



The Angel's Shares

Usually White Mountain Letters are dedicated to a species of pine tree along with an investing metaphor to help you visualize the investment game a bit differently. This time I am roundaboutly talking about oak trees – or oak barrels to be specific.



Yeah...the kind of barrel for aging bourbon and giving it that amazing flavor. Straight bourbon is aged for at least two years but the good stuff tends to be over three years old. One of the beauties of bourbon is the amount of time and effort and nature that goes into each bottle. You need the corn which needs nature to be just right (soil, weather, pests etc.) – the oak barrels – the yeast – the weather has a dramatic impact during the aging process as well as the growing of the corn. So, if you started at the beginning to make a great bottle of bourbon you would need five to seven years between starting the work and the investing in the product and having a great drink. When you enjoy a great sip of bourbon you are sitting in the shade of a tree someone planted with care a few years ago.

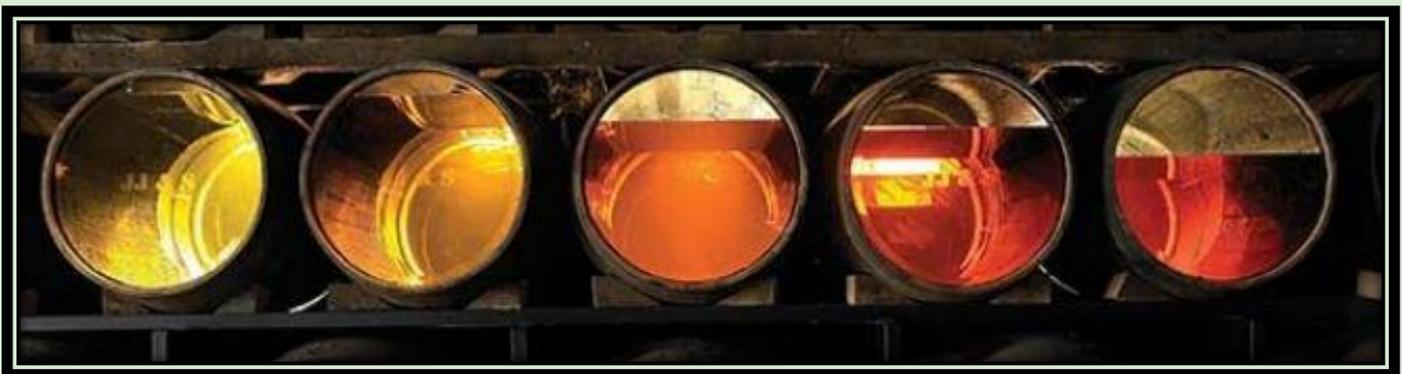
As humans we are temporally challenged. We always tend to want what is best for us individually and collectively *right now!* Overcoming this temporal myopia is the cheat code of life and investing. Bourbon is a delicious embodiment of the fellowship needed to overcome the *now culture*. The reward is warm and fulfilling and possible because someone was willing to wait a few years to make a buck.



Okay enough poetry about bourbon and hyperbolic discounting, let's talk about oak's role in this incredible spirit and about the angel's share.

Here is a quick look at why the oak barrel is indispensable to making bourbon. Physically the wide radial rays give oak a lot of strength that is handy for holding up to the demands of the process. Oak does not contain resin canals that would ruin the flavor the way a pine would. As you likely know, the oak barrels are treated (burned with fire) before aging the whiskey. The taste and aroma of the bourbon is largely a result of the wood and the char. Oak lactone, the wood sugars, and the charcoal all contribute unique flavors. Charcoal is nature's best filter and we see the charcoal in the barrel filter out sulfur compounds to purify the whiskey. The barrel helps change acetic acid into esters that taste much better. The hemicellulose which break down when heated give a lot of that wood sugar and caramelized toastiness to your bourbon. The lignin that holds the wood together when heated creates vanillin and you can just tell that tastes good by the sound of it. Lastly, the oak lactones increase when the wood is charred and that passes on a woody/coconut flavor that makes bourbon unique. American White Oak gives that off in a way other oaks around the world do not, which is one of the reasons bourbon is a purely American drink.

Back to the name of this letter – **The Angel's Share** refers to the amount of the spirit that is lost during the aging process. Below you can see how over the years the whiskey turns darker brown as it pulls the character of the wood and the char into the spirit, but it is also losing some to the angels via evaporation. This is from the seasons changing the wood – think about that door that sticks in your grandma's house only during certain seasons.



What does this have to do with investing? Nothing. But this concept of the angel's share somehow inspired an idea in my head recently – that of angel's shares. I like to think the Founding Fathers had some great ideas and whiskey helped them get there, so why can't it help us?



Have you ever been smart enough to buy a stock that went up 40% and sold it while feeling like you were Druck in his prime – only to see the same stock up 400% from where you sold it a few years later? Yeah, it sucks huh. For some reason as investors we tend to be binary with our trades – in or out – off or on. This is why I preach “dimmer switch” trading over “light switch” trading to my clients. I think it makes sense to have some behavior-based rules that take the edge off greed and regret. You are scared you will miss out on the boom in Ethereum? Buy a little bit and move on knowing FOMO is not going to be a problem. Think you will regret it if you sold the low in that deep cyclical before it finally explodes higher? Buy some long term calls when you dump the shares. Worried your luck is about to run out on that high-flying tech stock you have made a killing on because everyone on FinTwit highlighted a magazine cover was bullish tech? Sell half and sell some puts where you want to own it or sell out and buy some calls. The point is - your psyche is ignored at your own peril because it drives you. This is where the Angel’s Shares come in.

You may have heard of “coffee can investing” – that is buying a stock and putting it in a coffee can and burying it – AKA buying and holding LOOONG term. What if every time you sold a winner (or loser if you loved the thesis) you put just a tiny bit into a coffee can {or bourbon barrel} and kept it forever. Now that trading is basically free, you could even have a separate account where you buy the stock you are dumping to keep it forever. Maybe it is 10% of the position, maybe it is 1% or hell, 1 share. I think if I had done this, I would likely have one position that would have paid for the rest of my barrel.

I have a strategic portfolio for long term ideas, a tactical portfolio where I do my active macro swing trading, a small Boneyard Portfolio which is made up of beaten down deep cyclical stocks I expect to go to zero with a couple winners to make it all worthwhile. It is like a VC fund of publicly traded stocks everyone hates. Now I am going to add my Angel’s Share Portfolio where I pour in a few drops of closed trades. This way when I finally get out of natural gas because I think the thesis has played out, I will have a few shares in my barrel just in case I am an idiot and it is a 30 year bull market. Imagine the trader in the early 80s going flat on treasuries because they just KNEW inflation was coming back in a big way. What if they dropped a few 30yrs into their Angel’s Share book...?

Just something to think about. Next time you enjoy a sip of bourbon just remember the Angel’s Share and how you can keep bragging rights on every trade you have ever made. You could be the cat that DID hold AMZN through it all.



If you are like me and you love bourbon and if you also happen to like trees – check out Redwood Empire. They make bourbon in California wine country and they plant a tree for every bottle they sell. I recently discovered their whiskey and I am a big fan. Enjoy a stiff drink, plant a tree, and plant some wealth by keeping a couple shares of that great 40% trade you are about to close out. Cheers



If you like my free thoughts, you will love my expensive thoughts. Consider becoming a [Pinecone Macro Research](#) client. If interested just reach out and I will send you a couple of letters for free. If not interested, you can get a free letter too – just hit me up.

- Chase Taylor

Important Disclosure on Page 5



Disclosure: Pinecone Macro Research, LLC is an independent research firm. Pinecone Macro's letters are based upon information gathered from various sources believed to be reliable but are not guaranteed as to accuracy or completeness. There are risks in investing. Any individual report is not all-inclusive and does not contain all of the information that you may desire in making an investment decision. You must conduct and rely on your own evaluation of any potential investment and the terms of its offering, including the merits and risks involved in making a decision to invest. The information in this letter is not intended to be, and shall not constitute, an offer to sell or a solicitation of an offer to buy any security or investment product or service. The information in this report is subject to change without notice, and Pinecone Macro Research, LLC assumes no responsibility to update the information contained in this report. There is risk in trading markets. Pinecone Macro Research, LLC is not an investment advisor. The ideas and trades I share are my own and are for informational and educational purposes only and should not be construed as investment advice. Accordingly, you should not rely solely on the information in making any investment. You should always check with your licensed financial advisor to determine the suitability of any investments.