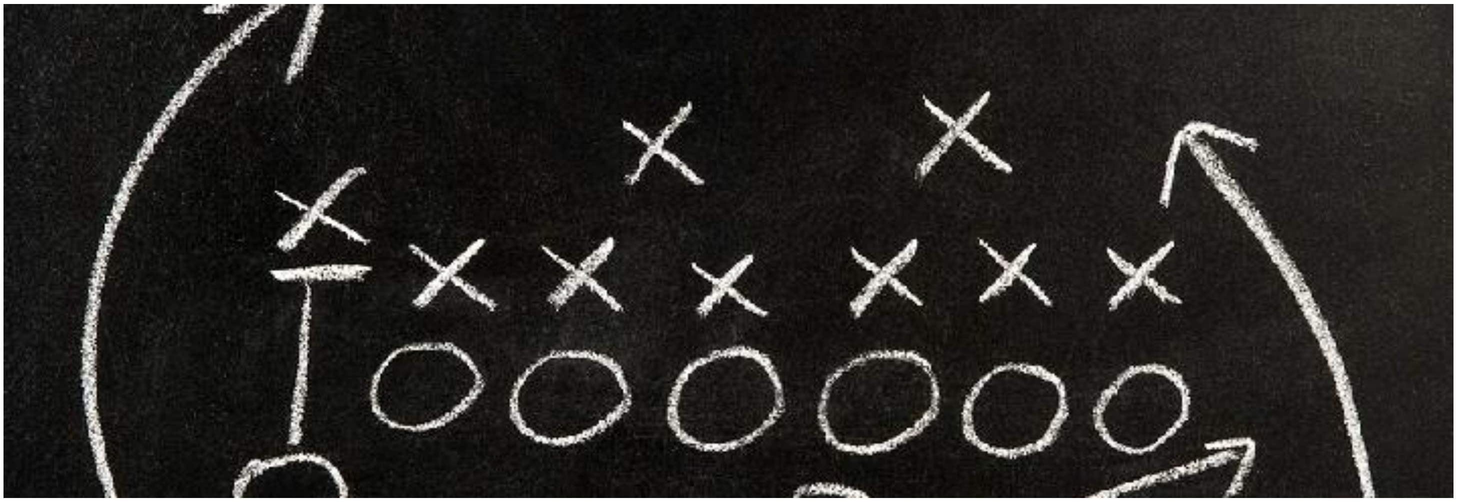
DECEMBER 2018

BROXTON
CAPITAL ADVISORS



YTD as of 11/30/2018

BROXTON	-2.18%

MARKETS

DOW JONES	+3.29%
S&P 500	+3.29%
NASDAQ 100	+8.74%
HIGH YIELD	-4.19%
REIT INDEX	-1.20%
Small Cap	0.01%

BOND YIELDS

10 YR TREAS	3.01%
YTD CHANGE	+.60%
30 YR TREAS	3.31%
YTD CHANGE	+.57%

SINCE INCEPTION
THROUGH DEC 31, 2017

BROXTON	488.15%
S&P 500	170.59%
DOW JONES	209.91%

BROXTON PERFORMANCE

Broxton Portfolio

In November, Broxton was down 2.2%%, bringing the average returns to down 2.18% for the year. The Dow, Nasdaq, and S&P 500 indexes all experienced tranquil Novembers before suddenly plunging throughout December (which we explain on pg. 2). As of December 21, indexes had fallen around 15% for the month. The hardest hit area was the value investments. The Morningstar small-cap value fund has fallen 25% from the August high with 14% of the decline coming in December. The Dow and the Nasdaq indexes also fell close to 15% for the month so far. We began to actively reposition the portfolio in order to raise cash, reduce small value positions and add hedges. We have been caught in the lurch to some degree because, although we have been careful to avoid the over-priced shares, value shares have been reduced bringing the Broxton portfolios down a further 5% in December.

Turtle Beach (HEAR): Turtle manufactures headsets for popular video game consoles such as Nintendo and Playstation. Success in the 1st 9 months of 2018 resulted a 150% increase in revenues and earnings of $1.73 per share thus far. In December the company announced that business success had allowed the company to reduce its debt by 100% or $80 million year over year. Turtle plans to use the new found financial flexibility to invest in additional products for the audio market. The company holds over 170 patents in audio technology. After the announcement the shares briefly ascended and then went down with the market.

Citibank, Celgene, Energy Transfer and others: Many of the companies we owned are posting above average financial results, like Energy Transfer with a 30% gain in EBITDA and Celgene with a 60% increase in operating income to $1.6 billion for the 3rd quarter, but we are acting defensively by reducing or eliminating the positions. We are still monitoring them for better entry points since most are still plummeting.

Canadian Solar (CSIQ): Canadian Solar is both a global leading manufacturer of solar PV modules and a provider of solar energy solutions, with over 12,000 employees globally. CSIQ announced great results for the 3rd quarter with revenues advancing 18%, earnings up over 100% and multiple new projects or project advancements in Argentina, Mississippi and California. However, the shares came under pressure in the middle of December.

General Market

In general, the market ignored fundamentals and engaged in indiscriminate selling. As mentioned in the October newsletter the downfall began with the destabilization of the massively overpriced technology shares which have been powering up the indexes since 2015. Since many investors' own funds or ETFs that in turn own the shares, they are unaware that they own these ultra speculative investments. As we mentioned, (regarding the multi-billion dollar tech companies):

> *"the stock price makes an unbelievable ascension right before it turns around and goes the other way. As the shares rise it takes more and more participants entering and buying to keep the shares going up. Inevitably the shares destabilize and crash because there are not enough new entrants. Speculators flee as the price crashes. Unfortunately, the lure of easy money or fear of missing out pulls in many of the knowledgeable and experienced participants towards the end. One or two of these charts is not a concern but we are beginning to see 40 or 50 of these."*

Broxton partner Byron Stead commented: "There are over $5 trillion in shares in the seemingly benign index ETFs or funds which are considered ultra speculative and many of them have no earnings or trade at over 100 X earnings. These companies may also use Non-Gaap accounting in order to make it appear as if they have earnings. As the shares begin their inevitable collapse, they destabilize the indexes. The big indexes also have a high number of overpriced shares like Costco or Proctor & Gamble. Which are also prone to decline. So as the contagion spreads the market goes lower. This is exacerbated by the fact that many speculators use borrowed funds or margin to fuel their purchases and the bill comes due as the shares trade down. All of these factors cause the market to decline."

An additional factor is the "risk free rate" which has risen slightly. As noted before the primary variable in pricing any earning asset is interest rates. The rate on the 10-year treasury is known as the risk free rate. When it rises it makes other assets go down in price and up in yield.

Downturn Explained

All securities have an appraisal value. For Broxton, this is determined by averaging the 5 or 6 primary methodologies. This is also a method that is accepted by courts. Currently these valuation methodologies point to significantly lower values for the average security in the Dow, S&P 500 and Nasdaq 100. Between 2015 and 2018 the S&P 500 rose over 45% although through the year 2017 the average earnings remained stagnant. The period 2015 through early 2018 also coincided with the final 1/3 of the up cycle that began in 2009. The final "wave" or last 1/3 of the up cycle is usually characterized as the most speculative and manic. This period also brought forth an immense speculation in Nasdaq "internet" companies that do not make earnings or in some instances make a small amount. Some of the shares briefly became worth over $1 trillion dollars. We began to see important factors such as record low levels of cash on the sidelines and record high levels of margin debt. In early 2018 the market peaked and although some indexes were able reach new highs again in the summer, many of the "internet" companies had completed their ascent and had begun the inevitable nose dive. Since there are no new buyers the shares are plummeting. Value investors who have kept cash on the sidelines are not willing to step in at this point. In addition, investors who used margin to buy shares are now required to add funds if the shares have fallen. The valuation for these indexes is most likely 20-40% lower than the current levels. However, there is good news the markets always outgrow these problems over the next 5 to 10 years. These downturns usually create excellent buying opportunities.

Broxton Capital Advisors

Broxton Capital is an investment manager located in Los Angeles 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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