JANUARY 2019

BROXTON
CAPITAL ADVISORS

YTD as of 12/31/2018

BROXTON	-7.22%

MARKETS

DOW JONES	-5.73%
S&P 500	-6.34%
NASDAQ 100	-.01%
HIGH YIELD	-7.06%
REIT INDEX	-10.01%
Small Cap	-12.17%

BOND YIELDS

10 YR TREAS	2.68%
YTD CHANGE	+.28%
30 YR TREAS	3.02%
YTD CHANGE	+.28%

SINCE INCEPTION
THROUGH DEC 31, 2018

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

BROXTON PERFORMANCE

Broxton Portfolio

In December, Broxton was down 5.15%, bringing the average returns to negative 7.22% for the year. The Dow, Nasdaq, and S&P 500 plunged roughly 15% for the month before rebounding the day after Christmas. Behind the yo-yo action was an imminent fear of a coming recession that was relieved when Mastercard reported on December 26th that Holiday sales were not only O.K. but that they were better than expected. On the morning of December 26, it was reported: "Mastercard Spending Pulse reported holiday sales rose 5.1% Y/Y to more than $850B, the largest annual increase in six years, and online shopping climbed 19.1%." The following quote summed up the action preceding the announcement: "Wall Street was running around like a chicken with its head cut off, while Mr. and Mrs. Main Street are happy with their jobs, and enjoying their best wage increases in a decade." This helped set the stage for a stock market rally that continued into January. Broxton continued to reposition the portfolio, as attractively priced shares became available. We are currently waiting for a pullback in some shares in order to add positions.

Celgene (CELG): We bought and sold shares and then bought again at around 60 in late December. In early January Bristol Myers announced that an agreement had been reached to buy Celgene for a total consideration of $102. We sold shares with an eye towards repurchasing them at a lower price if the market turbulence continues.

Canadian Solar, Turtle Beach: Although both companies have been posting positive results, we are looking for a better entry point for Canadian Solar and we are waiting to see the 4th quarter earnings from Turtle before re-entering. Canadian picked up a buy recommendation from Goldman Sachs in January.

Qudian (QD): QD finally started getting some positive traction in January after forecasting close to $2 per share in eps for 2019. Not bad for a $5 share!

Citibank (C): Earnings season always kicks off with the big banks and this quarter Citi outperformed most of the reporting banks by reporting higher year over year operating income, earnings, tangible book value per share and the purchase of 74 million shares in the fourth quarter. C is a cash flow monster, paying dividends and completing stock repurchases of close to $18 billion in 2018. Not bad for a $140 billion company!

Amarin (AMRN): On deck. We are currently waiting for an entry point into the shares. AMRN reported amazing results in long term clinical trials for its drug Vascepa. Company statement: "we achieved a 20% statistically significant reduction in cardiovascular death, Heart attack, a 31%, stroke 28%"... Vascepa has serious potential to be a blockbuster with Broxton estimating a 3-10 million patient population in Europe, the U.S. and Asia. With this potential the shares have been extremely volatile, and we are evaluating an optimum entry point.

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General Market

Can Malls survive? Are Mall REITS a good buy yet? We follow multibillion dollar mall investment companies Washington Prime (WPG) and CBL and examine them from time to time. Both have good properties. WPG owns the Malibu Lumber yard, a premium Los Angeles mall. Shown below.

But, the shares of both REITS have continued to fall. The main problem is that tenants have continued to be challenged due to changing economic factors. Online sales are growing and in store sales are stagnant. Primary tenants L Brands (Victoria Secret), Ascena retail and Signet Jewelers, which account for close to 10% of the revenue for CBL are posting declining margins. Signet had a pretty bad announcement earlier in the month. This, among other factors, is leading to downward priced rent renegotiations. In addition, mall owners are being forced to apply capital to rehabilitate properties left by bankrupt tenants such as Sears or Bonton that could be used to reduce debt. So, it is becoming a close call. Can the malls transform themselves before rents dip to a more critical level? Possibly, WPG and CBL are racing to sign up new tenants that can drive traffic. These new tenants include restaurants, gyms and other lifestyle additions. The group is showing some of the early signs of financial distress, which could indicate future problems. We are seeing the preferred shares of the owners trade off as much as 40-50% and the bonds are beginning to trade at discounts of 10-20%. There are also early signs of stabilization in occupancy, sales per square foot and lease rates for class A properties. So …a close call. We caution investors that the dividends may be cut further or eliminated on shares or preferreds. At this point it does not look like the tenant trends will reverse but mall owners are working hard to improve the situation.

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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