AUGUST 2019

BROXTON
CAPITAL ADVISORS

YTD as of 7/31/2019

BROXTON	+11.92%

MARKETS

DOW JONES	+15.15%
S&P 500	+19.01%
NASDAQ 100	+23.88%
REIT INDEX	+19.20%
SMALL CAP	+16.92%

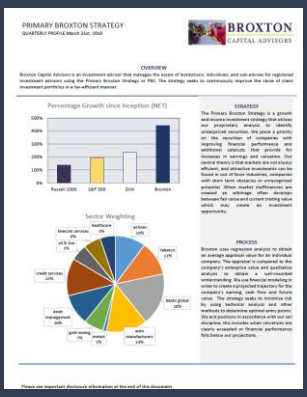
BOND YIELDS

10 YR TREAS	2.02%
YTD CHANGE	-.66%
30 YR TREAS	2.53%
YTD CHANGE	-.49%

SINCE INCEPTION THROUGH DEC 31, 2018

BROXTON	408.77%
S&P 500	158.73%
DOW JONES	199.13%

BROXTON PERFORMANCE


PRIMARY BROXTON STRATEGY

QUARTERLY PROFILE March 31st, 2019

BROXTON CAPITAL ADVISORS

OVERVIEW

Broxton Capital Advisors is an investment advisor that manages the assets of institutions, individuals, and sub-advises for registered investment advisors using the Primary Broxton Strategy or PBS. The strategy seeks to continuously improve the value of client investment portfolios in a tax-efficient manner.

Percentage Growth since Inception (NET)

Sector Weighting

STRATEGY

The Primary Broxton Strategy is a growth and income investment strategy that utilizes our proprietary analysis to identify undervalued securities. We place a priority on the securities of companies with improving financial performance and additional catalysts that provide for increases in earnings and valuation. Our strategy seeks to identify undervalued, tax efficient, and attractive investment candidates found in out of favor industries, companies with short term obstacles or unrecognized potential. When market inefficiencies are created an arbitrage other develops between fair value and current trading value which may create an investment opportunity.

PROCESS

Broxton uses regression analysis to obtain an average appraisal value for an individual company. The appraisal is compared to the company's enterprise value and qualitative factors are used to gain additional understanding. We use financial modeling in order to create a projected trajectory for the company's earning, cash flow and future ratios. The strategy seeks to minimize risk by using technical analysis and other methods to determine optimal entry points. We build positions in accordance with our set criteria. In instances where valuations are attractive we will use financial performance hits below our projections.

Please see important disclosure information at the end of this document

Broxton Portfolio

The Broxton portfolio rose close to 2% in July. We wanted to highlight that we published certain ratios of our equity or stock holdings in our Quarterly Profile Report for 2nd quarter.

Broxton Portfolio Highlights:

- In our portfolio, the average earnings increase was +13.48% for the 2nd Q vs the blended earnings decline for the S&P 500 of -0.7% for the 2ND Q
- Our average share pays a dividend at a rate 2x that of the S&P 500
- Our average position's PE ratio is also less than half that of the S&P 500
- Our price to sales ratio is 54% of the average index share

FactSet reported: "For Q2 2019 . . . If -0.7% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016." At this point in the market, we continue see investors rallying around worth-less shares. The shares skyrocket which causes more investor interest. We see very little difference between today and the environment which led to the crash of 2000. Investors seem to love tech shares which make little, or lose money every quarter. Salesforce.com, Uber, Teledoc and Shopify are all prime examples. These companies together are worth over $200 billion and combined they are making less than $200 million of net income. Investors stop paying attention to reality when they think there is easy money to be made.

CBS/Viacom (VIAB): CBS and Viacom decided to merge in a deal which, with synergies, will earn over $7 per share. Viacom shareholders will get about 60% of one CBS share in a deal expected to close this year. The duo of companies added more streaming subscribers than Netflix in 2nd Q and is set to surpass ROKU and HULU in streaming subscribers in the 3rd quarter of this year. Shares of the acquirer, CBS, are trading at about 5.85 X the adjusted earnings projection.

Qudian (QD): QD reported a great quarter with an increase in earnings and plans to repurchase more shares. The company increased its banking relationships as well.

Tenant Healthcare (THC): Tenant announce that it would spin off its Conifer unit to shareholders in a tax-free deal in 2021. Conifer Holdings, Inc. ("Conifer") subsidiary provides healthcare business process services. We value Conifer as being worth between $25 and $40 per share. Tenet Healthcare is a national diversified healthcare services company with 110,000 employees. Through an expansive care network, the company operate 65 hospitals and approximately 500 other healthcare facilities, including surgical hospitals, ambulatory surgery centers, urgent care and imaging centers and other outpatient facilities.

Is General Electric Your BFF?

The Urban dictionary defines BFF as Best Friends Forever. However, in this case we were talking about the "Big Fat Fraud." Allegations that were levied against GE last week. Harry Markopolos, a corporate fraud specialist called GE a fraud, in a 178 page report! The report caused General Electric's market value to drop over $8 billion dollars. GE is called a bigger fraud than Enron and WorldCom combined due to Long Term Care Insurance (LTC) mis-accounting. The report insinuates that GE is about to "blow up". We decided to take a look at the Markopolos Report (MR) because we are the only firm that publishes on Long Term Care (LTC) through our extensive coverage of Genworth (GNW). We are also deeply familiar with the Enron and WorldCom bankruptcies. BROXTON REPORT HERE

Right of the bat we will share with you the Markopolos statements: "GE needs $18.5 Billion immediately [for the pools], [GE is] the biggest [fraud], bigger than Enron and WorldCom combined and GE has almost no cash" are all false statements. What was Enron? A risky and failing business model that was hidden by selling assets without telling investors. As the fraud grew it required more and more cash. WorldCom just falsified earnings and showed the cash being used for equipment purchases and other capital expenditures. No one asked any questions when WorldCom borrowed $12 billion A rated bonds in 2000 and the money disappeared in two quarters. The real WorldCom was actually starving for cash! GE does not exhibit any of these traits that we can see. The total liquidity at GE and GECAP is in excess of $70 billion as of 12/31/2018.

Are the GE guys choir boys? Maybe not, it appears that they slowed the GAAP recognition of statutory accounting liabilities for their LTC products. As a result, the "trust buckets or insurance pools", which contain billions of dollars, that guarantee the LTC claims payments, were only filled up to the (wrong) GAAP amounts not the statutory amounts. But, before you crawl under your desk and start biting your fingernails, relax, this was already fixed. The Kansas Insurance Department oversaw a $5 billion increase, and is overseeing an additional $9 billion in reserve adds to the buckets in the next five years. GE can easily afford the increase. This is what we refer to as the 2018 "truing up or true up." This will fill the buckets up to the statutory amount.

We forecast that the reserves for GE's LTC obligations are covered by reserves and the 2018 "true up." Interest rates are a primary concern because as rates fall the pools receive less money on new premiums and maturities of current holdings. LTC was forecasted wrong and GE has "bad LTC" but we forecast that in a bad situation GE will need to add another $7 billion over the next 15 years to the reserves. Markopolos did not demonstrate an understanding of LTC liabilities and it does not appear that GE is on the verge of catastrophe.

Broxton Soundbites

Ten years into a bull run Broxton is currently holding cash and defensive low PE and high dividend paying stocks. We currently hold stocks with PE's averaging below 8X, growing earnings at +13%, some we were able to buy at 25 year lows. Anytime in the last 130 years if an investor bought the indexes trading over 20x earnings as they are now, the buy and hold to break even was 10-15 years. We see very little difference between today and the environment which led to the crash of 2000.

Equity Ratios	Broxton	S&P 500
Yield	4.43 %	1.77 %
Forward PE	7.34 X	17.17 X
Earnings Yield	13.62 %	5.82 %
Price to Sales	1.20 X	2.20 X
Enterprise Value to EBITDA	6.48 X	12.89 X

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.

www.broxtoncapital.com 310 208 2151