JANUARY 2020

BROXTON
CAPITAL ADVISORS

YTD as of 12/31/2019

Alpha Portfolio	+13.23%

MARKETS

DOW JONES	+22.26%
S&P 500	+28.79%
NASDAQ 100	+37.83%
REIT INDEX	+24.43%
SMALL CAP	+23.73%
HIGH YIELD	+ 8.43%

BOND YIELDS

10 YR TREAS	1.92%
YTD CHANGE	-.77%
30 YR TREAS	2.39%
YTD CHANGE	-.63%

SINCE INCEPTION THROUGH DEC 31, 2018

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

BROXTON PERFORMANCE

ALPHA PORTFOLIO

The Alpha portfolio advanced 2.3% in December as markets rose along with news of a final trade deal with China. Earnings continued to improve at a rapid rate for the Alpha portfolio with two of our companies reporting in January with an average increase of 25%. Thus far the S&P 500 companies reporting reported earnings down 1.5% for the 4th quarter but this could rise slightly to positive territory as the reports roll in. Last month we reviewed the claims of artificial intelligence in computing, this month we are examining index investing, high Price to earnings ratios and the long divergence between growth and value stocks over the last decade. Many of our companies have reported good news:

Amarin (AMRN): In December the FDA approved Amarin's Vascepa for an expanded label which touts the cardiovascular benefits. Vascepa reduces heart attacks and strokes by 25%. The drug is used in conjunction with a statin, such as Lipitor, to reduce heart and stroke risk in high risk patients. Vascepa halts the buildup of Plaque in the arteries and has accomplished one of the most sought-after benefits in the pharmaceutical world. Vascepa was accepted in the European Union for approval and passed approval in Canada as well. The company received even better news when its two dark horse competitors both failed on the same day. Acasti Pharmaceutical flunked trials with a Vascepa imitator called CaPre and AstaZeneca abandoned trials of Epanova, another hopeful plaque inhibitor. However, everyone expects Vascepa to become a "blockbuster" meaning sales well over $1 billion per year. We expect Amarin to grow sales of Vascepa massively over the next few years.

Harmony Gold (HMY): We've talked about Harmony Gold many times! Harmony is getting ready to post its best quarter (or first half) in seven years. The company only reports earnings twice a year and reports an update in the Fall and Spring quarter. Not that anyone is noticing but the company is getting ready to make a killing. There are two ways that gold companies report their costs: all in sustaining costs (AISC) or cash costs. AISC includes depreciation and equipment purchases reclamation accruals as well, Cash costs are the direct costs per ounce. Harmony has cash costs of around $1,027 per ounce as of 3rd quarter. So, at this point the company is generating a run rate of about $800 million per year. Not bad for a company trading at about $1.6 billion today. In addition, HMY has very little debt (around $400 million reported). Well, the stock is super cheap. If we traded at the same multiple as some of the other gold companies the shares would be well over $12!

Citibank (C): Citi reported EPS up 31% for fourth quarter, with net income coming in at up 16% and share buybacks accounting for the remainder.

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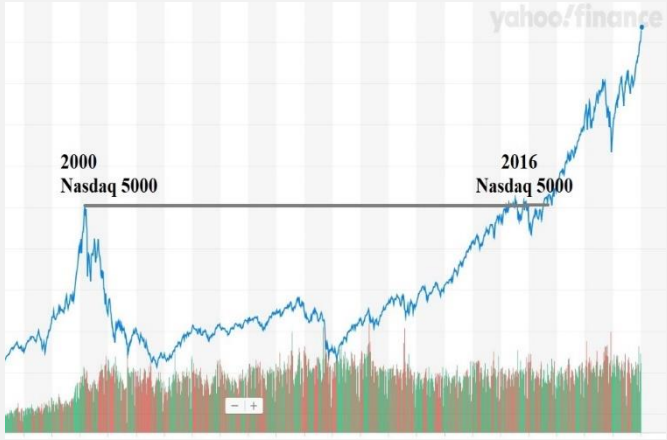
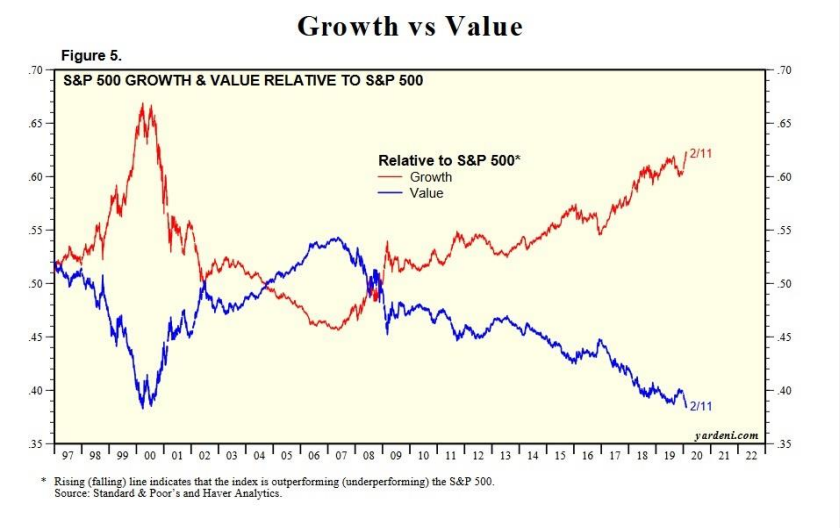
Index Investing Pitfalls



Since the index highs in 2000 the Nasdaq has returned 3.5% and the S&P 500 has returned a 6% annualized return, including dividends. Over 100% of this return has come in the last 5 years. This means that the actual returns on the indexes were negative for over a decade. Currently since stock indexes are trading at similar valuation as in the year 2000 investors may want to take notice. We currently have two similarities to 2000, A price to earnings ratio (PE) approaching 25 (GAAP earnings) and a strong divergence in the prices of growth and value shares. Historically buying stocks at around 25 X earnings has resulted in an annualized return of less than 0% and a breakeven of 10 -15 years. This can also include large down years of negative returns topping 15-20% in some instances. What we want to point out is the last two market corrections cumulatively brought the indexes down more than 40%.



The second chart on the left is the performance of Growth Stocks (Red Line) and the performance of Value Stocks (Blue Line). Throughout history these lines always intersect. Notice how Value Stocks had a great run from 2000-2008, and the last 10 years Growth Stocks have had their day in the sun. The lines intersect every 8-15 years. In fact, Value Stocks relative to Growth Stocks are showing one of the larger divergences in the last 20 years. The Value Stocks (Blue Line) are the type of stocks we love. They usually come with a margin of safety, dividend yield, and trade at inexpensive prices. Fortunately, for us, we're finding names we'd own in any market. There are many stocks that are off the radar with great value or big dividends, and financial improvements.

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.

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