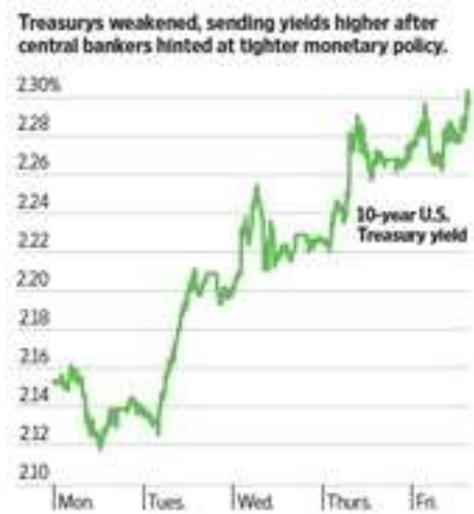
June 2017

While Mr. Market's immediate reaction to June 14th's well telegraphed quarter-point increase in the federal funds rate, the 4th in this cycle, was muted, last week saw the largest weekly 10-year Treasury yield increase since March. From Friday's Global Investment Strategy's **Third Quarter 2017: Aging Bull** report:



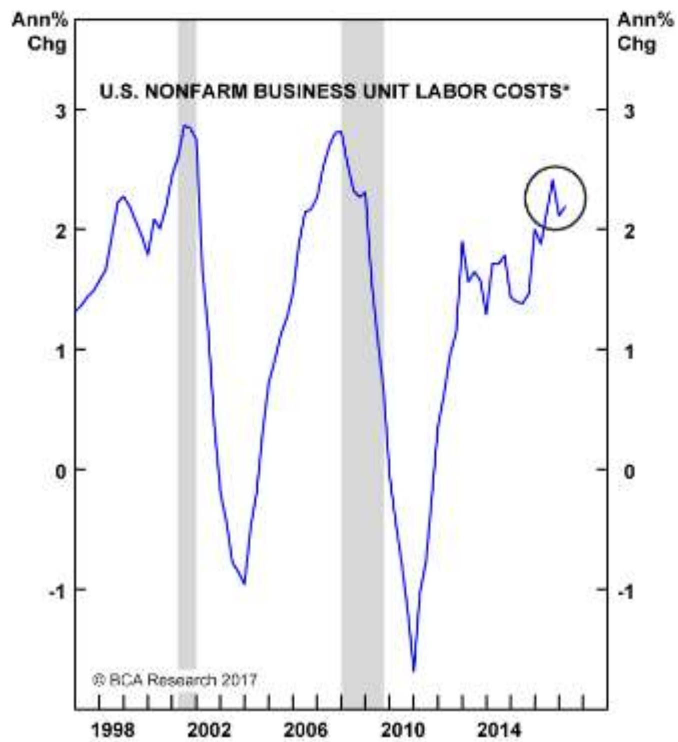
"We turned structurally bearish on government bonds on July 5th, 2016. As fate would have it, this was the very same day that the U.S. 10-year Treasury yield dropped to a record closing low of 1.37%. The dramatic bond selloff that followed was too much, too fast. We warned at the start of this year that bond yields were likely to climb down from their highs. At this point, however, the pendulum has swung too far in the direction of lower yields.

... almost all of the decline in bond yields has been due to falling inflation expectations. Real yields have remained resilient, suggesting that investors' views of global growth have not changed much. This helps explain why stocks have been able to rally to new highs.

The fall in inflation expectations has been largely driven by the decline in commodity prices. Short-term swings in oil prices should not affect long-term inflation expectations, but in practice they do. If oil prices recover in the second half of this year, as we expect, inflation expectations should shift higher as well. This will translate into higher bond yields.

Tightening labor markets should also boost inflation expectations. This is particularly the case in the U.S., where the economy is quickly running out of surplus labor. ...

Chart 32
Unit Labor Cost Growth Close To Previous Two Peaks



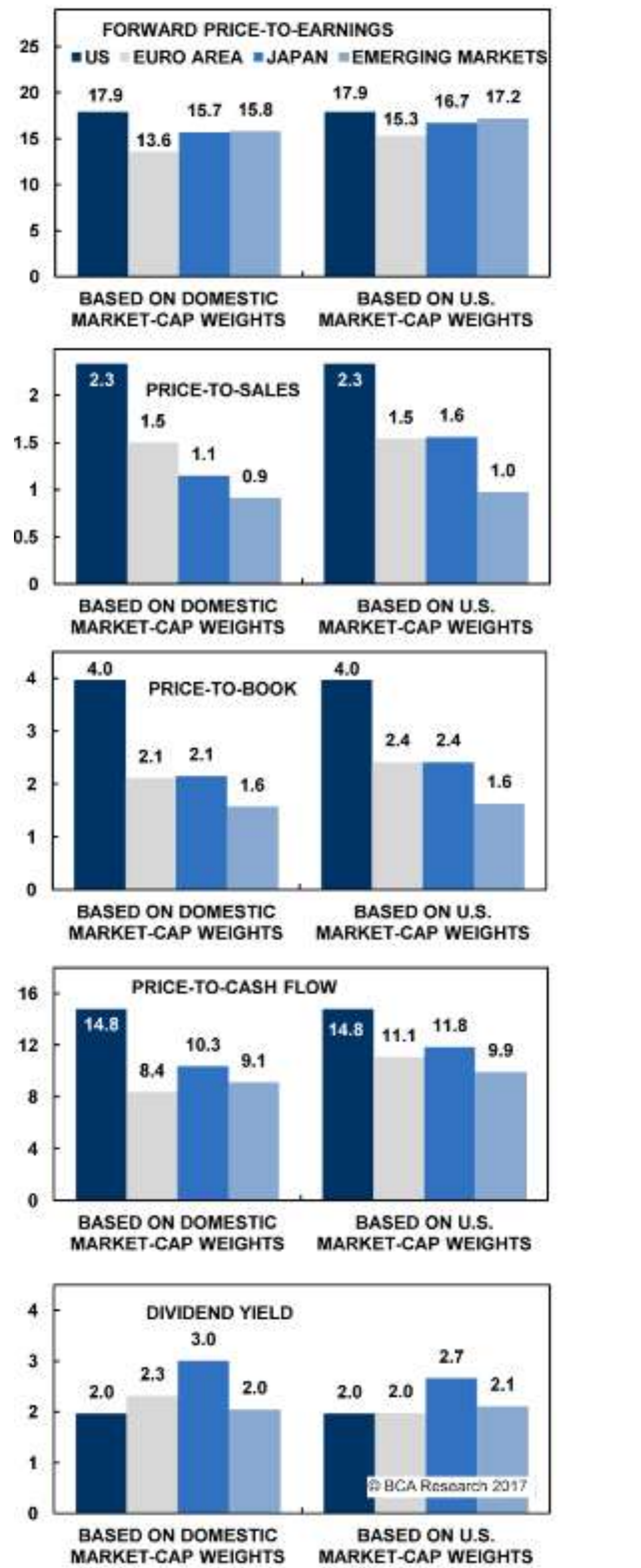
* SHOWN AS THE ANNUAL GROWTH OF 8-QUARTER MOVING AVERAGE.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED PERIODS OF RECESSION.

Our wage growth tracker has risen from a low of 1.2% in 2010 to 2.4% at present. In fact, real wages have been rising more quickly than productivity for the past three years. Unit labor cost growth is now just shy of where it was at the peaks of the last two business cycles (**Chart 32**). ...

The experience of the 1960s is illustrative ... much like today, inflation in the first half of that decade was well anchored at just below 2%. However, once the unemployment rate fell below 4%, inflation took off. Core inflation rose from 1.5% in early 1966 to nearly 4% in early 1967, ultimately making its way to 6% by 1970.

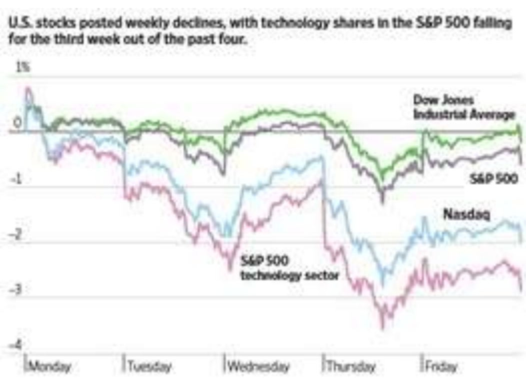
The Fed is keen to avoid a repeat of that episode. In a recent speech, New York Fed President and FOMC vice chairman Bill Dudley warned that "If we were not to withdraw accommodation, the risk would be that the economy would crash to a very, very low unemployment rate, and generate inflation ... Then the risk would be that we would have to slam on the brakes and the next stop would be a recession."

If U.S. growth remains firm and inflation rebounds in the second half of this year, as we expect, the Fed will get the green light to keep raising rates in line with the "dots." The market is not prepared for that, as evidenced by the fact that it is pricing in only 27 basis points in rate hikes over the next 12 months."



NOTE: REAL ESTATE SECTOR IS EXCLUDED FROM ANALYSIS. DOMESTIC MARKET-CAP WEIGHTS USE EACH SECTOR'S MARKET SHARE TO WEIGHT THE VALUATION METRIC. U.S.-BASED WEIGHTS USE THE WEIGHTING IN S&P 500 SECTORS FOR ALL OTHER COUNTRIES. SOURCE: BLOOMBERG FINANCE L.P. AND MSCI INC. DATA (SEE COPYRIGHT DECLARATION).

Our June 24th Worth Sharing, "Does Value Still Matter?", warned about the extreme valuations in a handful of growth stocks, now referred to as FAANG (Wall Street's acronym for Facebook, Apple, Amazon, Netflix and Google.) Their selloff has continued:



On June 28th Capitalist Times, the source for our Worth Sharing's lead article, recommended shorting the NASDAQ 100:

"In particular, technology stocks are a crowded trade and have been the beneficiary of huge amounts of capital from quantitative and passive funds this year. The sector, while not yet at the sky-high valuations that prevailed in 1999-2000, is far from cheap.

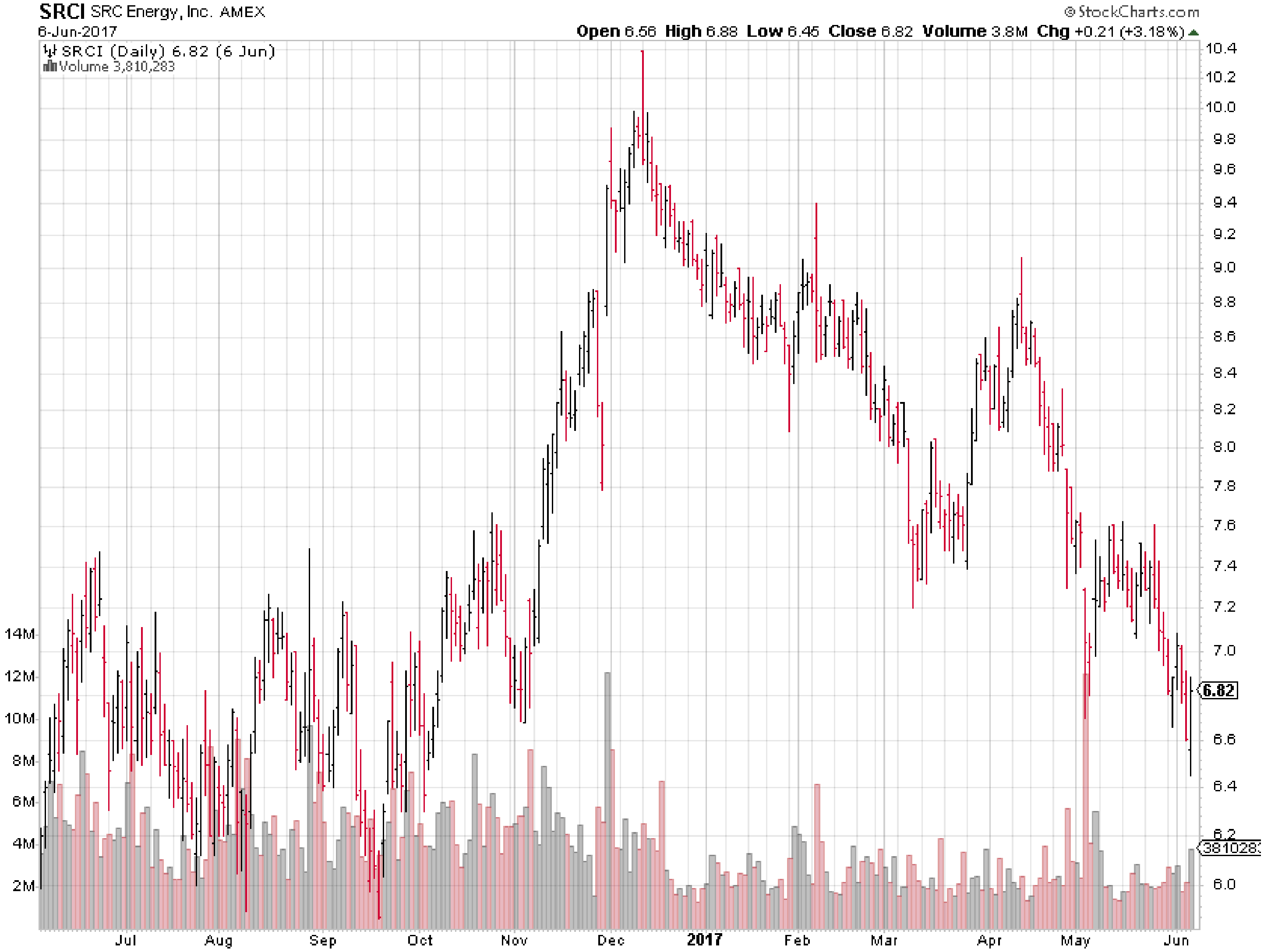
Once started, a strong sell-off in technology could feed on itself as institutional investors all sell the same handful of large-cap technology names at the same time."

Other than in a Momentum Factor fund (MTUM or QMOM), our strong preference is to avoid over valued stocks by only buying those that meet our stringent valuation criteria, which we then sell when they become fully valued or their fundamentals turn negative.

Finally, as of the end of June, foreign stocks have now outperformed U.S. stocks over the past year. However, as shown in Friday's BCA Research chart, foreign stock markets remain cheaper.

Positions

SRCI - The first of 2 E&Ps focused in basins other than the Permian that were added as 1% positions to accounts focused on Capital Appreciation when they reached our Buy Targets:



Insider Buying:

10/06/2016	1	PETERSON LYNN A		49,071	6.6700
10/05/2016	1	KELLY DANIEL E		15,000	6.5500
10/03/2016	2	KELLY DANIEL E, WILBER ...		5,342	6.6700
09/20/2016	3	HENDERSON JAMES P, EB...		67,000	5.8800

SRC ENERGY ($6.78) Rating: Buy
June 20, 2017 Price Target: $12.00

NAV and price target remain unchanged at $12.00. Our current NAV estimate of $12 is based on proved reserves of $5/share, probable reserves of $8/share, $1/share for possible resources, and $1/share of net debt. Our price target of $12.00 per share is equivalent to 7.7x our fiscal 2018 cash flow forecast of $1.55/share. SRCI has evolved into a bigger and stronger organization and now holds prime acreage in the Wattenberg core.

We believe that compared with other oily names in the Permian, the company is very attractively valued. We reiterate our Buy rating on SRC shares today.

Irene O. Haas Wunderlich Securities

WRD - The second:

Insider Buying:

Insider	Transaction	Type	Value	Date	Shares
GRAHAM JAY CARLTON Officer	Purchase at $11.96 - $12 per share.	Indirect	24,000	May 30, 2017	2,000
GRAHAM JAY CARLTON Officer	Purchase at $12.09 per share.	Direct	604,500	May 30, 2017	50,000
HABACHY STEVE SAAD Officer	Purchase at $13.15 per share.	Direct	151,225	May 18, 2017	11,500
BAHR ANTHONY FRANKLIN Officer	Purchase at $13.33 per share.	Direct	536,359	May 18, 2017	40,237
CLARKSON JONATHAN M Director	Purchase at $12.51 per share.	Direct	75,060	May 17, 2017	6,000
BAHR ANTHONY FRANKLIN Officer	Purchase at $12.41 per share.	Direct	1,281,816	May 17, 2017	103,289
GRAHAM JAY CARLTON Officer	Purchase at $12.42 per share.	Direct	496,800	May 17, 2017	40,000
HABACHY STEVE SAAD Officer	Purchase at $12.28 per share.	Direct	849,665	May 17, 2017	69,191

WILDHORSE RESOURCE DEVELOPMENT ($11.21) Rating: Buy
May 12, 2017 Price Target: $30.00

Burleson County: Big Wells and a Big Acquisition

Summary

WildHorse Resource Development (WRD) moved into Washington County and Burleson County, Texas, in early 2015 and began consolidating acreage. For various company-specific reasons, producers became inactive and some left this region during the downturn, leaving a vacuum. WRD has the resources to keep working. The company has been quietly drilling and completing better and better wells. Gen 3 completion design is a game changer and WRD has the proprietary data showing how good the rock can be. This gives the company the conviction to expand aggressively by acquiring assets from Clayton Williams Energy, Inc. and now Anadarko Petroleum (APC-NR). With this new larger land base, we expect WRD grow faster and become even more efficient. We reiterate our Buy rating on this attractively valued name.

Key Points

A noisy quarter. WRD reported 1Q EPS of $0.00 and EBITDA of ~$35.00 million, versus consensus of $0.08 and $37.61mm. Total production came in 4% lighter, mainly due to completion timing in the Eagle Ford, and we expect WRD to catch up in 2Q17. Realized prices for NGL and gas were 19% and 6% better than expected, respectively. Cash cost of $16.09/boe was higher than expected, driven by higher LOE costs accrued from the legacy Burleson wells. Company-provided guidance and per unit costs are expected to trend down for the rest of the year.

Announced a $625 million Eagle Ford acquisition. WRD entered into a definitive agreement to acquire ~111,000 net acres and associated production from Anadarko Petroleum and KKR for $625 mm. Post-deal, WRD will own a total of 385,000 net acres in Burleson County and the surrounding area. The assets were producing ~7.6 MBoe/d and have 22.9 MMBoe of proved developed producing (PDP) reserves (73% oil and 88% liquids). WRD paid ~$3,810 per net acre, net of production.

Gen 3 completion is yielding bigger wells with much better economics. For various reasons, producers have ignored this part of the Eagle Ford, creating opportunities for WRD to move in without over paying. At the same time, WRD has been laser-focused on improving completion. Gen 3 wells are plotting way above the 91 boe/ft Type curve. As compared with wells by other producers, WRD's Gen 3 well are significantly more productive. With this proprietary data, WRD was able to be very competitive in securing large deals.

Financing the deal without changing debt metrics. The transaction will be funded by a combination of $435 million of perpetual convertible preferred stock issued to the Carlyle Group, ~$69mm common shares issued to KKR, and credit facility borrowing of ~$121mm. The financing is treated as mezzanine equity financing, senior to common stock and junior to all debt and has no financial covenants.

NAV and price target unchanged at $30. We have updated our estimates to reflect the transaction; the diluted share count will increase, but this should be offset in part by the incremental production and higher acreage valuation for the Eagle Ford. Our NAV estimate consists of proved reserves of $11 per share, probable reserves of $13/share, possible reserves of $5/share, mid-stream assets of $3/share, acquisition of $5/share, and debt of $7/share. Our NAV and 12-month price target of $30 is roughly 6.3x our 2018E CFPS of $4.78.

Irene O. Haas Wunderlich Securities