



## Broxton Portfolio

February bought in a wild ride for the market as primary indexes sank an average of 12% from their January highs taking the S&P500 briefly to negative 5% for the year in February. In February Broxton was down 1.8% reducing the year gain to slightly positive at the end of the month. Leading the charge down were many of the overpriced tech shares in the Nasdaq and high flying industrial shares in the Dow Jones index. The downturn reversed in early February and continued into March bringing Broxton accounts back further into positive territory and gaining traction. As of mid March all of our holdings have reported good earnings, except Kroger and we are still waiting for the year end report from Oi Telecom. Overview of holdings:

**Viacom: (VIAB)** We purchased shares slightly above \$27 last year and the shares have advanced into the low \$33-34 area. We believe the shares are worth \$40-45 and they are currently trading at less than 8 X 2018 earnings.

**Genworth: (GNW)** We added to GNW at a price of \$2.94 in early March after selling some shares at \$3.28 last year. Due to the good financial performance, the enactment of a backup credit line and a technical bottoming of the stock price in late February line we believe the shares have good upside from here. GNW trades at a PE of about 3 and the average analyst prediction for 2018 is 99 cents of earnings per share. We recently published a new update on the shares.

**Qudian: (QD)** Qudian is a leader in the small consumer credit products in China, which we believe has an excellent business model. Revenue increased over 100% in 4<sup>th</sup> quarter 2017 from the previous year. The shares debuted last September and hit a high of \$38.00 before plunging on concerns that regulators were limiting the small consumer loan industry. After the dust cleared we could see that the company would be O.K. and waited for the shares to confirm before buying slightly above \$15.00. QD trades at 8 X next years earnings estimates.

**Harmony Gold: (HMY)** We recently added to the position on strength as the shares advanced over \$2. The shares have been going up based on the 50% increase in earnings for the 2<sup>nd</sup> half of 2017. HMY is bringing on two projects, Moab Khotsong and Hidden Valley, that will add an additional 400-500,000 ounces of gold production per year in 2018. The companies proven probable reserves are well over \$100 billion dollars. We think the shares are incredibly undervalued at 2-3 X this years EBITDA and 7 X earnings.

**Kroger: (KR)** After buying shares last year around the \$21 level we sold some of the shares at \$27.00 in February and the rest around \$23 in March. After gaining strong momentum from a great 3rd quarter of 2017 KR majorly disappointed with its year end report.

**Energy Transfer Partners: (ETP)** ETP again reported record results for the 4<sup>th</sup> quarter with EBITDA increasing by \$453 million or 30%. On February 14, 2018, ETP paid a quarterly distribution of \$0.565 per unit (\$2.26 annualized).

### YEAR TO DATE

As of Feb 28, 2018

BROXTON 0.49%

### MARKETS

DOW JONES 1.13%

S&P 500 1.79%

NASDAQ100 7.35%

HIGH YIELD -1.23%

REIT INDEX -11.60%

### BOND YIELDS

10 YR TREAS 2.72%

YTD CHANGE .31%

30 YR TREAS 2.94%

YTD CHANGE .20%

### SINCE INCEPTION

BROXTON 488.15%

S&P 500 170.59%

DOW JONES 209.91%

### BROXTON PERFORMANCE



## General Market

The February downturn may signal the end for the ultra high flying tech shares which were amongst the hardest hit before bouncing back. Many investors do not realize that many of the indexes are stocked to the gills with these high risk shares. For the most part they are responsible for more than 50% of the index returns. Two examples of the high flyers are Sales force.com(CRM) and Autodesk (ADSK). Salesforce trades at 752 X earnings and Auto desk has no earnings. We consider Autodesk, a maker of CAD software, to be somewhat of a disaster. The company has slid from making \$81 million in net income in 2015 to losing \$582 million in 2017. Meanwhile the shares have advanced from \$36 to \$136 in the last 4 years. We believe that Autodesk is having problems as it tries to shift its business to a cloud based format. Salesforce has made gains in revenue but this has resulted in very small gains in earnings. The company lost 7 cents a share in 2015 and advanced to making 17 cents per share in 2017. Meanwhile the shares advanced from \$52 to \$128 in the last few years bringing the total stock market value up to \$92 billion dollars.

We are putting out a presentation on the amazing Non GAAP earnings that are now gaining new strength. We noted a new world record for NON GAAP earnings when Stamps.com posted \$4.68 of NON GAAP income per share for the fourth quarter. This was based on roughly \$7 per share of revenue and equals a 67% net income margin. The actual correct NON GAAP number would have been around \$2.48 but this was below the need to beat \$2.68 analysts estimate. As we shall show, at this point 100% of the earnings growth is now from NON GAAP and Since 2016, 68% of companies in the DJIA have reported non-GAAP EPS.

It seems that these guys are really hitting the cover off the ball with NON GAAP!!

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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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