January 2019

From the front page of Friday's WSJ:

Stocks Post Best January in 30 Years

By Amrith Ramkumar

Banks and smaller companies propelled stocks to their best January in 30 years, a sign that investors are favoring sectors tied to the U.S. economy.

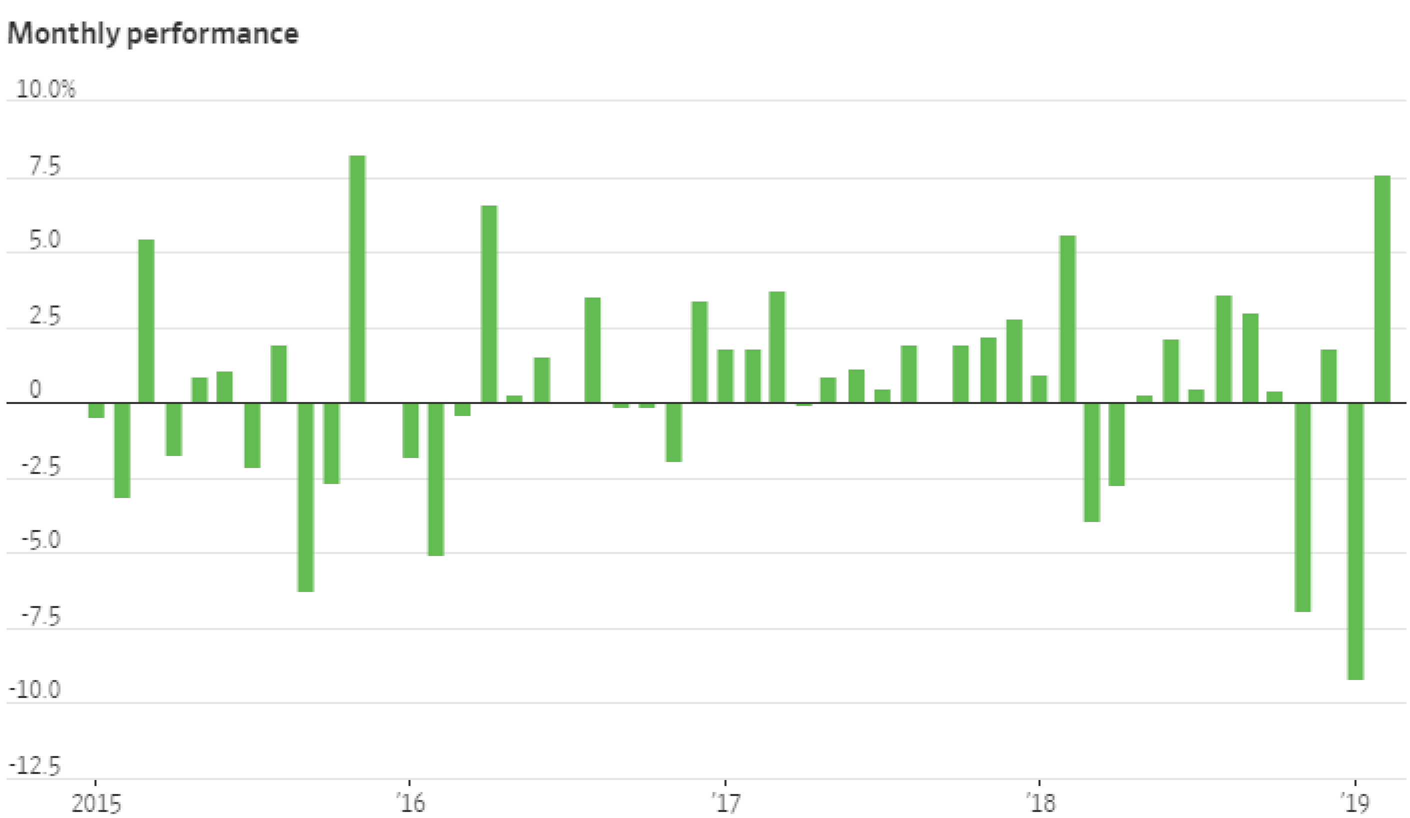
Those groups were among the biggest laggards during the fourth quarter's steep slide. Their reversal suggests that investors who were bracing for a sharp slowdown in U.S. economic activity have been soothed by cautious comments from the Federal Reserve, signs of strength in the labor market and data pointing to tepid inflation.

The Fed's statement Wednesday that interest-rate increases are on hold helped ease investors' worries that higher rates would increase borrowing costs and curtail corporate profits. Cautious comments from central-bank officials including Chairman Jerome Powell throughout the month also fueled the stock rally.

Despite a mixed performance Thursday, the Dow Jones Industrial Average and the S&P 500 both closed with their biggest monthly gains since October 2015. The blue-chip index's 7.2% rise was its best January performance since 1989, while the S&P's 7.9% advance marked its best start to the year since 1987. …

Sharp Rebound

The S&P 500 had its best month in more than three years following December's slump.



Source: FactSet

To be sure, indicators used by investors to monitor the strength of the domestic economy have also stabilized. That has helped to spur the rally in small-cap companies, which are more concentrated in the financial, industrial and energy sectors. Shares of battered industrial and energy companies also powered the market rally in January.

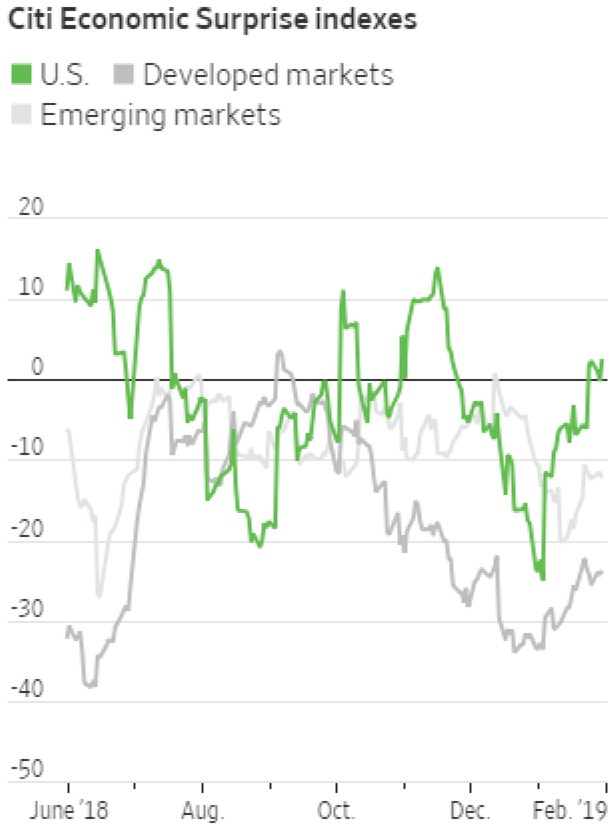
The gap between short- and long-term Treasury yields, known as the yield curve, has widened from its December lows, indicating investors feel more confident about the economic outlook. A steepening yield curve also tends to support financial stocks because banks often borrow money on shorter time horizons and lend with longer time frames.

Additionally, commodities including oil have recovered, cooling worries that materials vital to the transportation and manufacturing industries were signaling an immediate slowdown in U.S. demand. U.S. crude-oil prices are still 30% below October's multiyear highs. But they have risen back above the $50-a-barrel level that some analysts said signals sufficient demand, yet haven't climbed high enough for investors to fear a surge in inflation.

And the Citigroup economic surprise index for the U.S.—a measure of whether economic data are in aggregate exceeding expectations—recently turned positive for the first time in two months. …

Back on Top

Growth figures in the U.S. have started to broadly beat expectations, according to an index that tracks economic surprises.



Note: Positive reading means figures are generally topping projections; negative means they are missing them.
Source: Citigroup via FactSet

Some investors had feared higher borrowing costs would threaten corporate profits, but companies in the S&P 500 have so far reported a stronger-than-expected 12% jump in fourth-quarter earnings from a year earlier, FactSet data show. Although that clip is expected to fall this year, small-cap companies are still projected to post double-digit profit gains throughout 2019. …

From Bespoke:

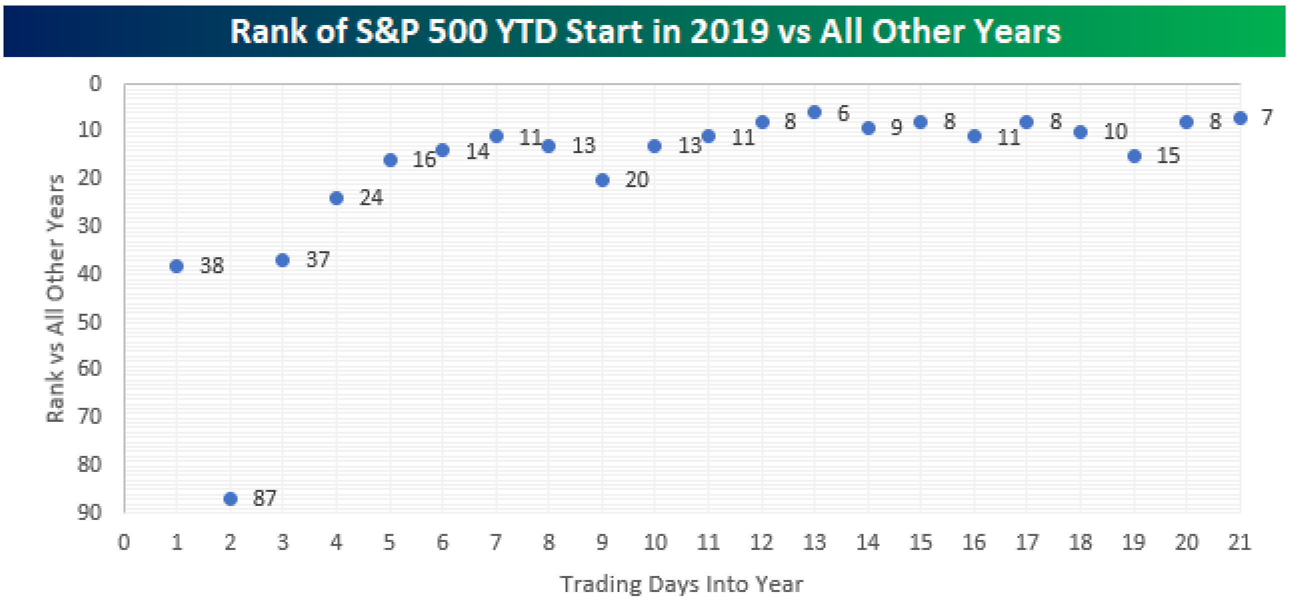
… Change Comes Fast

Feb 1, 2019

… You don't need us to tell you that change comes fast in the markets (as well as business in general). The last several weeks are a perfect example, and we don't even have to go as far back as December to illustrate that. The chart below shows how the S&P 500's YTD performance stacked up to all other years since 1928 for each trading day so far in 2019.

The year started off innocently enough on January 2nd, when the S&P 500 was up slightly, putting the start to the year right in the middle of the pack at 38th place relative to all other years. Things changed quickly, though, after the close on the 2nd when Apple (AAPL) lowered guidance. On January 3rd (the second trading day of the year), the S&P 500 declined 2.5%, putting the YTD loss at 2.35%. That swoon quickly sent the rank of the S&P 500's YTD change two days into the year at 87th out of 91, or the 5th worst of all time! Equities quickly rebounded from there on the January 4th, sending the YTD ranking back up to 37th out of 91. From there, the YTD performance steadily improved and by the close yesterday, the S&P 500 was off to its 7th best start to a year (after 21 trading days) of all time. Quite a change from four weeks earlier!

The point here is that while equities and other asset classes usually do tend to follow trends, those trends can and will change, and when they do it often happens quickly. Therefore, just as it wouldn't have been a good idea to pack it in and go home and January 3rd thinking it would be a horrible year, now that the S&P 500 is off to its 7th best start to a year in history doesn't necessarily mean investors can put things on 'auto-pilot' from here.



From the New York Times:

This interactive graphic charts the stock market's rise, fall and tentative rise again over the last two years, and how Trump's moves in office have shaped its run. While well done, it is a common mistake to attribute every move in any market to the latest news, or in Trump's case tweet. As the current correction once again demonstrated, Sentiment often determines how events are interpreted.

From Elliott Gue on January 3rd:

... its rare to see a bear market in the S&P 500 – defined as a closing peak to trough correction of 20% or more – without a recession in the US.

In fact, there are only two recession-less bear markets in the S&P 500 since 1937 out of a total of 12 bear markets. The first came in 1966, when the S&P 500 experienced a peak-to-trough decline of about 22% with a high in February 1966 and a low in early October. That's an 8-month decline, and the market did reach new highs by the autumn of 1967, so this bear market was mild in terms of duration and severity.

In that cycle, the US economy showed no real signs of weakness until the summer of 1966, months after the S&P 500 had peaked and after it was already trading about 10% below its February highs. And the 1966-67 period of economic weakness turned out to be nothing more than a soft patch as the next US recession didn't start until late 1969.

The second instance was 1987. That bear market resulted in a roughly one-third decline in the value of the S&P 500 from a peak in late August and culminating in the October 1987 crash. The market then regained its 1987 heights in the middle of 1989. So, the 1987 cycle was severe in percentage terms but short in duration (the move from high to low took less than two months). The next US recession started in 1990.

US Bear Markets Since 1937

Recession (Lead in Months)	Bull Market Peak	Bear Market Low	Months Duration	Maximum Decline (%)
Yes (-2)	3/10/37	3/30/38	12.7	-54.5
Yes (After)	5/29/46	5/19/47	11.7	-28.5
Yes (-12)	8/2/56	10/22/57	14.7	-21.6
Yes (After)	12/12/61	6/26/62	6.5	-28
No	2/9/66	10/7/66	7.9	-22.2
Yes (-18)	11/29/68	5/26/70	17.9	-36.1
Yes (-10)	1/11/73	10/3/74	20.7	-48.2
Yes (-8)	11/29/80	8/9/82	20.3	-27.3
No	8/25/87	12/4/87	3.3	-33.5
Yes (0)	7/16/90	10/11/90	2.8	-19.9
Yes (-12)	3/24/00	10/9/02	30.5	-49.1
Yes (-2)	10/9/07	3/9/09	17	-56.8
		Average	**13.8**	**-35.5**
		Average w/ Recession	**15.48**	**-37.0**

Moreover, most of the '87 decline came in a single trading day – Black Monday October 19, 1987 -- when the S&P 500 plummeted 20.47% in one session. It's also likely that "portfolio insurance," basically a popular strategy used by many funds to use the S&P futures market to hedge a portfolio of stocks was a major driver of that crash rather than economic fundamentals.

At the same time, since 1937 the S&P 500 has experienced an average of 3 corrections of 5% or more per year and 1 of 10% or more. (A market pullback of less than 10% is not technically a "correction".) Therefore, nasty corrections – in the 10% to 19.99% range – are far more common (40 times more common over the past 80 years) than recession-less bear markets.

In addition, one of the most common characteristics of the latter stages of a bull market is that the frequency and severity of market pullbacks and corrections picks up. Thus, the two 10% plus corrections this year are fairly typical of this stage of the cycle.

... the indicators I follow suggest a modest slowdown for the US economy and nothing on the radar even approaching a recession. More broadly, our Deep Dive Investing Bear Market Checklist – a group of 10 economic and market indicators that signal trouble before the start of bear markets – still does not indicate a true bear market is imminent. ...

And that brings me to 2,344.60. That's the level at which the S&P 500 must close to see a peak-to-trough decline on a closing basis of exactly 20% below its 2,930.75 closing high on September 20th. My point is that the common definition of a bear market is a bit arbitrary.

After all, the S&P 500 experienced a 14.2% closing peak-to-trough decline in 2015-16 and a 19.39% decline between April and October 2011 and neither of those moves were considered bear markets even though they were painful and rather scary for those of us who experienced them in real time.

Bottom line: With the US economy still on solid footing, probability suggests the pullback from late September highs is a nasty correction, not the beginning of a bear market.

Moreover, even if we do meet the technical definition of a bear market, the 1966 experience suggests it will be mild and short-lived. I am looking for the S&P 500 to reach new all-time highs this year.

And, I'll inch just a little further out on this limb and say that, based on historic precedent, I believe we're close to the lows of this pullback.

So Mom & Dad are having breakfast one morning on the Majestic Princess with some other passengers during the depths of the correction. One of the couples were middle-aged school teachers. Upon hearing that Dad is an Investment Manager the husband shared that he recently inherited a million dollars, has zero risk tolerance, and so invested the whole amount in CDs. Aaron Brown from his book, Red Blooded Risk: "Taking less risk than is optimal is not safer; it just locks in a worse outcome. Taking more risk than is optimal also results in a worse outcome, and often leads to complete disaster." From Meb Faber on January 24, 2019:

How Safe are Risk Free Treasury Bills?

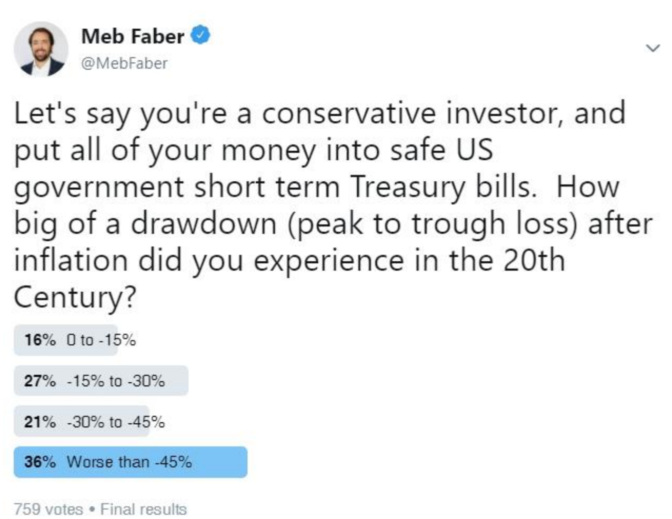
When trying to engineer a "stay rich" portfolio, it makes sense to start with what the investing community refers to as the "risk-free" rate – most often, we find this as the rate of current Treasury bills.

Many investors believe T-bills to be the safest, most conservative investment available. In fact, if you look at T-bills back to 1926, they returned 3.4% per year with zero drawdown or losses. Pretty safe, right?

Not exactly.

These are nominal returns, and nominal returns are an illusion because they don't take inflation into account. All that matters to any investor is returns *after* inflation (and taxes), or what we call *real returns*. And if you measure the returns of T-bills after inflation you see a different story – unfortunately, this is a story most investors haven't seen.

I recently asked my Twitter followers ...



The actual real max drawdown was a whopping 49%!

But as you can see, two-thirds of those who answered got this wrong. These are very intelligent people with far greater investing experience than most, yet they seriously underestimated the losses in short-term bonds.

So, the risk-free rate isn't risk free at all. (And by the way, I'm ignoring other global sovereign bond markets including some that produced a 100% loss.)

What about other asset classes? Might real returns be safer elsewhere?

Unfortunately, no. The losses are even worse when we expand our analysis to other asset classes. Below are max real drawdowns back to 1926.

The naysayer might look at this and say "These are max drawdowns that likely played out over several years. A smart investor would have gotten out after, say, one year of bad returns."

With that in mind, the below table highlights the worst 12-month period of real returns for each of the aforementioned asset classes. As you can see, nothing was truly "safe".

Real After Inflation 1926-2018	Cash (T-bills)	US Stocks	Foreign Stocks	US 10Yr Bonds	For 10Yr Bonds	Gold
Return	0.5%	6.8%	4.7%	2.1%	1.7%	1.6%
Max Drawdown	-49%	-79%	-78%	-61%	-78%	-85%
Worst 12 months	-17%	-64%	-57%	-23%	-42%	-42%

It could be reasonable to argue that people would prefer a slow erosion of wealth to a sharp loss, and in this case, T-bills do indeed look safest on these metrics.

However, the slower erosion of bonds might appear less painful at first glance, but consider the analogy of the frog and the boiling water. As the analogy goes, if you throw a frog into a pot of boiling water, it will feel the pain and jump right out. But if you put a frog into a pot of cool water then turn on the burner, the frog will remain in the water until it boils.

The slow erosion of wealth with T-bills is a bit like the frog sitting in water that's simmering toward a boil. ...

Positions

CGBD – A 2% position in this BDC was purchased on 1/9 @ 14.24 for a client focused on Capital Appreciation that was switching from all Funds to a portfolio that includes individual stocks.

Insider Buying:

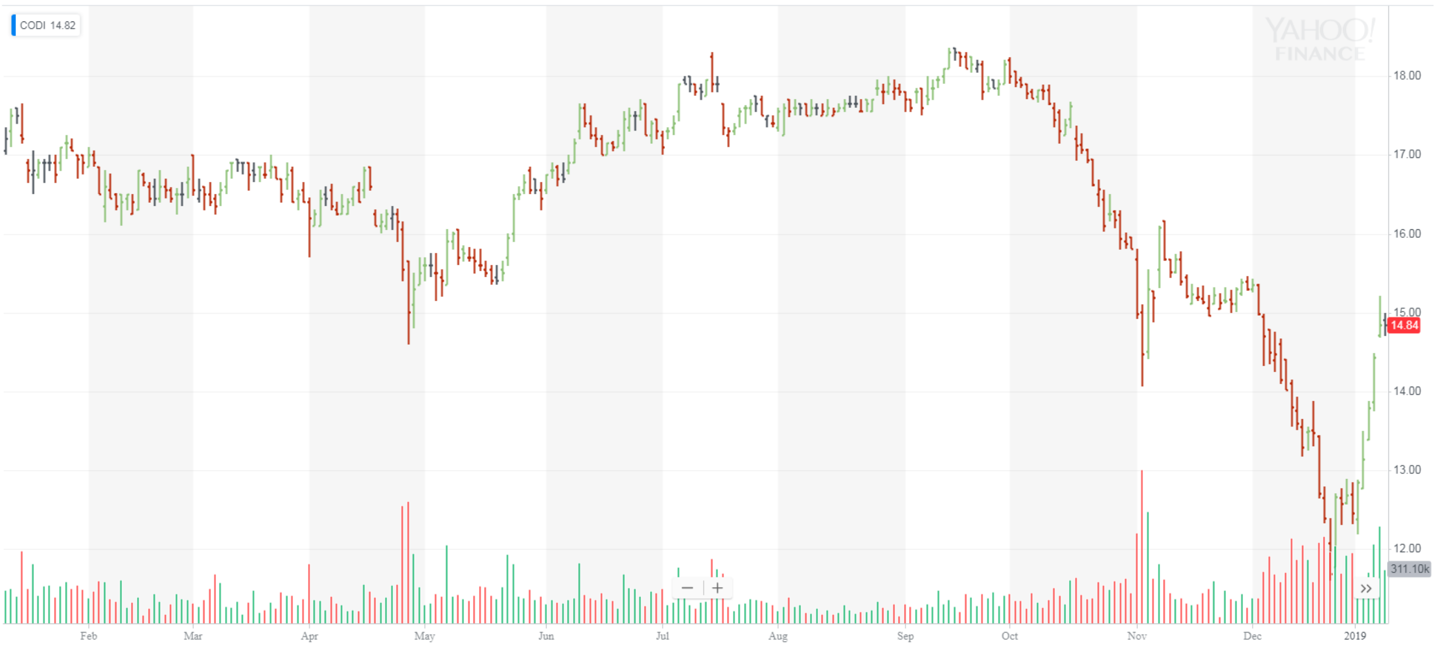
Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
12/10/2018	3	HART MICHAEL A, RATHI VEN		6,475
12/07/2018	1	HENNIGAN THOMAS M		1,200
12/06/2018	2	HART MICHAEL A, HENNIGAN		4,050
12/03/2018	1	HART MICHAEL A		6,500
11/29/2018	1	HART MICHAEL A		6,500

On January 2nd our BDC analyst "purchased additional shares of CGBD at an average price of $12.34." The Summary from his December 6, 2018 20 page updated report:

- CGBD has covered its dividend by an average of 114%over the last 8 quarters and has accumulated $0.20/share of undistributed income over the last 3quarters that will be paid as a special dividend to be declared in the next two weeks.
- CGBD had $113 million of cash at the end of Q3 2018 due to "drawings under our credit facilities at quarter end to provide for investments that were closing in early October". This would imply strong portfolio growth for Q4 2018 and have taken into account with the updated projections.
- On November 5, 2018, the Board approved a $100 million stock repurchase program. The stock is currently trading 15% below NAV and I am expecting accretive repurchases especially given the ability to use higher leverage.
- CGBD is likely to use higher leverage (as approved by shareholders) and has now received all approvals needed from its borrowing facilities.

- NAV per share declined 1.5% due to additional write-downs of its previously discussed non-accrual investments: Tweddle (completed a restructuring), Product Quest (completely written down), and SolAero Technologies.
- However, CGBD remains in the Risk Averse portfolio with no additional non-accruals now only 0.8% of the portfolio FV that remains 80% first-lien assets, having covenants on over 90% of the loans in the portfolio highly diversified by sector.

CODI – A 2% position was purchased for the same client noted above on 1/9 @ 14.83.

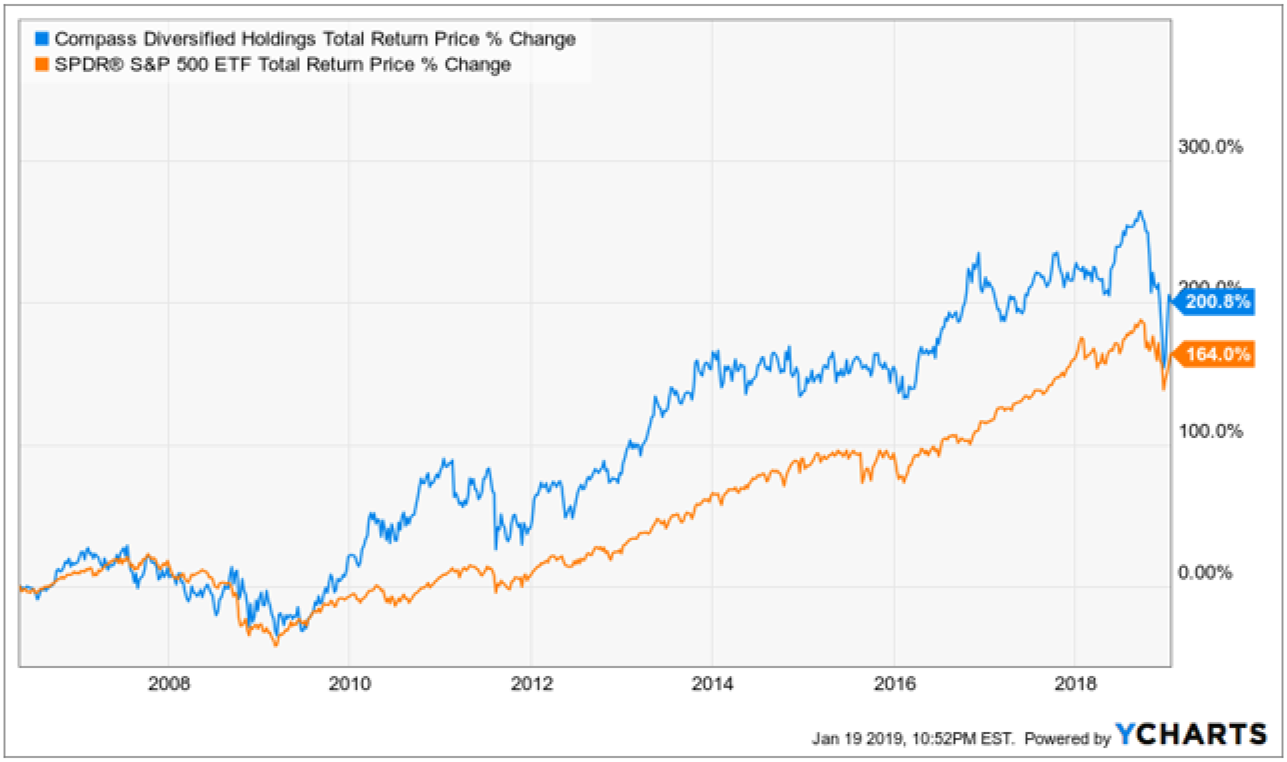


Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
01/03/2019	6	DAY C SEAN, BOTTIGLIERI JA		46,337
12/14/2018	3	CGI DIVERSIF HLD, BURNS G		32,000
12/13/2018	3	CGI DIVERSIF HLD, BURNS G		59,350
12/12/2018	2	SABO ELIAS J, BURNS GORDO		28,900
11/20/2018	1	BOTTIGLIERI JAMES J		2,500
11/05/2018	2	SABO ELIAS J, EDWARDS HAR		53,431

From High Dividend Opportunities on Jan. 25, 2019:

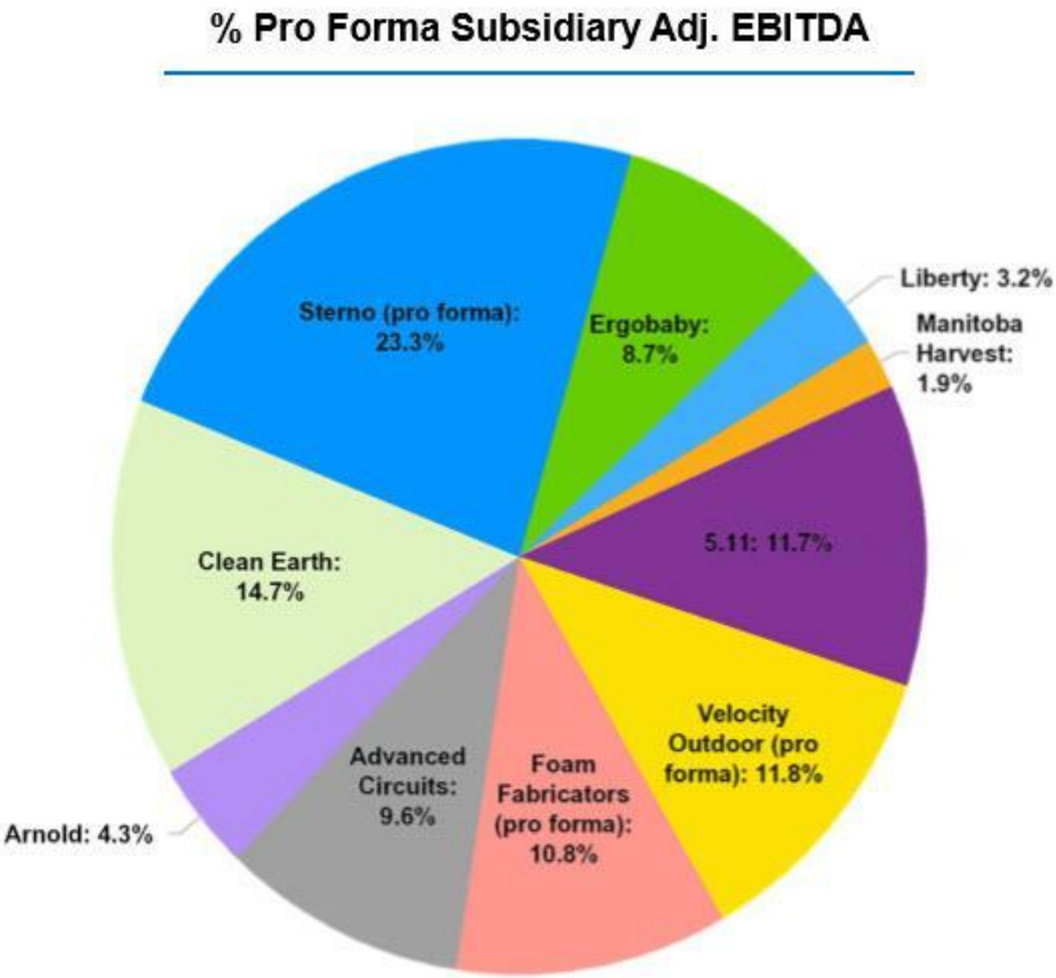
... Compass Diversified Holdings (CODI), a publicly traded "private equity" firm that acquires and operates middle market businesses in North America. The company is externally managed by Compass Group Management LLC which has been successfully acquiring and managing middle market companies for over 30 years. **This is a battle tested company** that has gone through the great financial crisis of 2007-2008 and managed to outperform the S&P 500 index during the period (including the great bear market related to the financial crisis). Below is the chart comparing the "total returns" of Compass versus the S&P 500 index since the year 2006.



Note that Compass **did not cut or reduce the dividends** to common shareholders during and after the financial crisis. Now that is pretty remarkable. The stock currently pays **a very generous yield of 10.0%**.

The company was established as a publicly traded partnership to avoid paying taxes at the corporate level, and as such, investors receive K-1 tax forms. ...

Compass **currently owns ten companies** which comprise the asset base and cash flow generation of the Company. Its primary source of income is interest and principle payments on loans it has extended to its platform companies. Compass has direct access to the cash flow of the underlying platform companies (they are subsidiaries) and uses this to service its own debt and dividends.



What is important to note is that Compass is highly diversified into leading brands and growing businesses, producing consistent cash flow and earnings growth. Five of these businesses are consumer businesses and the other five are industrial businesses.

The branded consumer businesses are:

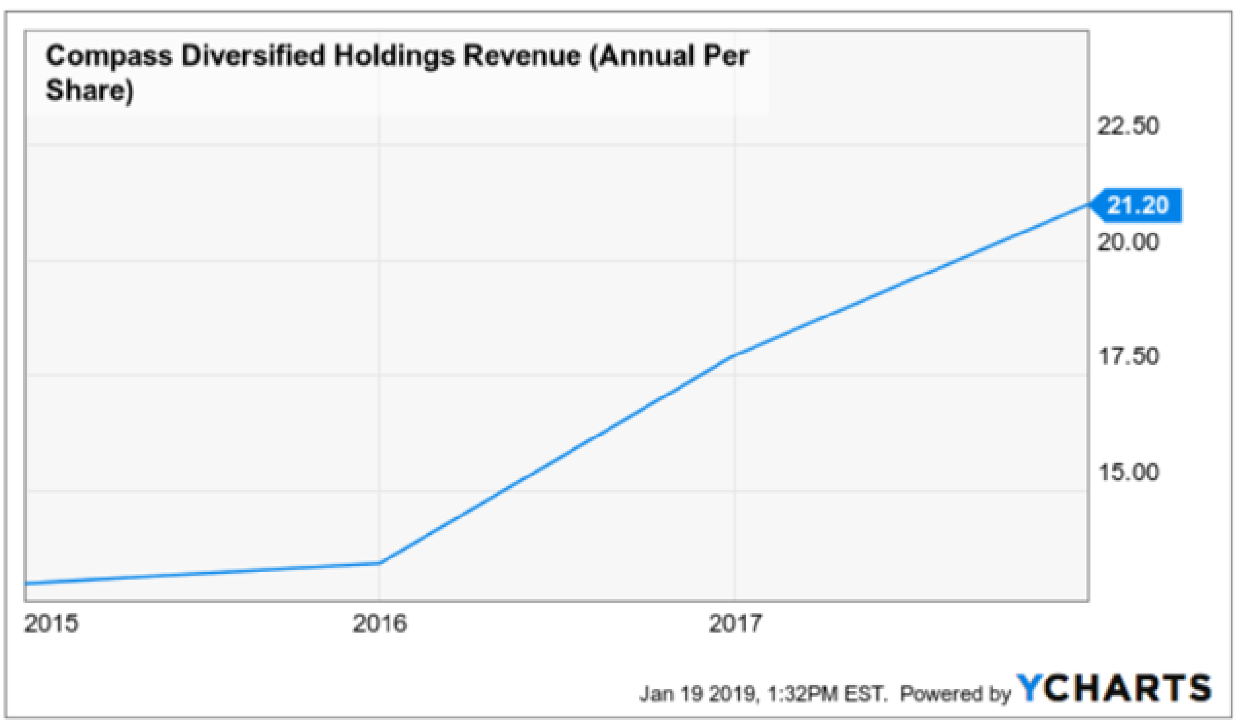
- **5.11** is a provider of tactical apparel and gear for first responders and military special operations as well as for outdoor and adventure enthusiasts. It was acquired for $408 million in 2016.
- **Velocity Outdoor** is a designer, manufacturer, and marketer of air-guns, archery products, laser aiming devices, and related accessories. It was acquired for $150 million in 2017. Compass changed the name from Crosman when it added acquisition Ravin to it this year.
- **Ergobaby Carrier** provides a broad range of baby care products including carriers, strollers, car seats, swaddlers, nursing pillows. It was acquired for $85 million in 2010.

- **Liberty Safe and Security Products** is a designer, manufacturer and marketer of premium home, office and gun safes. It was acquired for $70 million in 2010.
- **Manitoba Harvest**, based in Winnipeg, Manitoba, is a pioneer and leader in the manufacture and distribution of branded, hemp-based foods and ingredients. It was acquired for $103 million in 2015.

The niche industrial companies are:

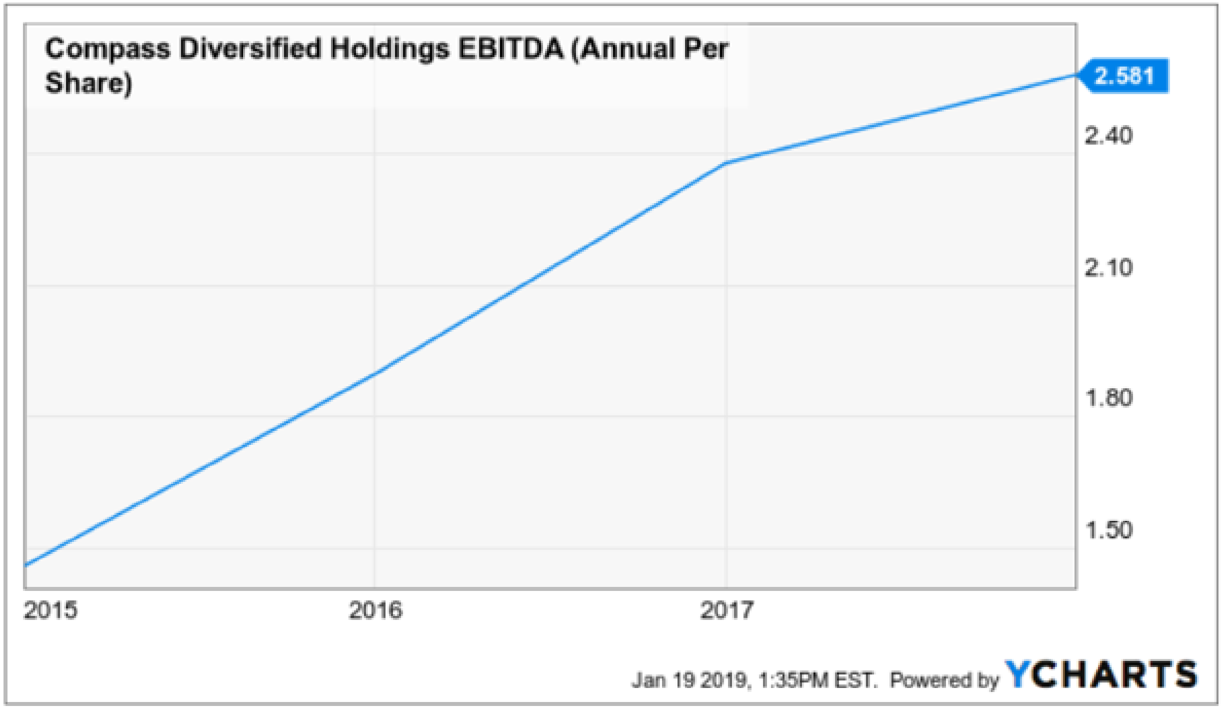
- **Compass Advanced Circuits Holdings** is a provider of small-run, quick-turn, and volume production rigid printed circuit boards, or "PCBs", throughout the United States. PCBs are a vital component of virtually all electronic products. It was acquired for $81 million in 2006.
- **Arnold Magnetics** is a global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets. Its products include high performance permanent magnets, precision foil products, and flexible magnets. It was acquired for $129 million in 2012.
- **Clean Earth Holdings** is a provider of environmental services, acting as a one-stop solution that analyzes, treats, documents, and recycles waste streams generated in multiple end-markets. It was acquired for $251 million in 2014.
- **Sterno Group** is a manufacturer and marketer of portable food warming devices and creative table lighting solutions for the food service industry. It also provides flameless candles and outdoor lighting products for consumers. It was acquired for $160 million in 2014.
- **Foam Fabricators** is a designer and manufacturer of custom molded protective foam solutions and OEM components made from expanded polymers such as polystyrene and polypropylene. It was acquired in February of 2018 for $247.5 million.

Since the IPO in 2006, Compass has purchased 19 companies like this (it calls them platforms). They have also purchased 28 of what they call add-ons, which are basically bolt on acquisitions for the platform companies. It most recently divested Camelbak in 2015. It has realized more than $770 million in gains from divesting 9 of the platforms it has purchased.



Compass has been a fast growing company in terms of revenues, EBITDA and earnings.

Revenue per share has been increasing fast since 2015, by about 60%. That has certainly helped earnings increase and shows that management has been implementing its strategy effectively.



Since 2015, earnings (as measured by EBITDA per share) have been also increasing at a fast pace **by over 60% in the past 4 years alone**.

CODI's Debt

Handling debt well is very important. For companies that are capital intensive, and acquiring middle market companies like CODI does is capital intensive, it's important to borrow enough. But at the same time, borrowing too much can result in debt costs eating all of your cash flow.

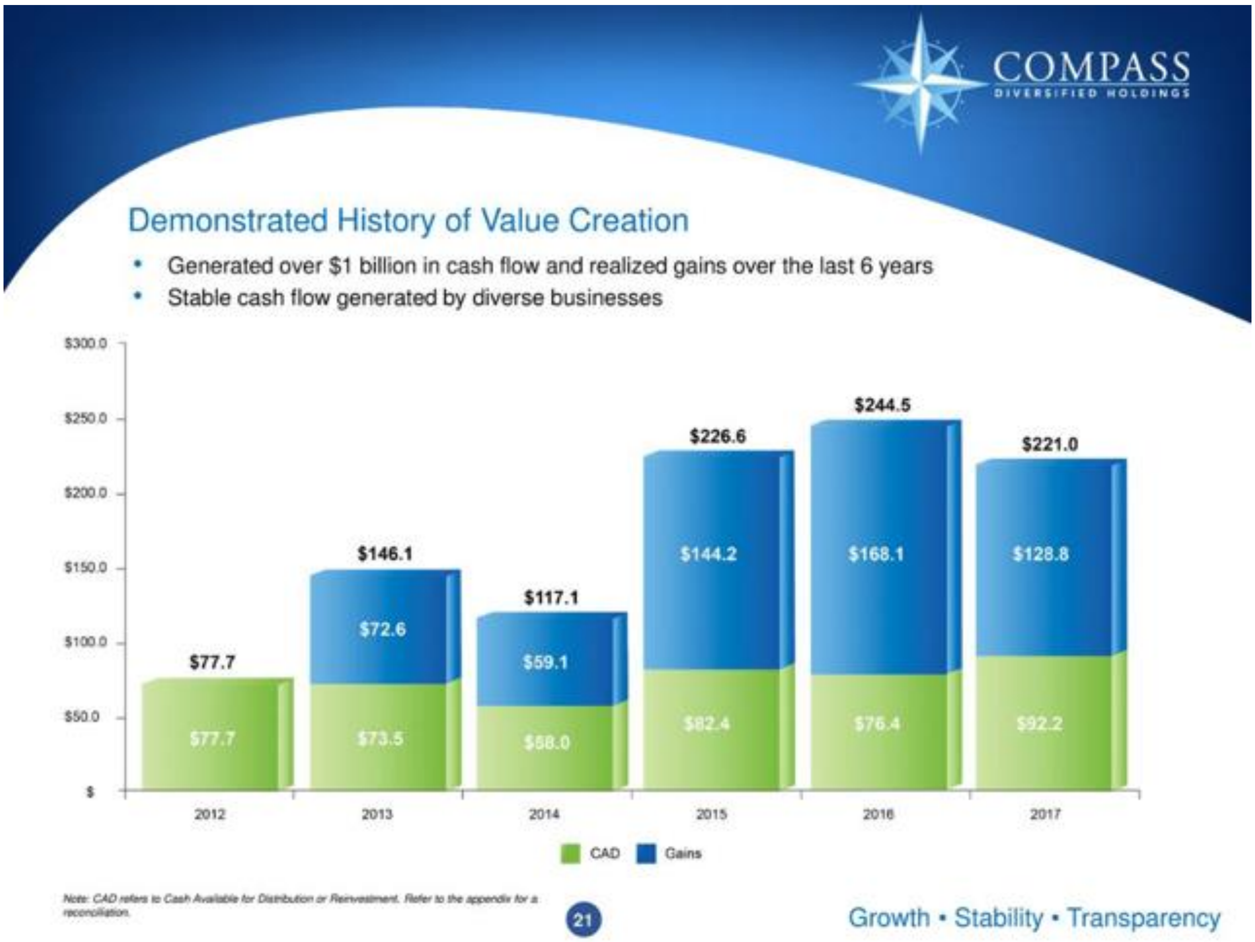
The current leverage based on the company's latest 10-Q reports **was at 3.85 times EBITDA** which is reasonable and well below the debt covenants requirement to be below 5.0 times.

- Total EBITDA for the first 9 months of 2018 was reported as $183.4 million, with total interest expense of $35.5 million.
- Preferred share distributions were $8.4 million for the period.
- Cash flow available for distribution or reinvestment was $70.7 million (distributions for preferred shares are already subtracted from this number).
- Distribution for the common units was $64.7 million. Leaving some $6 million after all interest payments, and distribution payments (both common and preferred) were paid.
- **The dividend coverage on the common is at 1.09 times CAD.** ...

Risks

There are 2 main risks that investors need to be aware of.

1- The External Manager: Compass has an external manager with a long track record, but it has been labeled by some analysts as **not very much aligned with shareholders**. The reason is that the fees of this management are mainly **based as a percentage of "assets under management"** rather than based on the profitability of the company or on the share price performance. This has resulted in the company growing enormously, but common shareholders did not benefit much because the profits are constantly used to further grow Compass's portfolio. As a result, the dividends have not increased despite fast growing EBITDA.



We agree with this criticism, and we believe that management's compensation should be changed to become based on the performance of the stock price and/or the profitability of the company. Still, putting things into perspective, the common stock CODI has outperformed the S&P 500 index since the year 2006, and therefore management has done well so far with common shareholders.

2- Recession Risks: While the company is a battle tested one and did not even reduce the dividends during the great financial crisis, the current dividend coverage for the common shares is not very high, just at 1.09 times. The cash flow, specifically CAD (Cash Available for Distribution) while on an upward trend may not increase in case we hit a recession. This could lead to a situation where Compass doesn’t have enough cash flow to meet all of its needs. Furthermore, in addition to the recurrent income from its underlying subsidiaries, Compass generates additional income by buying and selling businesses, and in case of a recession, this line of business could under-perform. Given that the dividend coverage on the common shares is not as high as we like to see, there is a risk of a dividend reduction in case of a weakening economy.

Insiders Are Buying ...

Purchases and sales of stocks by insiders **is always of interest to us**, and we monitor this very closely, especially for stocks that we recommend to our investors. Compass insiders have been active in purchasing shares over the last 3 months.

Filing Date	Trade Date	Ticker	Insider Name	Insider Title	Trade Type	Price	Qty	Owned	ΔOwn	Value
2019-01-07 16:17:55	2019-01-03	CODI	McCoy Sarah Gaines	See Remark (a)	P - Purchase	$13.30	+7,473	12,206	+158%	+$99,418
2019-01-07 16:17:01	2019-01-03	CODI	Ewing D Eugene	See Remark (a)	P - Purchase	$13.31	+7,473	75,473	+11%	+$99,463
2019-01-07 16:16:09	2019-01-03	CODI	Edwards Harold S	See Remarks (a)	P - Purchase	$13.30	+7,473	59,045	+14%	+$99,410
2019-01-07 16:15:16	2019-01-03	CODI	Edwards Harold S	See Remarks (a)	P - Purchase	$13.30	+7,473	59,045	+14%	+$99,410
2019-01-07 16:14:23	2019-01-03	CODI	Day C Sean	See Remarks (a)	P - Purchase	$13.30	+8,972	610,440	+1%	+$119,356
2019-01-07 16:13:18	2019-01-03	CODI	Burns Gordon M	See Remark (a)	P - Purchase	$13.31	+7,473	237,626	+3%	+$99,455
2019-01-07 16:12:11	2019-01-03	CODI	Bottiglieri James	See Remark (a)	P - Purchase	$13.31	+7,473	65,167	+13%	+$99,433
2018-12-18 16:33:43	2018-12-17	CODI	Anholt Investments Ltd.	10%	P - Purchase	$18.94	+5,726	257,586	+2%	+$108,457
2018-12-18 16:02:39	2018-12-14	CODI	Ewing D Eugene	See Remark (a)	P - Purchase	$13.61	+4,000	68,000	+6%	+$54,451
2018-12-17 19:18:58	2018-12-13	CODI	Anholt Investments Ltd.	10%	P - Purchase	$14.67	+83,449	8,372,708	+1%	+$1,224,210
2018-12-17 16:04:32	2018-12-13	CODI	Faulkingham Ryan J	See Remark (a)	P - Purchase	$13.69	+3,000	9,341	+47%	+$41,070
2018-12-14 19:54:23	2018-12-12	CODI	Burns Gordon M	See Remark (a)	P - Purchase	$16.53	+20,250	230,153	+10%	+$334,808
2018-12-13 16:51:36	2018-12-11	CODI	Anholt Investments Ltd.	10%	P - Purchase	$18.40	+26,465	236,411	+13%	+$487,050
2018-12-13 14:09:24	2018-12-12	CODI	Sabo Elias	See Remarks (a)	P - Purchase	$14.22	+25,000	585,549	+4%	+$355,485
2018-12-11 16:42:09	2018-12-06	CODI	Anholt Investments Ltd.	10%	P - Purchase	$18.17	+26,446	209,946	+14%	+$480,509
2018-11-20 16:52:49	2018-11-20	CODI	Bottiglieri James	See Remark (a)	P - Purchase	$15.18	+2,500	57,694	+5%	+$37,950
2018-11-07 16:04:32	2018-11-05	CODI	Sabo Elias	See Remarks (a)	P - Purchase	$15.35	+50,000	560,549	+10%	+$767,315
2018-11-06 16:26:33	2018-11-05	CODI	Edwards Harold S	See Remarks (a)	P - Purchase	$14.50	+3,431	51,572	+7%	+$49,750

We summarize the activity:

1. CEO Elias Sabo has made 2 big purchases, bumping his share count by more than 12% between the 2 transactions and paying more than the current share price. With these purchases, totaling more than $1 million, Sabo now owns about 585,549 shares (or just under 1% of the outstanding shares).
2. Six directors all purchased more than 7,000 shares at the start of the year in what looks like an attempt to bolster share price with a show of confidence. While these purchases were just under $100K and not a big proportion of total outstanding shares, they do represent a significant increase in share count for 5 of the 7 directors. Sean Day, one of the 2 where the purchase wasn't a big one, already owns more than 1% of outstanding shares.
3. Large shareholder (owns more than 10% of the shares) Anholt Investments has made multiple purchases of the common and both preferred issues. They **purchased ... some 68,000 of the common share**. Other than the January buy, all these purchases have been at prices at or above the current market price.

Given that CODI is externally managed, these insider purchases are very important. By having officers of the outside management company also invested in shares makes them more aligned with the interests of common shareholders. ..

CTT – 2% positions in this Timber REIT were purchased on 1/9 for 4 clients @ 7.82 and 1 @ 7.99.

Insider Buying:

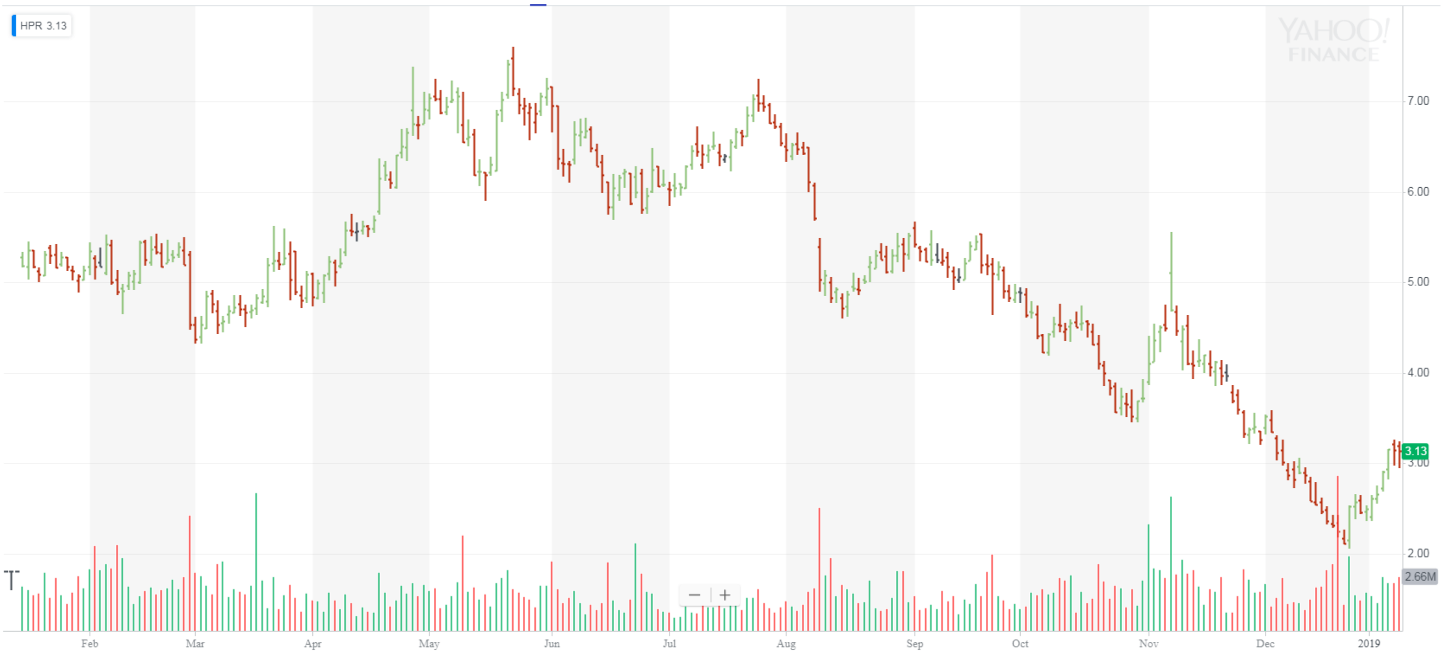
Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
12/14/2018	2	ZIGTEMA HENRY G, BARAG JE		7,000
12/13/2018	1	REITZ TODD		5,000
12/12/2018	2	Fisher Paul S, MOSS DONALD		10,000
12/06/2018	2	DAVIS BRIAN M, Solomon Le		5,175
12/03/2018	1	RUBENSTEIN DOUGLAS D		1,056
11/28/2018	1	MOSS DONALD S		5,000
11/06/2018	2	Fisher Paul S, BARAG JERRY		5,500

From the January issue of Forbes Real Estate Investor:

Timber: The timberland sector has fallen steeply in 2018 due to the weakness in lumber prices. As mentioned in the November issue, this is a shame because the market seems to be throwing **CatchMark** (CTT) in with peers despite the company having an entirely different approach to the timberlands market.

Peers like **Weyerhaeuser** (WY) and **PotlatchDeltic** (PCH) have thrown capital towards building out manufacturing facilities, which rode high as lumber prices skyrocketed in early 2018 but have since collapsed back towards more normalized levels. CTT does not do this. As the only publicly-traded timber pure-play, CatchMark is in the enviable position of holding that real timberland heritage while trading at a dirt-cheap valuation against its acreage. We maintain a STRONG BUY on CTT.

HPR – A 1% position in this DJ basin E&P was purchased on 1/9 @ 3.09 for the client noted above.



Insider Buying:

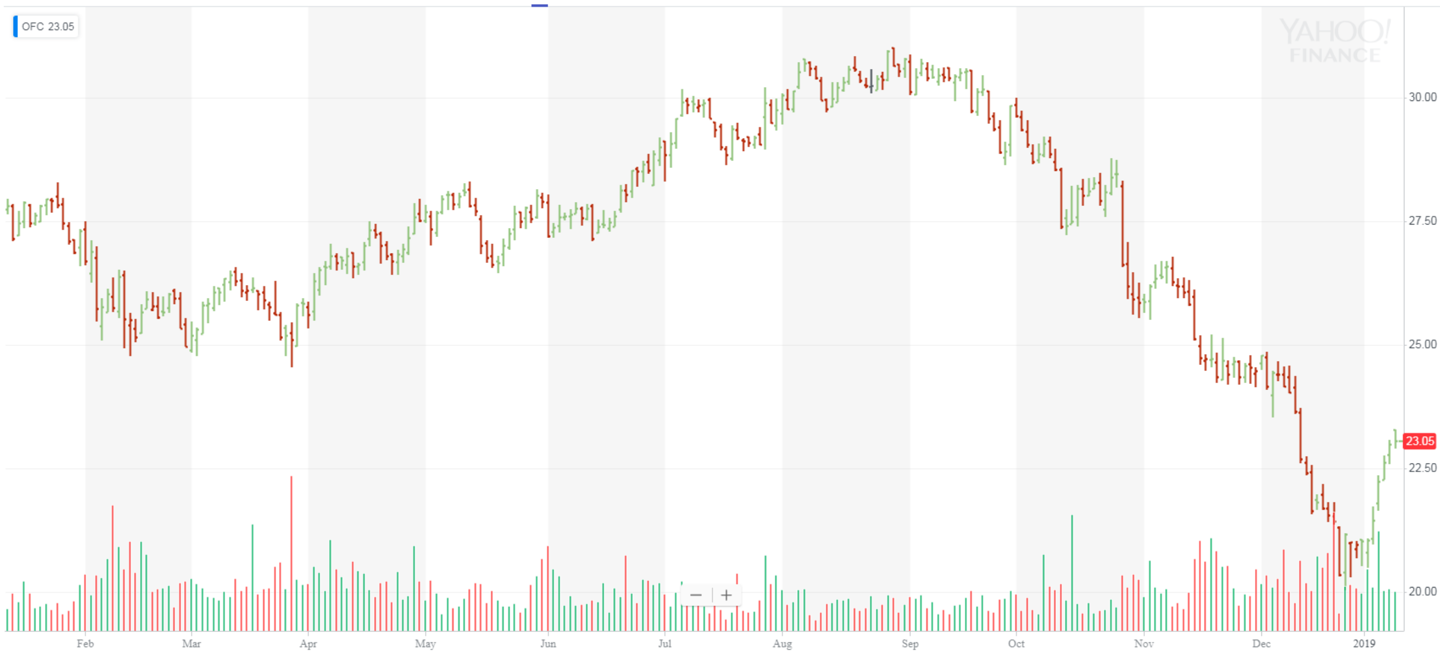
Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
12/14/2018	1	LANCASTER LORI A		10,000
12/10/2018	1	SCHINDLER TROY L		100,000
12/07/2018	2	SCHINDLER TROY L, GEIGER		40,000
12/06/2018	1	GEIGER III PAUL W		15,000
11/28/2018	1	SCHINDLER TROY L		15,000
11/27/2018	1	SCHINDLER TROY L		10,000

From 1 of our 2 Energy analysts on Dec. 4th:

The Basic Story: Pure play DJ Basin Player with two acreage pods and nearly 2,900 potential locations. The acreage is oily and their production is oilier than their Wattenberg player peers and getting oilier by the quarter. It's also highly contiguous and rural. It's a small cap, high growth name that is significantly reducing outspend in 2019, with a solid balance sheet and an OK hedge book that provides stability to 2019 cash flow. We took a decent position prior to the November election with the thought that Colorado would not pass the new setback rules. They didn't but then oil fell and took many smaller names with no 2018 chart support to new lows. We see that as a mismatch given their outlook and valuation. ...

Nutshell: Way Too Cheap. We own a 4% position in HPR, taken at $4.99 just prior to the defeat of the setback proposition vote in Colorado. Celebrations were extremely short lived and with the tumble in oil in November the name is off 32% YTD and 17% alone in the fourth quarter. We are likely to add to this position near term.

OFC – A 2% position in this Office REIT was purchased on 1/9 @ 23.14 for the client noted above.



Insider Buying:

Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
12/31/2018	1	BUDORICK STEPHEN E		1,206
12/27/2018	1	KESLER STEVEN D		500
12/24/2018	1	BUDORICK STEPHEN E		1,213
12/14/2018	2	HAWKINS PHILIP L, BUDORI(		5,615
12/13/2018	2	TRIMBERGER LISA G, BUDOR		3,035
12/11/2018	1	BUDORICK STEPHEN E		990
12/07/2018	1	BUDORICK STEPHEN E		1,127
12/06/2018	1	BUDORICK STEPHEN E		2,070
11/19/2018	1	BUDORICK STEPHEN E		4,023
10/31/2018	1	BUDORICK STEPHEN E		610
09/25/2018	1	BUDORICK STEPHEN E		527