November 2017

Last month we shared an analysis from Capitalist Times titled "Are We Melting Up?" The nervous calls we were answering in November were from DIYers who have enjoyed the ride up, but would like to avoid the stomach churning plunge back down. Wouldn't we all. On Nov. 16th BCA Research's Global Investment Strategy recommended shorting the S&P 500 with a 2% Stop Loss, which was how much that trade lost, their 2nd consecutive hit from attempting to cushion the next fall. **"I don't know anyone who's got it right. In fact, I don't know anyone who knows anyone who's ever got it right."** - Jack Bogle, founder of the Vanguard Group, on the ability of investors to successfully time the market. There are two viable alternatives. One, as previously shared, is to use trend to limit the losses. The other is to align your portfolio with your Risk Profile, which includes Risk Tolerance, and make sure you are properly diversified, across Asset Classes, Internationally, and between Factors. One of HCM's goals is for clients to be able to sleep well at night, even when the roller coaster starts down. Wharton professor Jeremy Siegel on today's Flynn news volatility, with the Dow down 350 points intraday: https://www.cnbc.com/video/2017/12/01/jeremy-siegel-why-removing-donald-trump-from-office-wont-rattle-the-markets.html

From the front page of today's WSJ:

Economy, Markets Rev Up

By Josh Mitchell Nov. 30, 2017

The U.S. economy is headed into the final stretch of 2017 powered by one of sturdiest periods of growth in its nine-year expansion, a vigor that is helping drive stock-market indexes to new highs.

The Dow Jones Industrial Average on Thursday jumped 331.67 points, or 1.39%, to 24272.35 (its largest gain of the year), crossing the 24000 threshold just 30 trading days after passing 23000. Consumer spending, home sales and business investment are among several recent indicators exhibiting economic strength.

“Not only do I think the economy’s in good shape today, I think the economic expansion is going to continue for some time,” New York Fed President William Dudley said in an interview with The Wall Street Journal Thursday.

Investors are also cheering the prospect of more economic fuel in the form of potential tax cuts.

Consumer spending, a key ingredient in economic growth, grew 0.3% in October from the prior month after rising 0.9%—the quickest pace in eight years—in September, the Commerce Department said Thursday. The spending figures suggested the economy entered the fourth quarter growing at a slightly slower pace than in previous months but still well above the roughly 2% annual average pace of the overall expansion.

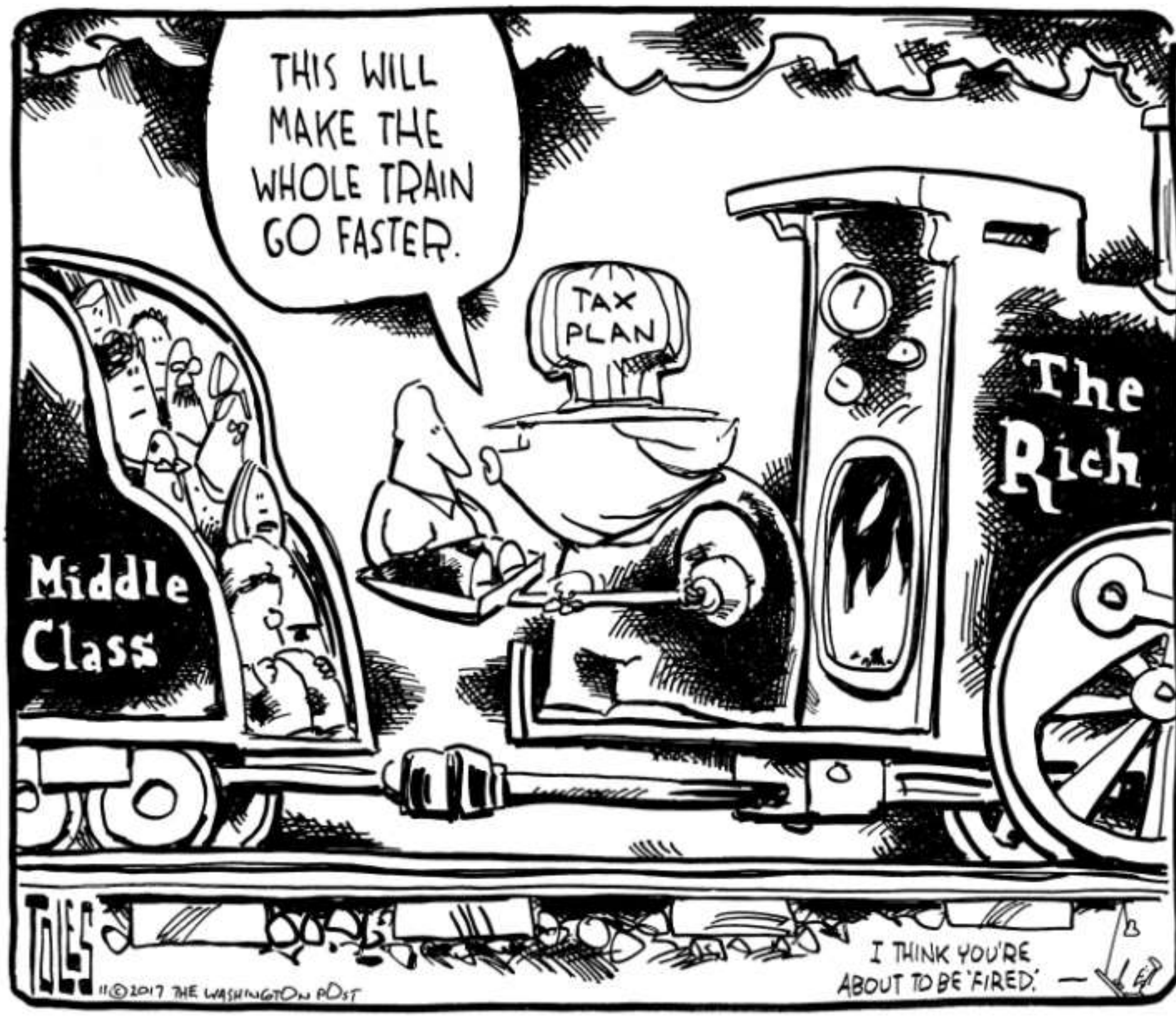
Gross domestic product grew at a 3.1% annual rate in the second quarter, 3.3% in the third, and many economists estimate it is growing between 2.5% and 3% in the fourth quarter.

The last two economic expansions were derailed when asset prices overheated—tech stocks in the late 1990s and real estate in the mid-2000s. Investors aren’t fretting about that at this point. An index of market volatility, dubbed the “fear gauge,” has been hovering near its lowest levels on record.

The booming stock market has lifted household spirits and in turn their willingness to spend more and save less. The national saving rate stood at 3.2% in October, just a touch above September's 3% figure, which was the lowest rate of savings since November 2007. ...

Economists warn that low saving rates give Americans less of a financial cushion should the economy hit a rough patch down the road. A range of other measures in recent days add to evidence of an economy still enjoying a good run of momentum. New-home sales rose in October to a 10-year high, and contracts signed for existing homes rebounded strongly in October after several months of declines. Consumer confidence has also risen for five straight months to a 17-year high, according to the Conference Board. ...

"We don't really need fiscal stimulus from an economic perspective," Mr. Dudley said at an event in New York on Monday. In the interview with The Wall Street Journal Thursday, he added, "this is an above-average economic environment." Toles from Nov. 26th:



... The Fed's preferred inflation gauge, excluding volatile food and energy categories, rose 1.9% in October at a three-month annual rate, according to Thursday's Commerce Department report. That is below the Fed's 2%

inflation target. It stood 1.4% higher than one year earlier. Overall prices, including food and energy, were up 1.6% from a year earlier in October, down from September's 1.7%.

Fed Chairwoman Janet Yellen told lawmakers on Wednesday that the Fed wouldn't necessarily try to prevent the economy from growing faster, as long as it doesn't stir inflation in the process. She wouldn't say whether she believed changes in the tax code would do that.

"Look, we welcome strong growth. The Fed is not trying to stifle growth," Ms. Yellen told Congress's Joint Economic Committee. "We're worried about trends that could push inflation above our 2% objective." ...

Economists at Goldman Sachs expect the tax plan to boost growth by 0.2 percentage point in 2018 next year, raising GDP to 2.5%, and that the unemployment rate will fall to 3.7% next year and 3.5% by the end of 2019, which would be the lowest level since 1969.

With the unemployment rate headed to such a low level, "if Congress stimulates the economy more, the Fed will have no choice but to respond to that with more hiking than they would have done," said Derek Kaufman, a former senior executive at hedge fund Citadel LLC.

"We will have higher interest rates with more debt," he said. (Goldman Sachs' noted on Thursday that America's debt, $20 trillion, with about $15 trillion held by the public, is already at the highest level since 1950 as a fraction of the economy. "The tax reform bill and spending increases that are making their way through Congress should increase the deficit further, raising it from 3.2% of GDP in 2016 to 5.1% in 2021.")

Bitcoin

On Monday, Nov. 27th I received the following question from a client: "Is there any way to invest in Bitcoin, other than creating a "wallet" and buying coins?"

While "invest" is not a term I would apply to any crypto-currency, my response: "Our view of Bitcoin (and other crypto-currencies) is that it is in a classic bubble. The only question is when it will pop, not if, and trying to time that pop is very dangerous. ..."

From a Nov. 30th post on economist Tyler Cowen's site:

"Just think how many tulip bulbs or South Sea Company certificates you can buy with just a fraction of a Bitcoin. And it will be even more next week, next month, next year, next decade. Buy Bitcoin now, before the price becomes unaffordable, and you miss out on the biggest opportunity since the Mississippi Company.

For those interested in history, this is pretty much considered the definitive historical overview – 'Extraordinary Popular Delusions and the Madness of Crowds' by Charles Mackay. ...

Though Isaac Newton might the sort of person you could sell to – '"Back in the spring of 1720, Sir Isaac Newton owned shares in the South Sea Company, the hottest stock in England. Sensing that the market was getting out of hand, the great physicist muttered that he 'could calculate the motions of the heavenly bodies, but not the madness of the people.' Newton dumped his South Sea shares, pocketing a 100% profit totaling £7,000. But just months later, swept up in the wild enthusiasm of the market, Newton jumped back in at a much higher price — and lost £20,000 (or more than $3 million in [2002-2003's] money. For the rest of his life, he forbade anyone to speak the words 'South Sea' in his presence."'"

From Bloomberg's Jesse Hamilton on Nov. 30th:

"Randal Quarles, the Federal Reserve official who oversees Wall Street, says central banks are a long way off from embracing cryptocurrencies as a means of paying for things. And with the price of bitcoin gyrating massively -- it hit $11,000 this week before falling closer to $9,000 -- he added that it could be dangerous for the financial system. That's especially true as the digital-currency movement grows larger, Quarles said. 'Without the backing of a central bank asset and institutional support, it is not clear how a private digital currency at the center of a large-scale payment system would behave, or whether the payment system would be able to function, in times of stress,' Quarles, the Fed's newly minted vice chairman for supervision, said in remarks prepared for a Thursday conference at the U.S. Treasury Department. He also urged that other central banks take a cautious approach to cryptocurrencies."

From Thursday's WSJ, which in a front page article notes that "the currency has declined more than 50% on eight separate occasions since 2011":

Bitcoin: Everything You Need to Know

By Paul Vigna Nov. 29, 2017

The digital currency bitcoin jumped to a fresh high above $11,000 Wednesday before quickly dropping below $10,000 again. Its outsized gains this year however are sparking curiosity. If you're curious but confused, here's a brief explainer.

Q: So what exactly is bitcoin?

A: It's a way for people to exchange value on the internet.

Q: Huh?

A: It's a digital form of money, except there is no government or central bank printing it or standing behind it.

Q: So it's like cash?

A: Well, sort of. Bitcoin is a system designed to allow people to exchange value directly, without any banks or middlemen brokering the transaction. It is global and decentralized and there isn't any government overseeing it.

What bitcoin is literally, though, is software. It's a program that is run across an interlinked network of computers and which facilitates those transactions between people.

Q: So you've got coins, digital ones, and they ricochet around the world with no one keeping track?

A: There are coins, but they are transferred over a network of interlinked computers. Every one of those computers runs bitcoin's program simultaneously.

At the heart of that program is an open ledger visible to the public. Every bitcoin transaction is recorded in this. That transaction history is then updated, instantly and constantly, across every computer's program. This results in a record of bitcoin's history that can't be altered or erased. This ledger of transactions, which has come to be called the blockchain, is at the heart of the network.

It sounds exotic, but it's simply a public spreadsheet that is maintained by a bunch of users. Doing it this way means that no one person controls that spreadsheet. People concerned about inflationary currencies, totalitarian governments, or banks that commit fraud, find it to be an improvement over existing systems.

Q: I hear criminals like it, too.

A: Yes, some do. Bitcoin allows you to have an account without having to identify yourself in any way. This is great if you're trying to avoid prying eyes. On the other hand, that public ledger means every transaction is fully visible to the world. If a government can connect you to your fraudulent or criminal transactions, they have you caught red-handed. Some criminals have discovered this.

Q: Well, I'm not a crook. How do I get in?

A: You can download the software itself, but that can be cumbersome. If you don't want to go that far, just get a wallet.

Q: What do you mean, a wallet?

A: It's a nickname for an online account, like Apple Pay. Some bitcoin wallets are offered by companies like Coinbase, and they are the custodians of the account. Others, like the wallet that comes with bitcoin's software, are maintained by you.

A service like Coinbase maintains the wallet for you. The others don't. If you lose your key to the wallet, you can lose access to your account forever. So that is a big risk.

Q: What about problems with security?

A: They're real. Phishing scams are notorious. Bitcoin wallets can be the target of hackers just like any other online account. Even savvy bitcoiners have woken up one day and found their digital wealth gone.

Q: So no do-overs?

A: Remember what we said about that ledger. Once a transaction is recorded, it can never, ever, be erased. This is the critical aspect of bitcoin that prevents somebody from double-spending the same bitcoin. But it also means every sale is final, so to speak. If you get robbed, that money is as gone as if a mugger took your cash.

Q: Maybe I shouldn't do this.

A: It's not for everybody.

Q: Okay, I get the risks. I've got a wallet. How do I buy and spend bitcoin?

A: The easiest way is go to an online exchange, which will match buyers and sellers like any traditional exchange. There are hundreds of bitcoin exchanges across the world, some more regulated and some more of an informal bulletin board.

Q: I saw that the price of one bitcoin went to $11,000. That's a lot of money. I can't afford that.

A: Every bitcoin is divisible down to the eighth decimal place, so you can buy very small amounts of it if you wish.

Q: So I buy some bitcoin. What do I get?

A: Well, literally, you get some entries in an account in a software program. But right now those entries have a purchasing power of about $10,000 for each full bitcoin among people that accept them.

Q: And I can sell my bitcoin and get dollars or euros or whatever in return?

A: Yep, though it's a volatile market. In the most recent 24-hour period, bitcoin has traded between $9,300 and more than $11,300.

Q: So is bitcoin a currency?

A: It's a store of value or a means of making payments. It depends on your point of view. So long as other people believe it has value, it is an asset.

Q: Is it like gold then?

A: Some people call it digital gold, or gold 2.0 since governments can't control and debase it. That's why, like gold, some people view bitcoin as a hedge against inflation.

Q: Gold has some nonfinancial uses like for making jewelry. Does bitcoin have any other uses?

A: Since it's digital, it wouldn't make very good jewelry. But right now, with the price up so much this year, you could buy some nice jewelry with it.

Q: So why is the price of bitcoin going up so much this year?

A: There's no definitive answer to that. Some people believe that bitcoin is going to become a global currency and will be widely accepted and used. Indeed, Wall Street is getting more interested in it as an investment. The thinking goes that if it becomes a mainstream investment, the investing hoards will push its price ever higher. Plenty of people also think that it's all just an investing mania, that people are rushing into bitcoin just because they believe the price will go higher.

Q: That sounds like a bubble. Is bitcoin a bubble?

A: Bitcoin's price is up about 900% this year. In the past five weeks alone, it doubled. Those are facts. Whether or not that constitutes a bubble is something investors ultimately need to decide themselves.

Q: A 900% gain?

A: It's not even a record. In 2013, bitcoin jumped more than 5,000%. The next year, though, it lost 60% of its value. Caveat emptor.

From the NYT:

As Bitcoin Scrapes $10,000, an Investment Boom Like No Other

By NATHANIEL POPPER NOV. 27, 2017

SAN FRANCISCO — Digital gold. The new tulip mania. A virtual currency.

Whatever you want to call it, Bitcoin is on an extraordinary run, with the price of a single Bitcoin crossing $10,000 on some exchanges for the first time on Monday — less than two months after it crossed $5,000 for the first time.

It is a bull market with few precedents in recent investing history. The Dow Jones industrial average, in its biggest year, 1915, went up 82 percent, or one-tenth as much as Bitcoin has gone up this year. Amazon's red-hot stock is up only one-fifteenth as much as Bitcoin this year.

The price has been pushed up by a flood of new buyers from around the world who think they have spotted a new kind of investment that could ultimately compete with gold as a place to store money outside the control of companies and governments.

These mainstream investors have not just been the libertarian-minded programmers who helped Bitcoin survive its rocky first seven years, after the mysterious creator Satoshi Nakamoto released it in 2009.

In recent months, trading among ordinary investors has taken off in South Korea and Japan. Seoul now has multiple storefronts where less technically adept people can buy and sell Bitcoin. It was on Korean exchanges where the price of Bitcoin first hit $10,000 on Monday.

On American exchanges, the price was hovering around $9,700 on Monday.

The skyrocketing price has brought forth no shortage of skeptics, from Jamie Dimon, the chief executive of JPMorgan Chase, to Warren E. Buffett, who have variously called it a fraud, a bubble and a Ponzi scheme.

The untethered price increase has, to a degree, proved their point, suggesting that this is an investment tied to few real-world fundamentals.

But each time the skeptics have come forward, investors have defied them and bought more Bitcoins at higher prices. On Sunday, more than $5 billion was traded on Bitcoin exchanges, according to the data site Coinmarketcap.com — a greater volume than what many American stock exchanges see on a normal day.

Believers in the Bitcoin technology, which is backed by a new kind of computer network, have argued that what we are seeing is the formation of a new asset class that could join stocks, bonds and physical commodities in the investment portfolios of ordinary people.

If this is a new digital gold, today's extraordinary prices still leave the total supply of Bitcoins in the world at a value that is only one-sixtieth of all the real gold in the world.

But even aficionados have been dumbstruck by just how quickly the price has gone up in recent months.

"While there has been a slew of bullish news for Bitcoin of late, the rapidity of the ascent to $10,000 has taken many of us by surprise," said Chris Burniske, an investor and a co-author of the book "Cryptoassets." ...

Hedge funds have also been clamoring to get a piece of the action. More than 100 hedge funds invest only in Bitcoin and other virtual currencies.

In many places, this trading is happening on exchanges with little regulatory oversight or transparency. This has given rise to fears that a problem at one of the exchanges could trigger a panicked run on Bitcoin, something that is not unlikely given the relative inexperience of many of the new investors.

A steep rise in the price of Bitcoin in late 2013 was punctured when the biggest exchange at the time, Mt. Gox, was discovered not to have the Bitcoins it claimed to have. That led to a three-year lull in the price.

But current investors see that after all the previous popped bubbles — and there have been several — the price eventually returned to its old high and then vaulted past it. The price of a Bitcoin is now more than seven times the high it reached in 2013.

What's more, the Bitcoin ecosystem is now more distributed around the world, with less reliance on a single company like Mt. Gox, which collapsed three years ago. While Mt. Gox hosted more than 75 percent of all Bitcoin trading in 2013, the largest exchanges today have only around 10 percent of the business. That should theoretically make the industry less vulnerable to problems at one institution.

Bitcoin has been able to flow around the world and reach investors in countries large and small, because of the singular design that was laid out by its creator.

Bitcoins are stored and traded on a decentralized network of computers that is not under the control of any government or company. That has been attractive to people in countries, like China and Zimbabwe, where the government has a history of seizing bank accounts and assets.

The growing number of people using it in all these countries, often against the wishes of their governments, has also underscored the degree to which the software that manages Bitcoin has remained impervious to hackers and government control for nearly a decade.

The recent price increases, though, have meant that Bitcoin is not living up to its promise as a currency routinely used for small purchases. Few people want to spend their Bitcoins if they believe the price will double in the next month.

Bitcoin has remained popular as a way to pay for illegal drugs online because of the ability to open a Bitcoin wallet without providing any personal information.

But Bitcoin has faced competition on this front from virtual currencies that provide more privacy. And the overall black market trade has diminished this year after the authorities took down some of the largest black market websites in the summer.

This has been welcome news for many Bitcoin backers who want to see it lose its shadowy associations.

Many Bitcoin investors have also come to believe that the Bitcoin network is not particularly well suited to handle lots of little transactions.

These investors frequently argue that what Bitcoin is designed to do well is store money securely and outside the control of any company or government that could seize it, like a more transportable version of gold.

“The reason people own Bitcoin is because it’s a great store of value, possibly the greatest that has ever existed,” said Jimmy Song, a programmer who works on the Bitcoin software.

The last few years have brought a proliferation of virtual currencies that aim to compete with Bitcoin, sometimes with the goal of handling transactions more cheaply and quickly.

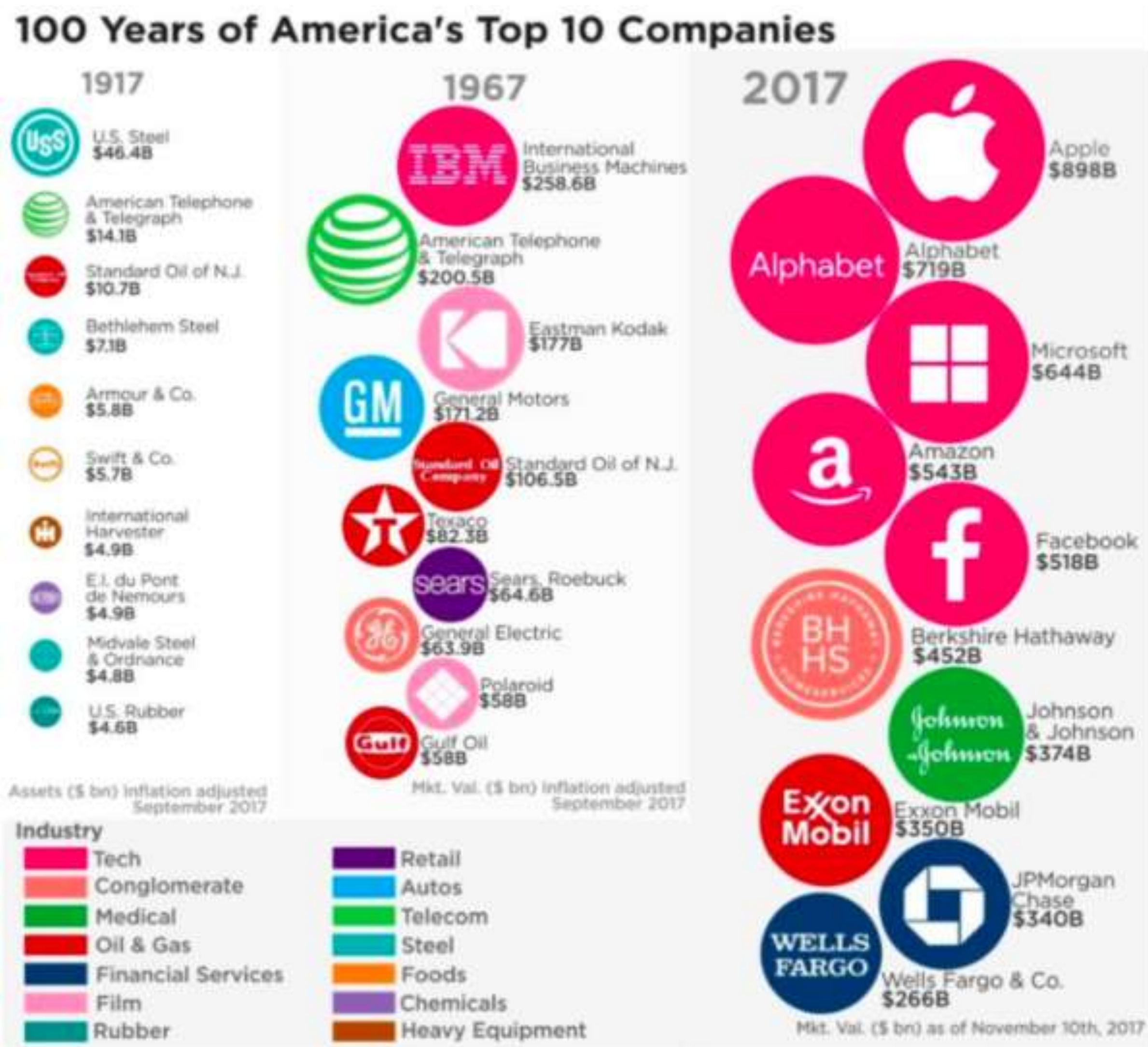
This year, it appeared that the most popular virtual currency network other than Bitcoin, Ethereum, might pass Bitcoin in value. At the time, Bitcoin was hobbled by an internal battle over how to update the software and expand the network.

In October, though, one side gave up the fight, and since then the price of Bitcoin has shot up, sometimes rising more in a week than it rose in its first seven years.

In recent weeks, Bitcoin isn’t the only virtual currency that has been moving up. Ether, which lives on the Ethereum network, and Bitcoin Cash, another Bitcoin competitor, have also been rising quickly in value as investors look for anything that might have the same durability and upward mobility as the original.

Shift Happens

From Barry Ritholz's blog, a look at the top U.S. companies of their respective times, by comparing their inflation-adjusted valuations:



Positions

CVE - Added 1% positions in this Canadian Oil Sands play for 3 clients on 11/8 @ 11.275 and 1 on 11/16 @ 10.1962.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
11/08/2017	1	ZYGOCKI RHONDA I		7,200
11/06/2017	6	MONGEAU CLAUDE, DANIE...		139,900

Morningstar:

By Joe Gemino, CPA | 11-20-2017

4-Star Picks in the Energy Sector

It's no secret that oil sands production faces challenged economics and struggles to compete with other marginal sources of supply, such as U.S. shale. Fortunately for oil sands producers, solvent-assisted technology will help oil sands production compete by meaningfully reducing both operating costs and capital costs, coupled with increases in oil quality and field recovery rates. Using this new technology, we believe break-evens for the best projects can fall to $45/bbl WTI by the end of the decade compared to average costs of $60/bbl today.

Canada's deficient pipeline infrastructure threatens the sanctioning of new projects by hindering pipeline market access and impairing project economics by the use of rail transportation. Luckily for oil sands producers and midstream companies, the U.S. political climate is right for pipeline expansion projects, highlighted by Enbridge's Line 3 replacement pipeline and TransCanada's Keystone XL.

Four-star rated best idea Cenovus Energy remains our top pick in the Canadian energy sector with over 60% upside in the stock. We think the market is too narrowly focused on the company's temporary increase in debt and is overlooking the immense growth potential that can be brought online with its industry-leading solvent-assisted technology. ...

From BCA Research's November 8th Energy Sector Strategy:

Adding Oil Sands Producers To Recommendations List

We have an above-consensus bullish outlook for oil prices, forecasting $65/bbl Brent prices in 2018 versus Wall Street consensus of just $56/bbl. Our supply/demand modeling is based on the expectation that OPEC 2.0 (especially Saudi Arabia and Russia) continues the current production restrictions through mid-2018 and that annual demand growth in 2017-2018 is actually 100,000- 200,000 b/d higher than current EIA estimates reflect, driven by strong synchronized global economic growth that is underestimated by the government agencies (EIA and IEA). Additionally, even from our lofty oil price outlook, we have identified the balance of oil price risk is to the upside, specifically due to increasing threats of oil production disruptions in 2018 from Venezuela, Libya, Nigeria, Iraq, and possibly even Iran or Saudi Arabia.

Oil sands producers offer the highest operating leverage to oil price movements, especially Cenovus which combines a high degree of financial leverage along with its substantial operating leverage to drive outsized returns to shareholders as oil prices increase. We are adding oil sands producers Cenovus (CVE) and Suncor (SU) to our list of overweight-rated producers to take advantage of their high operating leverage to oil price increases.

Cenovus: Leverage Upon Leverage

In May, Cenovus completed the massive ~$13.2B acquisition of ConocoPhillips' (COP) assets in Western Canada, paying for the acquisition with a combination of cash on hand ($2.5 billion), stock issued to COP ($2.6 billion), stock issued to new investors ($2.5 billion), and new debt ($5.6 billion). Today, CVE has $9.0 billion of net debt, up from $2 billion prior to the deal, although the company is working to sell non-core assets to strengthen its balance sheet. Over the past two months, CVE has announced agreements to sell about $2.2 billion of conventional production/ reserves (Pelican Lake, $0.8 billion, sold in Q3; Suffield, $0.4 billion; and Pallister, $1.0 billion). The company has indicated another $1-$2 billion of sales agreements could be announced before year-end. The $9 billion of current debt represents over 40% of CVE's enterprise value and about 3.3x 2018E EBITDA.

The COP acquisition will allow CVE to double its oil production from 204,400 b/d in 2016 to an estimated ~406,000 b/d in 2018, while the company's share count has increased by less than 50%, significantly increasing the company's per-share leverage to higher oil prices. The bulk of the COP transaction involved the acquisition of COP's 50% ownership in the (prior 50/50) FCCL Partnership, consolidating ownership of the Foster Creek and Christina Lake oil sands projects, and doubling CVE's production from these projects from ~180,000 b/d to ~360,000 b/d. CVE also acquired COP's conventional production assets in Western Canada, adding another 120,000 boe/d of oil and natural gas production.

... CVE's production profile yields over 30 barrels of production per day per million dollars of market capitalization versus an average of less than 8 barrels for the U.S. integrated companies and 11 barrels for the European Integrateds. ...

A $5/bbl increase in realized oil prices would increase CVE's forecast 2018 EBITDA by 23% ... well above the 10-11% average of other producers.

... and cash flow by over $600 MM/ year, further accelerating the pace that CVE could reduce debt and increase returns to shareholders. CVE's current yield of only 1.5% requires annual payments of about $195 MM/year, implying room to increase payments as debt is decreased and cash flow is increased through higher oil prices.

Risks For CVE: CVE's operating leverage to rising oil prices works the other way as well: if oil prices fall, so will CVE's operating profit and cash flow, making it more difficult for the company to pare debt and increase dividends. CVE is a high risk/high return play on oil prices increasing to levels above the market's current expectations.

NEWT - Established 2% positions in this internally managed BDC for 4 clients on 11/1 @ 17.23:

Insider Buying:

Insider	Transaction	Type	Value	Date	Shares
MULIA SALVATORE FRANCIS Director	Purchase at $16.60 - $16.63 per share.	Direct	14,000	Mar 23, 2017	835
KIRSCHNER SAM Director	Purchase at $16.50 per share.	Direct	16,500	Mar 22, 2017	1,000
JOSHI NILESH Officer	Purchase at $16.14 per share.	Direct	5,729	Mar 21, 2017	355
SLOANE BARRY Officer	Purchase at $16.24 per share.	Indirect	11,367	Mar 21, 2017	700
SLOANE BARRY Officer	Purchase at $16.77 per share.	Indirect	11,739	Mar 20, 2017	700

From High Dividend Opportunities on Nov. 28th:

This 10% Yield Is The Best Available BDC, High Insider Ownership, Room To Run

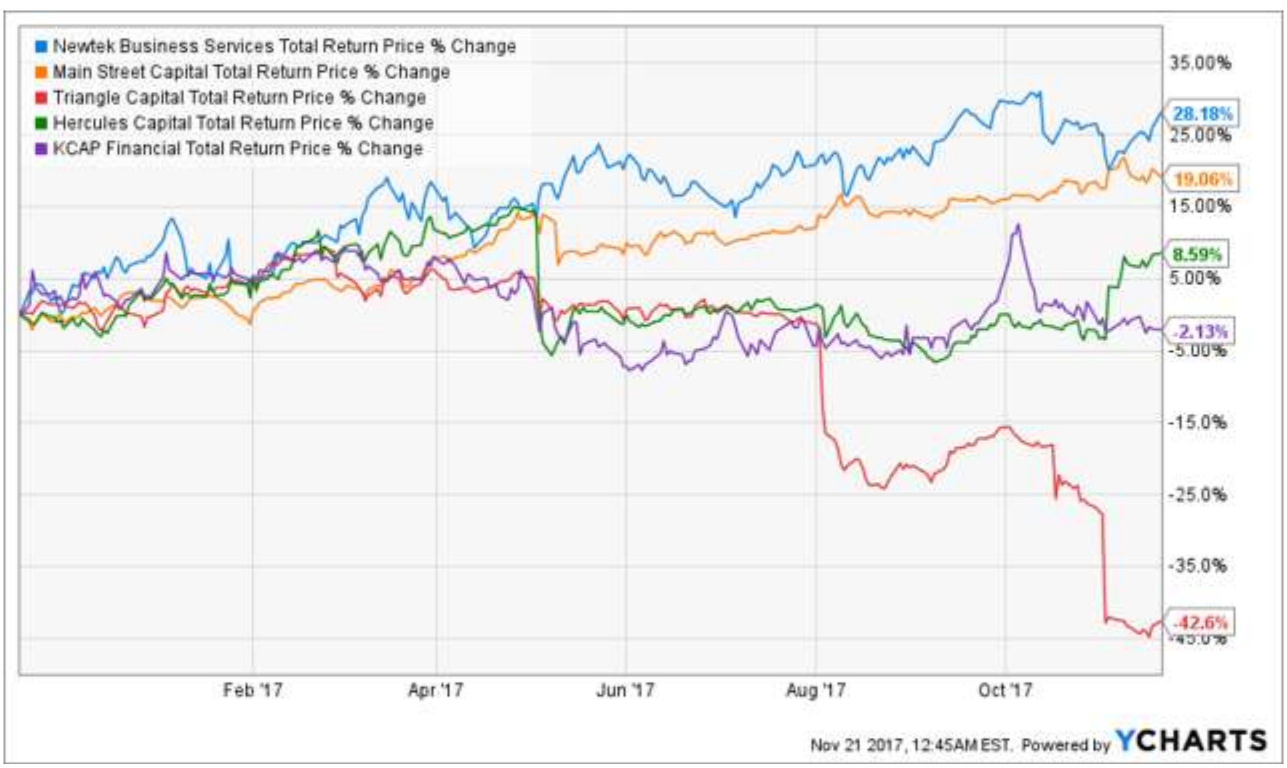
Summary

- *Newtek Business Services Corp (NEWT) is an internally managed Business Development Company with a unique and differentiated business model and currently yields 10.0%.*
- *Unlike other BDC companies that generate their profits from a Fixed Income Portfolio, NEWT is a highly diversified entity, with little reliance on its interest income.*
- *NEWT generates its income through loan generation and from dividends received from its subsidiaries servicing small businesses.*
- *NEWT has a high insider ownership, and the stock appears to be significantly undervalued when compared to similar BDC companies, despite the recent out-performance.*
- *14 reasons that make NEWT such an exciting investment. NEWT is set to greatly benefit from economic growth and new tax reforms.*

Newtek Business Services Corp (NASDAQ:NEWT) is an internally managed Business Development Company with a unique and differentiated business model. What is most notable about NEWT is that **it has outperformed ALL of the other internally managed BDC companies** over the past 12 months. Out of 50 listed BDC Companies, only 5 are internally managed and include:

- NEWT
- Main Street Capital Corporation (MAIN)
- Hercules Capital (HTGC)
- Triangle Capital Corporation (TCAP)
- KCAP Financial (KCAP)

The following chart depicts the performance of the 5 companies above:



NEWT has returned **28.2%,** strongly outperforming not only all internally managed BDC companies, but also all the universe of BDC Companies (both internally and externally managed).
We will examine in this report the reasons behind NEWT's success, and why it still has plenty of room to run.

14 reasons that make NEWT such an exciting investment and so extraordinarily unique

1- Uniquely Diversified Income Stream

NEWT is very different from most BDCs which generate their profits from interest income on their loan portfolio, and depend on interest rate spreads between borrowed funds and invested funds. **So how does this BDC make its money?** NEWT makes most of its returns by originating new loans and selling them, and from a recurrent and increasing "dividend income" received through its 100% owned subsidiaries - currently consisting of 14 "controlled" companies - that offer a wide area of technology, products and solutions to small businesses.

NEWT's mission is "To provide access to financial, management and technological resources to small businesses that enables them to better grow and compete ."

So in effect, NEWT is a one-stop shop set to meet most of small and medium business needs and is engaged in several businesses including:

- **Financial solutions**: NEWT originates business loans from $50,000 to $10 million to small businesses against collateral requirements.
- **Electronic Payment Processing**: Credit card, debit card, check conversion, and ACH solutions, Retail & point-of-sale payment systems. Mobile payment.
- **Web Hosting**: Full service web host including domain registration and online shopping cart tools, Customized web design, development services, and e-commerce.
- **Insurance Services**: Nationwide commercial, health and benefits, and personal lines of insurance. Operates in 50 states.
- **Outsourced Digital Bookkeeping**: Bookkeeping and recordkeeping for small businesses.
- **Accounts Receivable Financing**: Receivable purchasing and financing services.
- **Payroll**: Payroll management processing, employee tax filing, time & labor management, employee benefit.
- **Technology**: Infrastructure & Managed Cloud services, security & compliance, disaster recovery, and business software.

NEWT is basically a company that provides comprehensive business and electronic services and solutions to small businesses in conjunction with its lending activities. Therefore its business model is very unique.

If we have a look at its revenue composition, one realizes that NEWT is not really a BDC company as we know it. NEWT revenues are well diversified and currently include 4 main sources which we broke down in percentages based on the results of the first 9 months of 2017:

- **Loan Origination Gain** of $28.7 million, or **50%** of Total Revenues. These revenues mainly consist of capital gains on loans originated and sold.
- **Dividends and other income received from Subsidiaries** of $7.8 million- or **14%** of Total Revenues.
- **Loan Servicing Income** of 5.1 million, or **9%** to Total Revenues.
- **Net Investment Income on Loan Portfolio** of $ 15.5 million - or **27%**of its revenues.

It quickly becomes clear that although NEWT is classified as a BDC company, **its business model has little to do with other BDC Companies.** NEWT only generates **27%** in interest income from its underlying loan portfolio, while most BDC companies generate close to **100%** of revenues from their underlying portfolio. Therefore we believe that investors should not view or value NEWT in a similar way as other BDC companies.

2- Superior Loan Portfolio & Loan Origination

Currently NEWT generates most of its profits from its lending activities (both capital gains on loan origination, and interest income from its own loan portfolio), so this is an important part of the Company's profitability and investors should understand how they generate their profits:

- The loans that NEWT generate are high quality, small balance, industry and geographically diversified. NEWT's own loan portfolio consisting of 1,455 loans with an average loan size of $182k is much smaller than the typical BDC loans ranging from $5 million to $50 million.
- These loans are generated by NEWT's wholly owned subsidiary "New Small Business Finance" which is **only one of 14 non-banks to have an SBA (or U.S. Small Business Administration) Government-Guaranteed Lender License**. It is worth to note that these licenses are no longer being issued. The company is now **the largest non-bank institution licensed by the SBA under this program** with a special niche providing loans to small businesses that are partially backed by the SBA/U.S. Government**.**
- NEWT has a long track record in lending to small businesses of over 14 years.
- NEWT makes most of its profits (50% of Revenues) when it sells the portion of these loans that are backed by the guarantee of the SBA/U.S. Government, at a 10-15% premium to par. NEWT then finances the un-guaranteed portion of the loan through debt securitizations, which results in a low cost of capital for the company. This process results in its capital being re-invested at a much faster pace than other typical BDC companies and helps the company grow at a faster rate.
- To give an idea about why NEWT has a superior portfolio of securities, we could compare its business model to that of Mortgage REITs. The difference between NEWT and the typical MREIT model is that NEWT ORIGINATES their loans whereas MREITs usually purchase their pooled securities from the secondary market. As such, NEWT has a cost basis much lower than that of MREITs and NEWT's securities tend to trade at premiums to par. This is in contrast to the securities held by Mortgage REITs which have a higher probability of being sold for a loss.
- Furthermore, most MREITs carry an **extensive amount of leverage** with many having their balance sheets carrying 500% debt/equity leverage or more, making them risky investments. NEWT carries a low leverage of less than 100% debt/equity.
- While NEWT's business model is very different than that of MREITs, we are hoping that this comparison will help readers understand the business model of NEWT. In effect, the dividend paid by NEWT is in line with most Mortgage REITs, while NEWT's loan business model is lower risk.
- It is worth to note that NEWT does not invest in risky derivative securities such as SBIC leverage, Collateralized Debt Obligations, loans with equity kickers, 2nd lien or mezzanine financing, or other risky type of securities that some other BDC companies invest in to boost profits.

3- A floating Rate Portfolio

NEWT has 100% of its portfolio based on Floating rate at Prime plus 2.75% with no caps and quarterly rate adjust, currently equivalent to 7.00% cost to borrower. Therefore any increase in the prime rate would directly benefit its bottom line. Federal Funds rates and Prime Rates generally move in the same direction. So any future increase in interest rates by the Federal Reserve including the 0.25% increase expected in December 2017 has the potential to have a significant positive impact on the bottom line of NEWT.

4- Consistent Dividend Stream Strengthens Profitability

NEWT's investment portfolio includes some of the most attractive subsidiaries which service small businesses, including electronic payment processing, payroll services, web design and hosting, technology (cloud storage, disaster recovery and data security), Accounts receivable financing, etc. These are fast growing businesses which result in a one-stop-shop for business owners. Thus NEWT's subsidiaries fills a special "niche" which provide a consistent and growing stream of dividend income flowing back to NEWT.

5- Low leverage supports future growth

NEWT's debt-to-equity ratio was approximately 89% at September 30, 2017, and the proforma debt-to-equity ratio was 81.7% as a result of balance sheet reduction due to post September 30, 2017 settlement of government-guaranteed loans sold prior to September 30, 2017. This is well below the limit of 1:1 debt-to-equity limit for BDC Companies. We should note that NEWT is a small but growing company and a low loan ratio provides a potential leverage upside.

6- Growth through acquisitions

NEWT has been further growing its revenues by acquiring companies in the small business service space at reasonable valuations. These included acquisitions of technology, factoring, consultancy, software companies and insurance agencies. They are buying them at low valuations of 4 to 6 times EBITDA. So they get returns of 16% on their investment without leverage. With leverage, they are generating over 20% return which is quite attractive.

7- Potential Upside in Net Asset Value

NEWT essentially owns a set of businesses most of which have been owned and operated for over 10 years. As these businesses get bigger and their dividends grow, this has a potential to translate into a higher NAV for NEWT. This puts them at an advantage compared to other BDCs which mainly own a set of loans and can have difficulties achieving a meaningful NAV growth.

8- An Internally Managed BDC

Unlike most of its peers, NEWT is an internally managed BDC, which means it does not pay the 4% management fee, typically paid to an external manager. Usually internally managed BDCs tend to be more cost efficient and have their interests more aligned with those of shareholders than externally managed ones. They are also more attractive to investors.

9- High Insider Ownership

Insider ownership at NEWT is high and currently management and Board combined, own approximately 6.4% of outstanding shares as of September 30, 2017. This gives me confidence in this company and makes the interests of management also more aligned with those of shareholders especially in terms of a higher stock price and higher dividends.

10- A Fast Growing Company

NEWT converted to a BDC company in November 2014 to improve visibility, unlock value for shareholders (particularly of its portfolio companies) and reduce its costs of debt and equity capital. The strategy is paying off. NEWT reported its 3rd quarter results on November 1, 2017. The following are the highlights:

- The Company funded a record $103.6 million of SBA 7 loans during the three months ended September 30, 2017, an **increase of 20.6%** compared to the three months ended September 30, 2016.
- NEWT forecasts full year 2017 fundings of approximately $415.0 million in SBA 7(A) loans and SBA 504 loans, which would represent an approximate **31% increase** in total SBA loan fundings over 2016.
- Net asset value ("NAV") was at $14.40 per share, at September 30, 2017, an increase of 0.7% over NAV of $14.30 per share at December 31, 2016.
- Adjusted Net Investment Income ("ANII") of 1.26 per share, for the nine months ended September 30, 2017, **an increase of 10.5%** on a
per share basis, over ANNI of $1.14 per share, for the nine months ended September 30, 2016.
- Total investment portfolio **increased by 21.1%** in September 30, 2017 compared to December 31, 2016.
- The annual forecast for NAV is to grow approximately 2% to 2.5% a year.

11- The 10.8% Dividend

As a business development company, NEWT distributes over 90% of its taxable income to its shareholders on a quarterly basis. For the year 2017, NEWT re-affirmed its annual dividend guidance of $1.641 per share, which represents an approximate **7.2% increase** over the 2016 annual cash dividend of $1.53 per share. The stock currently yields 10.0%.

12- NEWT's Secret of Success. Cross Selling + Referrals

The question comes as to how NEWT has been able to become such a successful company. Due to its extensive network in providing a wide array of services to small businesses, NEWT is able to boost cross-selling to increase its sales and loan generation business **at no additional cost**.

- Loan referrals for Q3 2017 were $2.6 billion, a **30.7%** year-over-year increase over the $2.0 billion in Q3 2016.
- From January 1 through October 28, 2017, loan referrals were $8.2 billion, a **25.8%** year-over-year increase from the $6.6 billion for the same period one year ago.

As a result, NEWT is able to to look at a huge credit pool and **cherry pick the best loans**. This is their "secret source of success". In addition, they are using the technology to increase efficiency which speeds up the loan approval process.

13- NEWT's Future Outlook

NEWT is a company that services small businesses which are benefiting from a growing U.S. economy, and which will also be the main beneficiaries from the upcoming tax reforms. In a sense, NEWT is set to benefit twice from the Tax Plan:

- Although it is not yet clear how BDCs will be affected by the new tax reforms, NEWT has 14 "controlled" subsidiaries which are C-Corporations, which will benefit from any reduction in corporate taxes. This will result in higher profitability, and boost dividend income and "Net Asset Value" for NEWT.
- NEWT issues loans to small businesses which should also see increased profitability under the upcoming tax reforms. This will result in less default rates and possibly for more lending activity.

The U.S. economy is expected to continue a healthy growth over the coming years providing a healthy macro-economic environment for NEWT.

14- Solid Historical Stock Price Performance

Investors in NEWT have seen a solid stock price performance. Over the past 5 years ending December 31, 2016, NEWT has returned (including dividend re-invested) a **307.2%** for the period.

Newtek's Historical Stock Performance

Newtek® Your Business Solutions Company™

- Newtek's 12-month total return at September 30, 2017, including reinvested dividends, was **37.3%**
- As of December 31, 2016, including reinvested dividends in NEWT:
  - Newtek's 5-year total return was **307.2%**
  - Newtek's 3-year total return was **49.1%**
  - Newtek's 1-year total return was **27.7%**

15- Attractive Valuations

Comparative Valuations Based on NAV

NEWT currently trades at 1.22 times Net Asset Value. Compared to the 5 other internally managed BDCs, the shares of NEWT look attractive.

Internally Managed BDCs	Ticker	IPO Date	Market Cap	Price to NAV
Main Street Capital	MAIN	Jan-2010	2,400	1.76
Hercules Technolgy Growth Capital	HTGC	Jun-2005	1,200	1.37
Triangle Capital Corporation	TCAP	Feb-2007	463	0.65
Newtek Business Services	NEWT	Nov-2014	317	1.22
KCAP Financial	KCAP	Dec-2006	125	0.68
Average Valuation				**1.14**
Weighted Averaged Valuation				**1.47**

Source: Morningstar and CEFdata

As noted in the table above, NEWT currently trades at a **20% discount** based on a "weighted average NAV valuations" as compared to other internally managed BDCs.

Comparative Valuations Based on Forward PE Ratio

Internally Managed BDCs	Ticker	Market Cap	Forward PE Ratio
Main Street Capital	MAIN	2,400	15.8
Hercules Technolgy Growth Capital	HTGC	1,200	10.4
Triangle Capital Corporation	TCAP	463	3.0
Newtek Business Services	NEWT	317	9.6
KCAP Financial	KCAP	125	5.6
Average Valuation			**8.88**
Weighted Averaged Valuation			**12.30**

Source: morningstar

As noted in the table above, NEWT currently trades at a **28% discount** based on a "weighted average PE valuations" as compared to other internally managed BDCs.

Price Target - $22.5/share

We would argue that NEWT is not a typical BDC company, and therefore the PE ratio valuation should be more relevant than NAV valuation. Even a forward PE ratio of 12.3 times is conservative for NEWT given the forward PE ratio of the S&P 500 index is currently at 19.3, based on the latest data from the WSJ. Based on a conservative forward PE ratio of 12.3 times, **NEWT should trade at least at a price of $22.5/share or 28% higher from here**.

Risks

BDC Companies and other companies in the business of lending are dependent on the health of the state of the U.S. economy. They tend to outperform during periods of economic growth, and underperform when the economy hits a recession, as demand for new loans decreases and default rates increase. Having said that, global recession risks are at their lowest since the last financial crisis. Therefore, the risks of investing in BDC companies are currently pretty low. With the economy still in an expansion mode and expected to continue over the few years to come, NEWT should be able to manage its business without any issue, and its share price is likely to provide investors with a very respectable return.

Another risk to note is that NEWT is a smaller cap company with a market cap of $317 million, and the stock can see higher price volatility in case of market turbulence or potential bad news.

Bottom Line

High Yield investors usually hold BDC Companies for yield, but seldom can we find a BDC with a business model that can provide the potential for both a high dividend and a capital gain. NEWT is a growth stock in addition to being a dividend stock, and this is what makes it such an exciting investment and a unique opportunity. The potential total return is extraordinarily attractive. The percentage gain to the $22.5 price target could be achieved over the next 12 months. That will result in a 28% capital gains based on the current share price of 17.6/share. If we add to that the current dividend yield of 10.0%, this investment could have a total return of over 35% in the next 12 months. NEWT could be the big winner in your dividend stock portfolio!

PEI - Added 2% positions in this Mall REIT for 4 clients on 11/6 @ 9.785.

Insider Buying:

Insider	Transaction	Type	Value	Date	Shares
MCCADDEN ROBERT F Officer	Purchase at $10.88 per share.	Direct	108,800	Jun 18, 2017	10,000
CORADINO JOSEPH F Officer	Purchase at $11.57 per share.	Direct	115,700	Jun 12, 2017	10,000
ALBURGER GEORGE J JR Director	Purchase at $11.78 per share.	Direct	58,900	Jun 11, 2017	5,000
ALBURGER GEORGE J JR Director	Statement of Ownership	Direct		May 31, 2017	0
ROBERTS JOHN JOSEPH Director	Purchase at $10.76 per share.	Direct	107,600	May 29, 2017	10,000

From High Dividend Opportunities on Oct. 17th:

Buy Alert: PEI

Like WPG and CBL, PEI is another Mall REIT that has seen its share price decline by over 50% in the past 12 months, providing a unique buying opportunity. We believe that this stock has the potential to double its share price over the next 12 to 24 months.

We are adding PEI to our "Optional Portfolio" with a "Buy Under" price of $10.90/share.

Notes about PEI:

- PEI is a Property REIT and issues a 1099 tax form (no K-1s).
- We are assigning an "Average" risk rating for the stock, with a view that it is trading at very cheap valuation here, and that the downside risk is very limited.
- Maximum recommended allocation for PEI is 3% of the overall portfolio.

Action to take: Buy PEI with a "Buy Under" price of $10.90/share.

Optional Portfolio - Stocks

Ticker	Stock Name	Risk	Div. Yield	Sector	Current Price	Buy Under	Action
PEI	Pennsylvania Real Estate Investment Trust	**A**	**8.0%**	Property REIT - Mall	$ 10.50	$ 10.90	**Top Buy**

Below is our research report on PEI.

Property REIT Yields 8%; 200% Coverage; 46% Discount To Fair Value

- PEI yields a very safe 8.0% with 202% dividend coverage.
- PEI trades at an 46% discount to fair value as calculated under a debt covenant formula. PEI has very limited Sears exposure.
- PEI should see higher numbers going forward as construction projects complete and come on line.
- The stock is a strong buy here, and has the potential to double in price over the next 12 to 18 months.

Pennsylvania Real Estate Investment Trust (PEI) traded recently at $10.50/share and pays a dividend of 21 cents per quarter for an annual yield of 8.0%. PEI management has been engaged in an aggressive restructuring program aimed at transforming what was once a diversified REIT into a focused mall REIT with high quality properties and reduced exposure to traditional anchor tenants. PEI was founded in 1960 and was one of the first REITs. As recently as 2016, it traded over $20 a share for a good part of the year. Its share price has steadily declined in 2017 but may be hitting bottom after declining over 50% in the past 12 months.

The stock has been clobbered by the general investor revulsion to mall REITs and the retail sector in general. The selloff has created a unique buying opportunity. At its current price, it is a strong buy **with prospects to double over the next 2-3 years**.

The Business - PEI operates some 27 properties of which 20 are operating malls. It is concentrated in the Middle Atlantic area with 8 malls in the Philadelphia metro area and 4 in the Washington, D.C. metro area. 4 others are in other parts of the Mid-Atlantic area. PEI has been actively replacing traditional anchor tenants (Sears, J.C. Penney) with a variety of other tenants including restaurants, entertainment centers, movie theaters, and specialty retailers. Its exposure to Sears has declined from some 27 stores to 6 stores. Traditional anchor tenants account for a very small proportion of rent. J.C. Penney is at the 2.2% level and Macy's is at the 1.7% level. Sears isn't even in the top 20. 20% of PEI mall space is now occupied by dining and entertainment tenants. PEI has been selling off its lower quality malls and investing in upgrading its retained malls with a target of a company-wide sales per square foot over $500. The company is giving priority to A malls and high-quality B’s that are cap rate transformative.

PEI has a major project in Philadelphia that should go online soon- **The Fashion District** - which involves 3 city blocks in the downtown area. It is partnering with Macerich which has owned the super-successful Tysons Corner Center in the Washington metro area. The Fashion District should come on line in 2018. It is projected to produce $700 per square foot in sales and it will include a movie theater with in theater dining and reclining seats as well as other dining opportunities. It is an example of the new kind of retail development which relies more heavily on dining, fitness, social, and entertainment aimed at **attracting urban millennial constituency**. This will give this type of mall a unique aspect that online retail cannot compete with.

PEI has bet heavily on two metropolitan areas - Philadelphia and D.C. Both of these areas experienced problems as recently as the 1990's but each of them has had excellent political and business leadership and has experienced strong revival. Philadelphia's downtown was looking shabby as recently as the early 1990's but it has retained many of its key businesses (large law firms) and has become an arts and entertainment center. It has also prided itself on being a gay-friendly metropolitan area. PEI's development fits right into a revival of the Philly metro area. The DC area really took off in the late 90's and is continuing to grow at a solid pace. PEI should benefit from this. Its mall in Prince George's County is being redeveloped and should attract substantial business from the one part of the metro area which is currently starved for quality retail.

Asset Valuation - PEI's lenders have a provision in which the interest rate on certain debt instruments is based on the ratio between gross asset value and total liabilities. Under this ratio, total liabilities have recently been calculated to be 49% of gross asset value (based on the company's Q2 financial supplement on page 31). Using this formula to calculate gross asset value ($3.7 billion) and then subtracting total liabilities and preferred stock ($2.19 billion), we can calculate the net asset value as $1.51 billion or $19.46 a share. At its current price, PEI is trading at a discount of 46% to net asset value. This formula is reasonably reliable because lenders have no incentive to inflate gross asset value (it would cost them interest income).

Performance - PEI has seen a slight decline in FFO and AFFO in 2017 and this (plus the mall revulsion issue) is likely the reason for the precipitous decline in its share price. AFFO for the first six months is down from 85 cents per share to 74 cents per share. This is largely due to the sale of malls and other properties and the loss of revenue from those properties. Most statistics at retained properties are actually up year over year. Management is projecting FFO between $1.68 and $1.72 for the full year. At this level, PEI is selling at a **very cheap 6.2 times FFO**. PEI is engaged in large scale construction projects - including but not limited to the Fashion District. As these projects are completed and come on line, revenue and FFO should increase in 2018 and 2019. Capital expenditures are projected to decline from $190 million in 2017 to $180 million in 2018, $80 million in 2019, and some $50 million in 2020.

Having raised cash by selling off properties, PEI is in a reasonably solid balance sheet position. It has a $400 million untapped credit line which should help cover upcoming capital expenditures. Its weighted average cash interest rate is 3.8%, and **96% of its debt is fixed interest or swapped to fixed interest**, which significantly reduces the impact of any further rate hikes by the U.S Fed.

PEI appears to be well positioned to complete its asset sale program and capital expenditures at which point it will be a **high-end mall operator** generating more cash flow and FFO than the current level.

Recent Developments - Since the end of its last reporting period (6/30/17), PEI has been busy. It has issued new Preferred D shares and redeemed old Preferred A shares reducing its dividend rate from 8.25% to 6.875% (a savings of $1.6 million a year). It sold an office property for $30.8 million and sold the Logan Valley Mall (which had Sears, J.C. Penney and Macy's as anchor tenants).

Dividend History - Dividends have been slowly increasing since 2011.

- They were at the 15 cents per quarter level form Q1 11 to Q1 12.
- Then at 16 cents from Q2 12 to Q4 12.
- Then at 18 cents from Q1 13 to Q3 13.
- Then at 20 cents from Q413 to Q4 14.
- They have been at 21 cents per quarter since Q1 2015.

We should not anticipate an increase until the period of intense capital expenditure ends in late 2018 or early 2019. With guidance FFO at a mid-point of $1.70, PEI has 202% coverage of its current dividend. This makes it likely that we will see an increase after the period of heavy capital expenditure is completed.

Risks - With a relatively high concentration in two metropolitan areas, PEI is exposed to the risk of secular decline in the economic performance and growth of either of these areas. PEI has sold some of its lesser malls at very high cap rates (in the 15% range). This should give investors some pause in terms of the implied private market value of mall assets. While the malls that were sold had much lower sales per square foot than the malls that have been retained, the very high cap rate at which these sales took place is sobering. The basic risk is the risk that all bricks and mortar retailers face. The danger is that the migration of consumers to on-line retail will accelerate at a faster pace than anticipated and that retailers and their landlords will not have time to adjust.

Investors should also note that prices of Mall REITs have been volatile lately. Readers who wish exposure to PEI with less price volatility can consider their newly issued preferred stock **Pennsylvania Real Estate Investment Trust, 6.875% Cum Red Perpetual Preferred Share D** (PEI-PD) which currently yields above 6.8%.

Bottom Line - A lot of negative expectations are already priced into PEI, resulting in a dirt cheap valuation. PEI also has a plausible growth scenario as the Fashion District comes on line and other construction and improvement projects are completed. The dividend seems very safe here and, if the Fashion District works out as planned, we could see a big pop in the share price in 2018 and 2019. In the meantime, investors are getting paid a hefty dividend to wait for a likely strong price recovery. PEI is a **strong buy** here for both the 8.0% yield and long-term capital gains.

On Nov. 10th:

Retail Malls at a Bottom or Close

We believe we have reached a bottom or a near bottom on Retail Malls for several reasons:

1. Investor sentiment on the sector is at its worst, which is a bullish sign. By looking at volumes traded, it looks like panic selling by retail investors seems to be over. Panic selling was exasperated by several financial analysts who were bullish on the sector, suddenly changing their minds.

2. The sector has become so cheap that private equity companies are starting to consider buyouts. Remember that several companies such as WPG, CBL and PEI are trading at around 50% or less their respective "Net Asset Values".

3. **Macey's** (M), a large retailer, reported last night a mixed earnings report. Despite this, M rallied 11% taking up with it most Mall REITs including WPG (up 4.9%), CBL (up 6.0%), and PEI (up 5.4%). The reason? Investors were expecting more negative numbers. Too much bad news was priced in.