MARCH 2019

BROXTON
CAPITAL ADVISORS

YTD as of 2/28/2019	
BROXTON	+7.48%

MARKETS

DOW JONES	+11.18%
S&P 500	+11.51%
NASDAQ 100	+12.27%
REIT INDEX	+12.63%
Small Cap	+17.09%

BOND YIELDS

10 YR TREAS	2.71%
YTD CHANGE	+.03%
30 YR TREAS	3.08%
YTD CHANGE	+.06%

SINCE INCEPTION THROUGH DEC 31, 2018

BROXTON	408.77%
S&P 500	158.73%
DOW JONES	199.13%

BROXTON PERFORMANCE

Broxton Portfolio

In February, Broxton was up 1.54%. Indexes surged higher with the overpriced Nasdaq shares leading the way. Higher value shares performed at a rate lower than speculative shares in February as tech shares shot higher. We continued to receive the fourth quarter technology company earnings which were mixed with some good but some bad. Apple reported operating income that was down 11% compared to 2017. Nvidia reported revenues that were down 31% and earnings which were down 53%. Salesforce.com demonstrated an increase in revenues with a drop in operating income. Facebook reported slowing growth in profitability but a jump in net income due to tax issues. Adobe reported a slight downturn in operating income which led us to question why investors were paying close to 50 X earnings for the shares. As the reports rolled in, many of the companies gave downward guidance leading to a lowering of the estimates for the 1st quarter of 2019.

Pitney Bows (PBI): Pitney retreated about 25% from its February high as small capital shares came under pressure in March.

Qudian (QD): QD announced another strong quarter (Net income increased by 42.1% year-on-year) and expanded its share repurchase program. The company commented: "In light of continued disconnection between strong fundamentals and low stock price, on December 13, 2018, the Company announced another share repurchase program to purchase up to US$300 million of the Company's American Depositary Shares in open market transactions." QD has expended $297 million on the current repurchase program. Currently, Qudian trades at less than 3 X 2019 earnings guidance.

Tenant Healthcare (THC): Although the trading symbol may suggest otherwise Tenant is a normal hospital operator with improving fundamentals and not one of the high-flying marijuana stocks (many of which have very little revenue and no earnings…and are worth billions). Tenant is the third-largest investor-owned hospital company in the United States in terms of revenue and the third-largest in number of hospitals owned. Cost controls are leading to higher operating income and stronger cash flows.

Harmony (HMY): Harmony Gold mine is averaging about $65 per ounce more than the previous quarter.

AT&T (T): T continued its cost reduction plans enacted after the purchase of Time Warner by buying out employees and shuffling the management at HBO. The shares have slowly started to turn around.

Outlook for Economists (not the Economy)

Should we worry about recessions? Maybe we should worry about economists instead. A recession is a period of temporary economic decline, generally identified by a fall in GDP in two successive quarters. Recessions may not be worth worrying about because it seems that no one has any track record of predicting them. Economists have an especially poor record of knowing if one is coming: In one study (Hites and Loungani) they looked at the record of professional forecasters between 2008-2012. Defining recessions as a year-over-year fall in real GDP per country, there were 88 individual recessions in this period. Based on predictions documented by Consensus Forecasts, economic forecasters were right less than 10 percent of the time,– even a few months before their onset (Including the massive one).

Recently, there was a major scare in the markets that an economic downturn or recession was looming. This occurred late in 4th quarter as company financial reports began to wind down and there was not a lot of information. One of the misguided headlines was: "Economists see the Trump economy slowing drastically next year before a possible recession in 2020." Worries sent the markets plummeting 15-20%. In 2018 GDP grew at 2.6%. The first quarter of 2019 is expected to come in at around 1.5% and is slightly improving. Seasonal weakness is normal in 1st quarter (GDP grew at 2% in 1st Q 2018). So, it doesn't seem likely that the economists have suddenly improved their dismal record or that a .5% drop constitutes a drastic slowing. Wall street pundits also began to use the term: "late cycle" which immediately began to pick up speed in the Wall Street echo chamber. Although none of said pundits have any chance of predicting anything.

After the beginning of the last recession in 2008, Queen Elizabeth II famously asked the economists in a briefing at the London School of Economics, why no one had seen the downturn coming. Her Majesty may have not known that economists aren't good at predicting or possibly knowing economics. Further demonstrating their misunderstanding, is the fact that the current U.S. economic policy is set to try to stimulate the economy with zero interest rates. However, it is highly unlikely that this is helping. Economies with lower rates tend to grow slower than economies with higher rates (footnote 1). So why does the Federal Reserve do this? In her recent book Fed Up (non economist) Danielle Booth describes that after she got a job at the Dallas Fed, she found: "a cabal of unelected academics who made decisions without the slightest understanding of the real world, just a slavish devotion to their theoretical models."

Since the Federal Reserve of the United States decided to go "all in" with ten years of 0% interest rates and trillions of dollars in securities purchases, the economy has grown at lower than the historical rate and wealth discrepancies have widened considerably demonstrating that their policy is failing massively. All of this suggests that the outlook for economists is not so good.

[1]. Banks try to lend more when they make more money.

Broxton Capital Advisors

Broxton Capital is an investment manager located in San Juan and employs The Primary Broxton Strategy or "PBS." The Primary Broxton Strategy or "PBS" for managed accounts. The PBS is a bottom up, fundamental strategy that seeks higher total returns with lower risk. The focus is on low risk investments with attractive return (LRAR Securities) with an average holding period of 18 to 36 months. The strategy invests in high yield, fixed income, and equities but does not have any allocation mandates.

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