NOVEMBER 2018

BROXTON
CAPITAL ADVISORS

YEAR TO DATE
As of October 31, 2018

BROXTON	-.02%

MARKETS

DOW JONES	+1.54%
S&P 500	+1.41%
NASDAQ 100	+9.02%
HIGH YIELD	-3.33%
REIT INDEX	-5.61%

BOND YIELDS

10 YR TREAS	3.16%
YTD CHANGE	+.75%
30 YR TREAS	3.40%
YTD CHANGE	+.66%

SINCE INCEPTION
THROUGH DEC 31, 2017

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

BROXTON PERFORMANCE

Broxton Portfolio

In October, Broxton was down 3.8%, bringing the average returns to slightly negative for the year. The Dow, Nasdaq, and S&P 500 indexes all experienced strong reversals with the Nasdaq falling 14.7% before recovering. The fall was led by the overpriced and over-hyped tech shares. Most of the Broxton holdings reported good earnings for the 3rd quarter but the portfolio was affected by the downturn in the indexes. We reduced risk on some positions and added a few newer positions that are becoming bargains as the indexes fall.

Genworth (GNW): Genworth reported operating income per share of 29 cents compared to 21 cents in Q3 2017. Management informed us on the conference call that GNW had lost one of their primary U.S. mortgage insurance bank customers due to concern over the China Oceanwide buyout. Overall the risk is increasing due to this buyout and we are reducing shares.

Harmony Gold (HMY): HMY is the only top ten gold producer we reviewed that increased cash flow, revenues (+30%), and production profit (+12%) for the 3rd quarter. Revenues at three other top ten producers fell. Barrick, Goldcorp and Newmont reported reduced revenues and operating profits with EBITDA falling 12% at Newmont, 40% at Barrick and 50% at Goldcorp.

Viacom (VIAB): Viacom reported increased revenues and earnings (up 29%) growing full year operating income for the first time since 2014. This resulted in a small gain in the shares which was reversed the following day when an analyst opined that the CBS Viacom merger might not happen. We are one of the only analysts that believe that this merger is not in the best interest of Viacom. CBS lost Les (Moonves), reported lower operating income for the quarter, and is most likely facing substantial fee increases for its NFL rights in 2022. Also, the development pipeline is probably in disarray due to the loss of Les. VIAB is set to pass the Tiffany network in 2019 on an operating income basis.

Ford (F): The turnaround at Ford is underway. The company reaffirmed its 2018 earnings guidance with a high end of $1.50 in per share and assuaged jittery investors with comments that the company would continue to pay its dividend through a normal economic downturn, if we have one.

Radnet (RDNT): Reported revenues up 6% and net income up double digits in the 3rd quarter. The company also completed the acquisition of 36 additional centers in the New York area as of October 1st. This should lead to the most profitable 4th quarter in the company's history. However, investors sold off the shares about 15%. The main culprit for the sell-off was the 17% decline in the small cap index, which is putting pressure on individual shares.

MLPs (SUN, ET): Sunoco reported improved cash flow and several acquisitions. ET reported an EBITDA increase of 30% +. Both companies sold off 10% from their highs with the oil decline.

General Market

Market downturns are often preceded or accompanied by downturns in the lower grade corporate bond market. An economic boom will encourage the issuance of large amounts of low-grade corporate bonds which may have problems after the boom. At this point we have not had an economic boom, so we don't have a lot of new risky bonds trading out there. The legacy issuers which are becoming questionable or are posting poor results are trading down. Recently, GE bonds dropped on financial concerns and their investment grade bonds are now yielding the same amount as low grade issuers with possible financial issues. GE has over $100 billion in debt, a significant amount. The drop was combined with a general rollover in the high yield bond market which dropped 5%. Recently, Sears defaulted on bonds and JC Penney bonds dropped significantly after poor results. Historically we have had excellent opportunities as these markets bottom out. Since we are seeing a downturn in corporate bonds we are monitoring this area for opportunities.

Portfolio

We are finding some excellent opportunities in the shares of bigger companies (large caps). As the indexes cool off we are finding bargains. Recently we added Citibank at about 8 X projected 2019 earnings. Citi was authorized to buy back $18 billion in shares and pays a 2.7 % dividend. The buyback plus the dividend equals a current yield of 14%. Bank shares dropped after a strong run that ended in early 2018. Investors lost interest after they stopped rising and we are getting the shares 22% below the 2018 high. Earnings estimates have been rising and the shares are showing support at current prices which is a good recipe for upside. For many of the bigger company shares that become bargains, investors pay attention and buy the shares. AT&T shares are down 30% + from the high and the company recently reaffirmed the 2018 earnings guidance of $3.50 per share (8 X earning). T has an exciting future with the roll out of 5G technology which increases wireless internet speed by 20 X over current 4G technology. T has been repositioning itself as a content provider with the purchase of Time Warner and 5G allows them to compete with other types of data delivery companies for subscribers. The first 5G service areas should be activated this year. The future looks bright for T: as investors begin to understand the new business model the shares should rise.

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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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