



YTD as of 10/31/2019  
Alpha  
Portfolio **+10.97%**



### MARKETS

DOW JONES	<b>+20.47%</b>
S&P 500	<b>+25.76%</b>
NASDAQ 100	<b>+32.96%</b>
REIT INDEX	<b>+24.81%</b>
SMALL CAP	<b>+20.81%</b>
HIGH YIELD	<b>+ 7.20%</b>

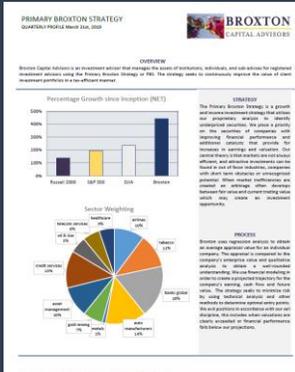
### BOND YIELDS

10 YR TREAS	1.78%
YTD CHANGE	<b>-0.91%</b>
30 YR TREAS	2.20%
YTD CHANGE	<b>-0.82%</b>

### SINCE INCEPTION

<b>THROUGH DEC 31, 2018</b>	
BROXTON	<b>408.77%</b>
S&P 500	<b>158.73%</b>
DOW JONES	<b>199.13%</b>

### BROXTON PERFORMANCE



Happy Holidays! The Alpha Portfolio advanced 2.17% in November. The general market moved higher on news that the U.S. and China moved closer to agreeing on tariffs that would be rolled back in a Phase 1 trade deal despite the Hong Kong issue. A deal was then announced in mid-December. The U.S. suspended tariffs that were planned on \$160 billion in Chinese imports that were set to take effect and halved the September 1 tariffs from 15% to 7.5%. This included tariffs on mostly consumer products such as clothes and sports equipment. Worldwide stock indexes performed well in 2019. Most of the performance was attributed to the recovery from the heavy swoon in late 2018. In late 2018 Wall Street became convinced that a large recession was looming despite any data that indicated this. The fear drove down equity prices by as much as 30% from their highs. For instance, Taiwan dropped over 25% from high to low in 2018 and our own S&P 500 dropped over 20%. Both markets recovered and then some leading to the 2019 performance. On a (close to) year-end basis the S&P 500 advanced roughly 10% above its 2018 highs in 2019.

**AMC Theatres (AMC):** We initiated a small position recently. AMC recently completed a multiyear expansion and remodeling effort upgrading most of its theatres with luxury seating and completing several acquisitions, such as Odeon Cinemas. The third quarter of 2019 showed a nice improvement with year over year (adjusted) EBITDA growth of over 10% and early success in the “Stubs” subscription movie service. AMC direct streaming service was also recently launched. As the company is switching from upgrade and expansion to cost reduction and deleveraging, investors have lost faith. Shares have traded down from a high of \$35 to the \$7 area. Recent changes in the law mean that exhibitors may be able to participate in more lucrative downstream revenue sources such as streaming on the internet. We expect 2020 to demonstrate cost improvements but remain somewhat cautious on the shares because they may not have bottomed yet!

**Genworth (GNW):** Genworth recently completed its divestiture of Genworth Canada for \$1.8 billion tax free! So, the majority of the money will be available for debt reduction at the holding company, permanently removing doubts concerning debt. In addition, the company should receive some ratings upgrades here. This leaves the company with a U.S. mortgage insurance entity and other assets worth around \$9-11 per share.

**Michaels Stores (MIK):** We initiated a small position recently in MIK. Many retailers are beginning to show signs of improvement. The company comments that some of the downward pressure projected for the 4<sup>th</sup> quarter is due to the 6 fewer selling days between Thanksgiving and Christmas and the acquisition of AC Moore. During the 3<sup>rd</sup> quarter the company repurchased about 8 million shares. MIK shares also recently got a major boost by announcing a new CEO, Ashley Buchanan. Announcement: “Mr. Buchanan joined Walmart in 2007 and has served in various roles of increased leadership and responsibility across the company. Most recently he was Chief Merchandising and Chief Operating Officer for Walmart U.S. eCommerce”.

## Investigating AI

Over the last few years we have repeatedly heard of artificial intelligence (AI) and machine learning as exciting new technologies. Although these catch phrases are being used extensively by many companies the reality is that there may be a fair bit of hype here. Currently as far as AI goes computers are nowhere close to being able to demonstrate any intelligence. Sorry Skynet (the computer system that took over the world in the Terminator movies) you will not exist any time soon. "The most accurate simulation of the human brain to date has been carried out in a Japanese supercomputer, with a single second's worth of activity from just one per cent of [brain activity] taking one of the world's most powerful supercomputers 40 minutes to calculate. ... The computer has 705,024 processor cores and 1.4 million GB of RAM, but still took 40 minutes to crunch the data for just (1%) of one second of brain activity". Computers have an advantage only in dependent outcome scenarios, meaning that if you tell a computer what the first 51 cards are in a deck of cards it can know the last one 100% of the time. This is why computers have been winning chess games since the 80s. However, reality is comprised of mostly independent outcome scenarios (that are then linked) for which there is very little or no computer advantages.



So, do machines (computers) "learn"? Not really, the main source of "learning" is extreme amounts of code programming trying to pre input a response for different scenarios or turn independent outcomes into dependent ones. Although there are automated response dialoguing systems, such as the chatbot named Alexa from Amazon, these systems cleverly use normal computing to return a "likely" response and mimic human conversation or execute commands. "Some chatbots use sophisticated natural language processing systems, but many simpler ones scan for keywords within the input, then pull a reply with the most matching keywords, from a database". At the forefront of the AI movement is pattern or object recognition. This is currently accomplished by inputting huge amounts of code regarding categorizations and then training on the actual object to be recognized. Are self-driving cars AI? No, they are impressive, but the cars use an array of different types of sensors to attain situational awareness which is also cross referenced with databases of stored information. These inputs are then used to control acceleration, steering and deceleration. For now, computers are mostly relegated to their historic functions such as storing data for retrieval and or editing. Machines are not learning or intelligent at this time and a more accurate description of AI would be the term data analytics. However, we still wouldn't recommend playing blackjack against a computer for money. Have a good holidays!!!



## Broxton Capital Advisors

Broxton Capital is an investment manager located in San Juan and employs the Alpha Portfolio (AP). The AP is a growth and income investment strategy. The strategy attempts to continuously improve the value of investment portfolios by investing in equities, ETFs, including leveraged ETFs, options, bonds (investment grade and sub-investment grade, [which may also have limited liquidity]) and other securities. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling in order to create a projected trajectory for the company's earnings, cash flows and future value. The strategy does not have any capitalization (market size), sector or industry allocation mandates. Broxton may also engage in certain types of activism in order to support positions and relay advantageous strategies to company managements. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded or financial performance falls below our projections. Since the AP returns are calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton manages the Alpha Portfolio for other investment managers. The AP returns which are advertised or submitted to various databases are calculated using the accounts in the composite that are managed internally. Broxton is required to execute any trades internally first and then for other advisors second. Some advisor platforms prohibit or do not trade certain security types and some positions may be omitted for other reasons. In the case of smaller companies, we may judge that there are not enough shares traded to create a position at any or all advisors. Short term strategies may not be able to be implemented. Shares may trade at a higher or lower between purchasing at Broxton or one platform before another. Broxton uses a rotation strategy and attempts to obtain the best execution for all advisors. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. All performance figures are net of fees and reflective of dividend reinvestment. As always, past performance does not guarantee future results. Please see the Alpha One Strategy Quarterly Performance for additional information regarding performance. Any intra quarter performance presented may change with additional auditing. The index performance presented above do not include fees or dividends and is derived from the following ETFs: DIA, SPY, QQQ, HYG, IWM and VNQ. The treasury yields are derived from the CBOE 10 and 30-year interest rate index. Please visit our web site to obtain additional information and read form ADV 2A.