



Broxton Portfolio

In January, Broxton was up 5.85%. The indexes were up between 5 and 12% with the REIT index leading the way. In February the Federal Reserve began to back off the assertion that it would continue to raise rates. Also, the Federal Reserve balance sheet normalization (reduction of bonds owned by the Fed) or reversal of QE also seems to have been terminated. The reason? "The long-planned balance sheet normalization can't be done without crashing the world economy." (Forbes) This was great news for income producing assets such as real estate investment trusts and helped to propel the markets higher after the December losses. Broxton began efforts to improve in November by utilizing additional technical tools which focus on the timing of buying and selling. We were impressed that the stock portions of the accounts were up over 10% in January and intend to expand this performance. All the recent additions to the portfolios are performing well and 2019 should be a good or great year.

Above: Winter in Sedona Arizona

Harmony (HMY): HMY reported good results for the ½ year ended in December increasing production by 50% and cash flows by 36%. Gold was down about \$100 per ounce on average from the previous year so the results were impressive. The second half of the 2019 year should reflect improvements of around \$100 per ounce on average so far.

Pitney Bows (PBI): We added PBI after a demonstrated turn around in the fourth quarter of 2018. Also, Pitney seemed to finally embrace the e-commerce model religiously. PBI is in the early stages of a turn around and stated, "We clearly have more work to do, but the revenue growth has a clear indication that we have something the market wants. E-commerce shipping is a market that is still early in its maturity, but there is already strong growth and Pitney Bowes is uniquely positioned to win in important niches in this market." PBI trades at about 6 X 2019 earnings and has a large free cash flow yield.

Ford (F): The CEO of Ford had positive comments: CEO Jim Hackett told employees last month that the company wouldn't accept "mediocre" results. "Yes, we made \$7 billion last year. But think of it this way: this represents a 4.4 percent operating margin, about half what we believe is an appropriate margin. So we are aiming for much closer to \$14 billion," Hackett stated. Ford is initiating efforts to close money losing operations worldwide and concentrate on profitable ones. The F series trucks and the Utility vans produce about \$2.50 per share in pretax profit but half of this is lost in Europe, Asia and South America. Ford can recover in the mid to high teens if the company executes on their worldwide cost reduction plan.

Amarin (AMRN): Amarin is poised to report earnings for the fourth quarter 2018 earnings on Wednesday February 27th. Vascepa sales should be moving slightly higher. We expect that the drug will receive an indication for cardiovascular risk prevention in late 2019, leading to more than a 5-fold increase in sales. Vascepa proved highly effective in reducing cardiovascular risk in recent trials.

YTD as of 1/31/2019
BROXTON **+5.85%**

MARKETS

DOW JONES **+7.26%**
S&P 500 **+8.01%**
NASDAQ 100 **+9.01%**
HIGH YIELD **+4.94%**
REIT INDEX **+11.85%**
Small Cap **+11.32%**

BOND YIELDS

10 YR TREAS 2.64%
YTD CHANGE **-0.05%**
30 YR TREAS 3.01%
YTD CHANGE **-0.01%**

SINCE INCEPTION

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

BROXTON PERFORMANCE



The Investment Economics of Gold

The fact that gold is one of the oldest investments, if not the oldest, was recently proven again. In September of 2018 about 300 Roman-era gold coins were unearthed beneath what once was an Italian theater. The rare treasure was found by construction workers building an apartment complex at the previous site of the historic Cressoni Theater in northern Italy, which closed in the 1990s. The coins are believed to be from 474 B.C.



Gold recently surged back above \$1300 per ounce in January of this year. We examine some of the factors driving the metal to determine the outlook for pricing. The primary driver, accounting for more than 50% of demand, is jewelry. China and India account for more than half of this demand, consuming about 27% of world's annual supply. Technology accounts for about 8% of demand and has remained steady over the last 24 months. Investors and central banks account for the balance of consumption. In late 2018 central banks increased their purchases by 74% to an estimated 651 tonnes. This helped to offset a 140 tonne decrease from ETF buyers. 75% of the annual supply comes from mining and the remainder comes from recycling.

Gold may not provide protection in an economic downturn because the jewelry demand can decrease, lowering overall demand and affecting price. However, if investors feel that gold adds protection or has brightened prospects in said downturn, demand can quickly outstrip supply. The value of the annual supply is less than 1/5 of 1% of all the world's financial assets and less than the value of many individual companies. But how are we on production? Pretty steady but supply could begin to drop. Pierre Lassonde, Chairman of Franco Nevada recently commented, "If you look back to the 70s, 80s and 90s, in every one of those decades, the industry found at least one 50+ million ounce gold deposit, at least ten 30+ million ounce deposits and countless 5 to 10 million ounce deposits. But if you look at the last 15 years, we found no 50 million ounce deposit, no 30 million ounce deposit and only very few 15 million ounce deposits. Legendary goldfields such as South Africa's Witwatersrand Basin, Nevada's Carlin Trend and Australia's Super Pit—all nearing the end of their lifecycles [and] could very well be a thing of the past. Over the medium and long-term, this could lead to a supply-demand imbalance and ultimately put strong upward pressure on the price of gold." At Broxton we believe that gold would need to reach a new medium term high of over \$1375 in order to meaningfully advance. We are only a few percent away from this price at this time. So, our view is that if gold can break above \$1375 we will see prices in the \$1400 to \$1600 per ounce range for the next few years.

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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