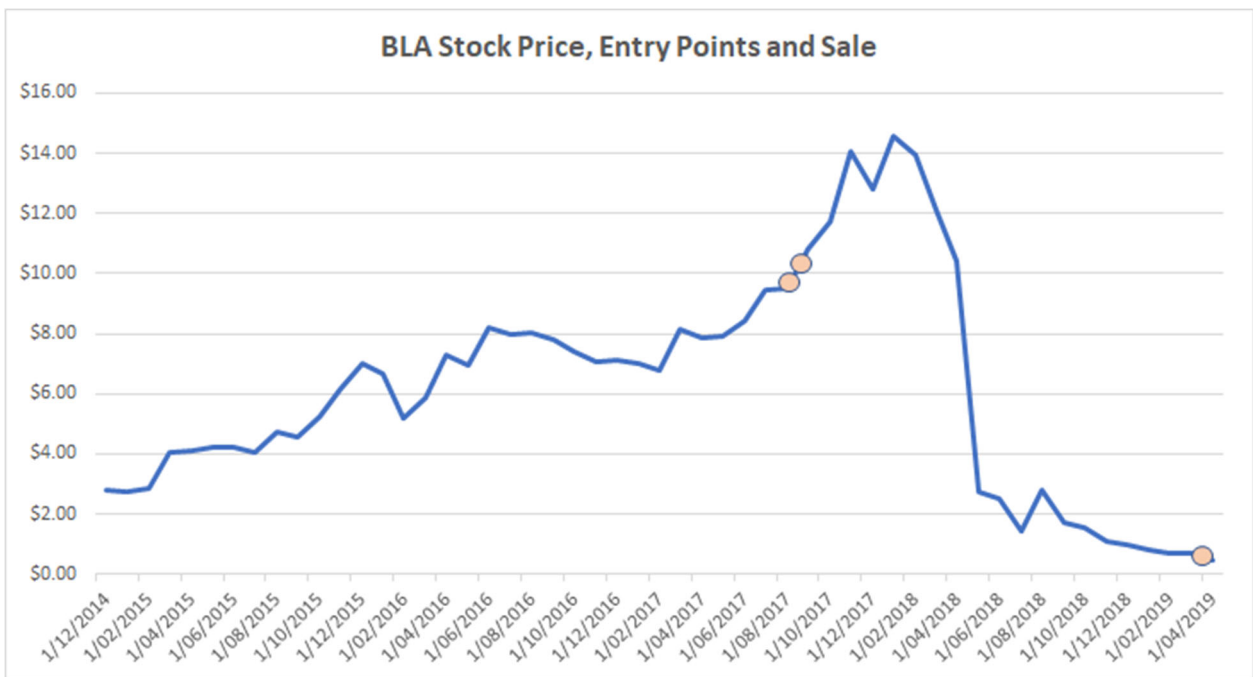


Chart One. BLA entry points at \$9.49 and \$10.95 with subsequent sale at \$0.45.