

Firsthand Tech Fund (SVVC) - The Hall of Mirrors Trade

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Imagine standing at the beginning of a very long hall of mirrors. What you'd see as you looked down the hall is your figure repeated over and over again almost to infinity.

This analogy can be applied to investing: a winning trade that you can repeat over and over is what's known as **the Hall of Mirrors trade**.

When you find a Hall of Mirrors trade, you'd better not tell anyone because your profits will soon become someone else's profits. And this business is tough enough without giving away all of your trade secrets.

But in rare cases, it's worth pointing out a Hall of Mirrors trade to drive your own returns. Let me explain by way of an example.

Meet Firsthand Technology Value Fund (SVVC).

SVVC is a closed-end publicly-traded venture capital fund that invests in technology and cleantech companies. Its largest positions are in Facebook and Twitter, both of which are also publicly traded. Closed-end funds like SVVC are in a unique position because without much effort the managers can execute the Hall of Mirrors trade, perpetually creating value for themselves and their shareholders.

How would a fund like SVVC do that? Well there are a couple of ways:

1. SVVC could sell FB and TWTR and buy its own stock, thereby closing the valuation gap via intelligent capital allocation.
2. And / or SVVC could own shares of SVVC. When the discount widens, SVVC could buy shares and boost NAV, which is magnified by the self-ownership. When the shares trade above NAV, SVVC could sell its own shares and boost NAV. It's a guaranteed return Hall of Mirrors trade.

But far too often, the managers of closed end funds don't execute this trade and create the value they should. And it's for this reason that I tend to shy away from closed-end funds – because management incentives displace shareholder incentives. And waiting years and years for a closed-end fund to approach NAV isn't a great use of capital.

But SVVC is an exception. It's an exception because of a man named Phillip Goldstein.

You see, Phil Goldstein is an activist investor that goes after the management teams of closed-end funds to close NAV discount gaps and create shareholder value. Side note: Phil is an

interesting guy (you can read a great article about him [here](#)) and an exceptional investor whose 18 year track record bests the S&P by 5% - 6% per annum with only one down year.

Today, Phil is in the midst of pressuring SVVC to do something to close the nearly 20% NAV discount the shares currently trade at. He shared his thoughts on SVVC in a [recent letter](#):

We began purchasing shares of SVVC in 2012 after its stock fell to a discount of more than 20% below NAV as a result of Facebook's poorly received IPO. The discount narrowed prior to Twitter's much hyped IPO and we took the opportunity to sell more than half of our shares at a single digit discount to NAV. Immediately after the successful Twitter IPO, SVVC's shares inexplicably fell to a discount of more than 20%. We quickly reversed course and began buying again. We are part of a group that currently owns more than 14% of SVVC's shares and are planning a proxy contest focused on ousting the manager, gaining board seats, and addressing the discount, which is currently about 20%.

It wouldn't surprise me if one day soon the valuation gap of SVVC completely disappears.

A final note: I believe Phillip Goldstein has created a Hall of Mirrors machine with his [Special Opportunities Fund](#) (ticker: SPE). Perhaps I'll take a look down that hallway in a future note...