



YTD as of 3/31/2019  
BROXTON **+6.30%**

MARKETS

DOW JONES **+11.11%**  
S&P 500 **+13.02%**  
NASDAQ 100 **+16.47%**  
REIT INDEX **+16.55%**  
Small Cap **+14.33%**

BOND YIELDS

10 YR TREAS **2.41%**  
YTD CHANGE **-0.27%**  
30 YR TREAS **3.08%**  
YTD CHANGE **+0.20%**

SINCE INCEPTION

THROUGH DEC 31, 2018  
BROXTON **408.77%**  
S&P 500 **158.73%**  
DOW JONES **199.13%**

BROXTON PERFORMANCE



**Broxton Portfolio**

In March the Broxton portfolio declined slightly by roughly 1%. Value shares remained subdued relative to growth shares in the month with the Broxton portfolio trading at around 6-7 X forward GAAP earnings. The month was characterized by a decline in year over year earnings for the S&P 500 although the index surged to new highs. Fact Set reported: "For Q1 2019, the blended earnings decline for the S&P 500 is -3.9%. If -3.9% is the actual decline for the quarter, it will mark the first year-over-year decline in earnings for the index since Q2 2016 (-3.2%)". This report is early in the quarter so the average may improve. April was highlighted by two large Initial public offerings, which were met by large demand even though both companies presented pretty dismal earnings. Lyft, the ride sharing company, debuted at a valuation of over \$20 billion although the company lost close to \$1 billion in 2018. At this time, we cannot see how this business model could become profitable. Pinterest, which allows users to view and collect images debuted at over \$10 billion and had a better financial profile. Pinterest could achieve positive net income later this year on a GAAP basis. Both IPOs were highly reminiscent of the 1999 and 2000 stock market.

**American Airlines (AAL):** American reported better than expected earnings, which had been lowered to some degree by the 737 Max groundings. The 737 planes have had problems with a system which removes control from the pilot if the plane believes it is in a stall. American currently owns 24 of the airplanes. The CEO commented: "Even with these challenges, we expect our 2019 earnings per diluted share excluding net special items to grow approximately 10% versus 2018." AAL returned over \$1.40 per share to shareholders in the form of dividends and share repurchases in the first quarter.

**Qudian (QD):** QD shares jumped after it announced it agreed to buy back all of the shares currently held by Kunlun Group Ltd. Kunlun group had been contributing to the downward price action of QD shares by continuously selling.

**Tenant Healthcare (THC):** THC traded down after Bernie sanders announced his "Medicare for All" bill that would create a government-run system to provide health insurance for all Americans. Although this sounds good, in order to implement the plan we would need to increase taxes by over 100%. But there is an easier way, we explain more on the second page.

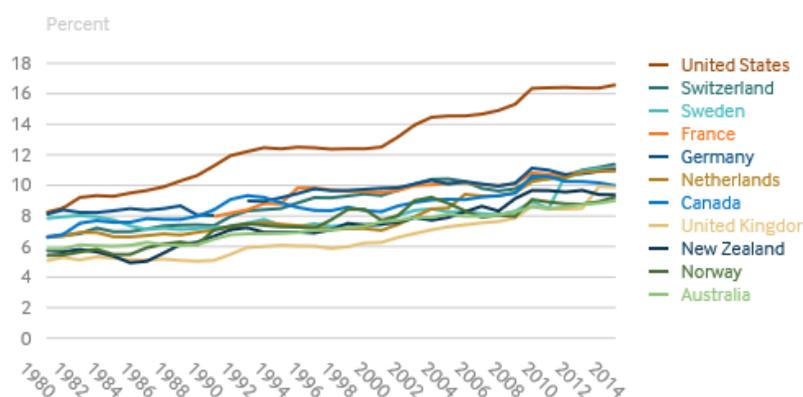
**Citibank (C):** Citi was able to post higher net income through cost controls and share repurchases. Net income per share rose by 19 cents to \$1.87 in the first quarter compared to 2018. CEO Mike Corbat commented: "We continued to make progress against our financial targets and strategic priorities." Investors were also pleased by improved guidance for the year.

**Ford (F):** Ford received a positive reaction from investors for delivering on its turnaround plan. As we have commented previously Ford is concentrating on the market leading F series trucks and utility vans which are very profitable.

## The Economics of U.S. Healthcare

The [Commonwealth Fund](#) is a philanthropy that is devoted to improving healthcare in the United States. Commonwealth recently completed a study which found that: *The United States spends far more on health care than other high-income countries, with spending levels that rose continuously over the past three decades.* Also you can probably guess the next part!: *The United States*

**Exhibit 1. Health Care Spending as a Percentage of GDP, 1980–2014**



*ranks last in health care system performance among the 11 countries included in this study. The U.S. ranks last in Access, Equity, and Health Care Outcomes. These results are troubling because the U.S. has the highest per capita health expenditures of any country and devotes a larger percentage of its GDP to health care than any other country.*

Why do we have a poor healthcare system? The current system doesn't work very due to multiple problems but we will examine two of them. First of all, there is over regulation. There are over 50 regulators in the U.S. In contrast, Germany has one. Wikipedia: "Healthcare (in the U.S.) is subject to extensive regulation at both the federal and the state level, much of which arose haphazardly."

Secondly, Medicare pricing rules work to decrease supply. In the U.S. healthcare system, providers of services are paid a below market rate by government payors (Medicare etc.) and somewhere around market rate by private payors (private insurers). The blended rate allows providers to remain in business, but they are forced to provide service at a loss due to the price ceilings for each service by Medicare. Price ceilings act to decrease supply. "A price ceiling can increase the economic surplus of consumers as it decreases economic surpluses for the producer. The lower price will result in a shortage of supply and hence decreased sales". So as supply decreases the price will ultimately go up. In the U.S. as the government works to control prices it is creating a strong upward movement in pricing.

Unfortunately, even though these problems are easy to recognize and repair our regulators usually try to repair the healthcare system through further regulation and legislation. This works to compound the problem.

## 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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