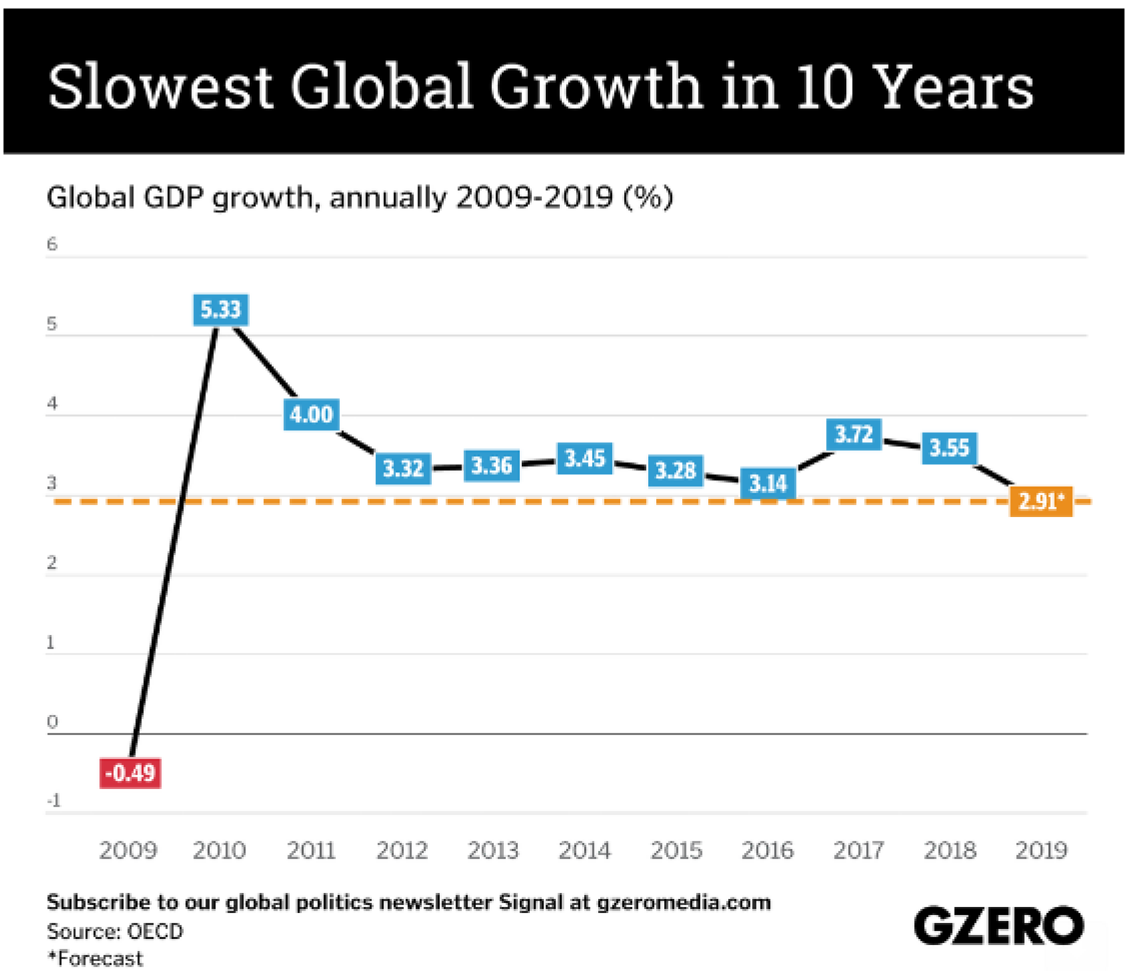
November 2019

"You gotta buy 'em when nobody wants them…when everyone hates 'em you buy 'em. When everyone wants 'em you sell it to 'em." - Carl Icahn

November saw Momentum prevail over Sentiment, which, as last shared on November 3rd, remains at extreme optimism. The current consensus on Wall Street is that slow global growth without a US recession will keep inflation, and therefore interest rates, low. In the category of what everyone wants: US stocks, especially large tech, and yield, with many REITs having finally become fully valued. In the category of what everyone hates: Foreign stocks, Small Caps, and Energy.

From Tuesday's Signal:

The world's economy is set to grow at its slowest pace since the global financial crisis a decade ago, according to the OECD, a group of industrialized nations. The gloomy forecast notes that governments aren't doing enough to deal with big structural changes like US-China trade tensions, climate change, or the digital revolution. The last time the global economy nose-dived, countries were able to muster enough collaboration to coordinate a global response. But given the profound dysfunction of the international order these days, it's hard to imagine countries doing the same again if things take a turn for the worse. Here's a look at global GDP growth over the past decade as measured by the OECD.

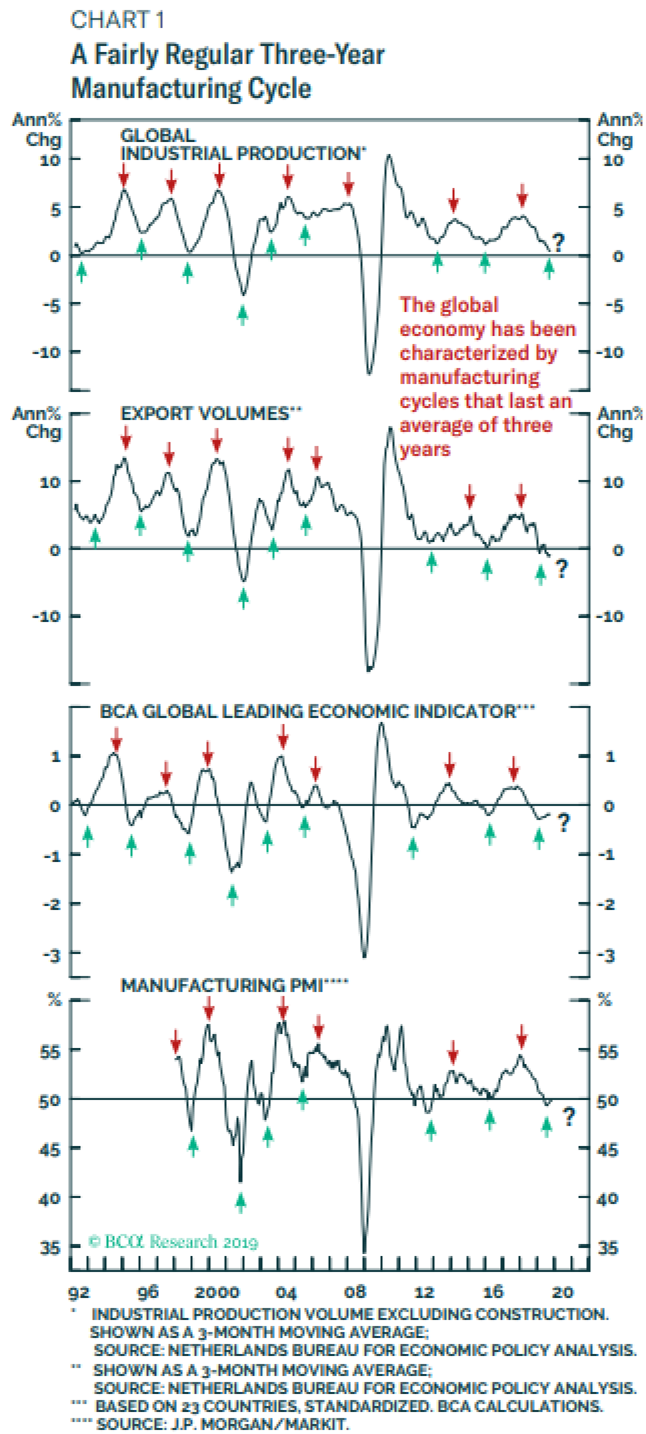


From BCA Research's Global Investment Strategy's November 29th Weekly Report:

The Debt Supercycle Endgame: Deflation Or Inflation?

Stay Bullish On Stocks But Shift Towards Non-US Equities

We returned to a cyclically bullish stance on global equities following the stock market selloff late last year, having temporarily moved to the sidelines in June 2018. We have remained overweight global equities throughout 2019. Two weeks ago, we increased our pro-cyclical bias by upgrading non-US stocks within our recommended equity allocation at the expense of their US peers.



Our decision to upgrade non-US equities stems from the conviction that global growth has turned the corner.

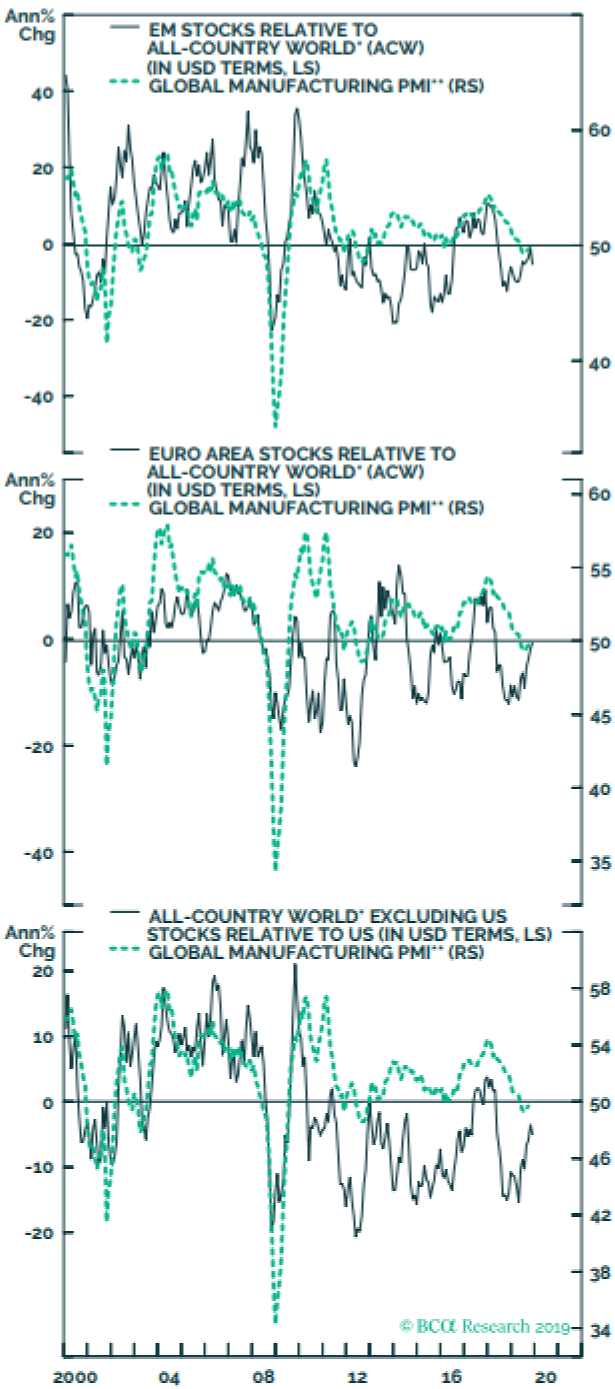
Manufacturing has been at the heart of the global slowdown. As we have often pointed out, manufacturing cycles tend to last about three years – 18 months of weaker growth followed by 18 months of stronger growth (**Chart 1**). The current slowdown began in the first half of 2018, and right on cue, the recent data has begun to improve. The global manufacturing PMI has moved off its lows, with significant gains seen in the new orders-to-inventories component. Global growth expectations in the ZEW survey have rebounded. US durable goods orders surprised on the upside in October. The regional Fed manufacturing surveys have also brightened, suggesting upside for the ISM next week.

Unlike in 2016, China has not allowed a major reacceleration in credit growth this year. Instead, fiscal policy has been loosened significantly. The official general government deficit has increased from around 3% of GDP in mid-2018 to 6.5% of GDP at present. The augmented budget deficit – which includes spending through local government financing vehicles and other off-balance sheet expenditures – is on track to reach nearly 13% of GDP in 2019. This is a bigger deficit than during the depths of the Great Recession. As a result of all this fiscal easing, the combined Chinese credit/fiscal impulse has continued to move up. It leads global growth by about nine months.

The dollar tends to weaken when global growth strengthens. The combination of stronger global growth and a softer dollar will disproportionately benefit cyclical equity sectors. Financials will also gain thanks to steeper yield curves. The sector weights of non-US stock markets tend to be more tilted towards deep cyclicals and financials. As a consequence, non-US stocks typically outperform when global growth picks up (**Chart 7**). In addition, valuations favor stocks outside the US. Non-US equities currently trade at 13.8-times forward earnings, compared to 18.1-times for the US. The valuation gap is even greater if one looks at price-to-book, price-to-sales, and other measures (**Chart 8**).

CHART 7

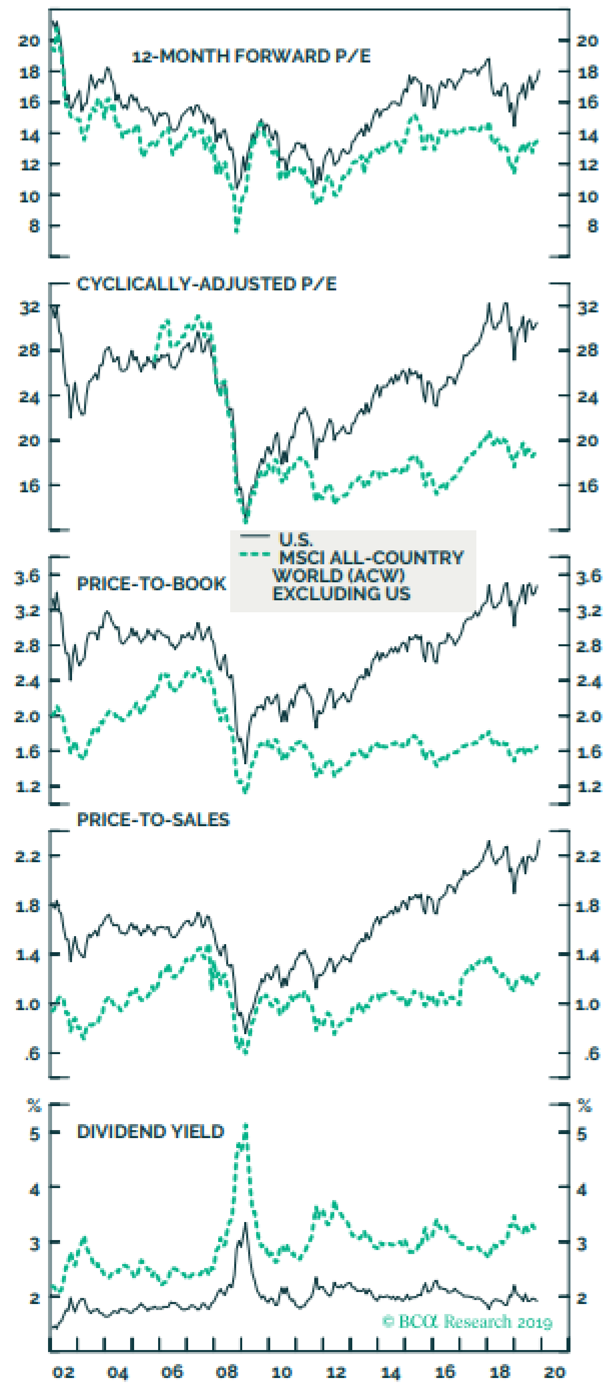
Non-US Equities Usually Outperform When Global Growth Improves



* SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).
** SOURCE: MARKIT / J.P. MORGAN.

CHART 8

US Stocks Are Relatively More Expensive



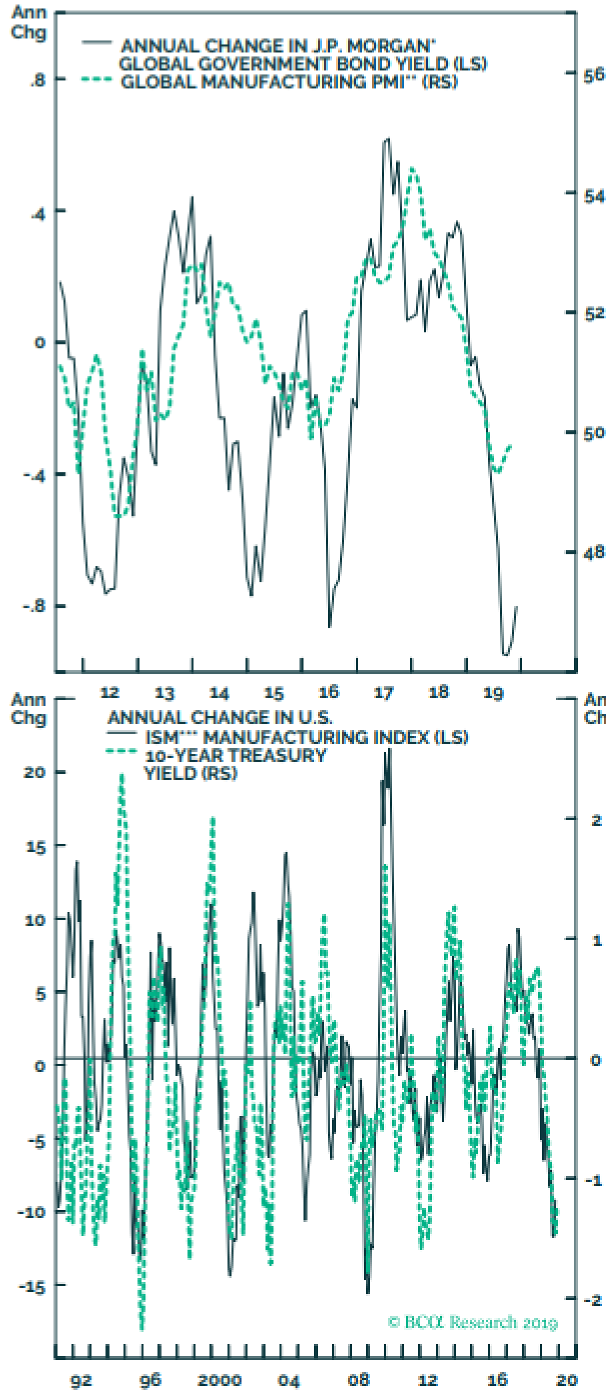
SOURCE: REFINITIV DATASTREAM / IBES, AND MSCI INC.

Trade War Remains A Key Risk

The US-China trade war remains a key risk to our bullish equity view. President Trump continues to send conflicting signals about the status of the talks. He complained last week that Beijing is not “stepping up” in finalizing a phase 1 agreement, adding that China wants a deal “much more than I do.”

This Wednesday he struck a more optimistic tone, saying that negotiators were in the “final throes” of deal. However, he made this statement on the same day that he decided to sign the Hong Kong Human Rights and Democracy Act into law, a decision that was bound to antagonize China.

CHART 9
Stronger Economic Growth Will Put Upward Pressure On Government Bond Yields



* SOURCE: J.P. MORGAN CHASE & CO.
** SOURCE: MARKIT.
*** INSTITUTE FOR SUPPLY MANAGEMENT.

According to our BCA geopolitical team, Trump had little choice but to sign the bill. The Senate approved it unanimously, while the House voted for it 417-1. Failure to sign it would have resulted in an embarrassing veto by the Senate.

The key point is that the new law does not force Trump to take any immediate actions against China. This suggests that the trade talks will continue. In fact, from China's point of view, Congress’ desire to pass a Hong Kong bill may provide a timely reminder that getting a deal done with Trump now may be preferable to waiting until after the election and potentially facing someone like Elizabeth Warren who is likely to make human rights a key element of any deal to roll back tariffs.

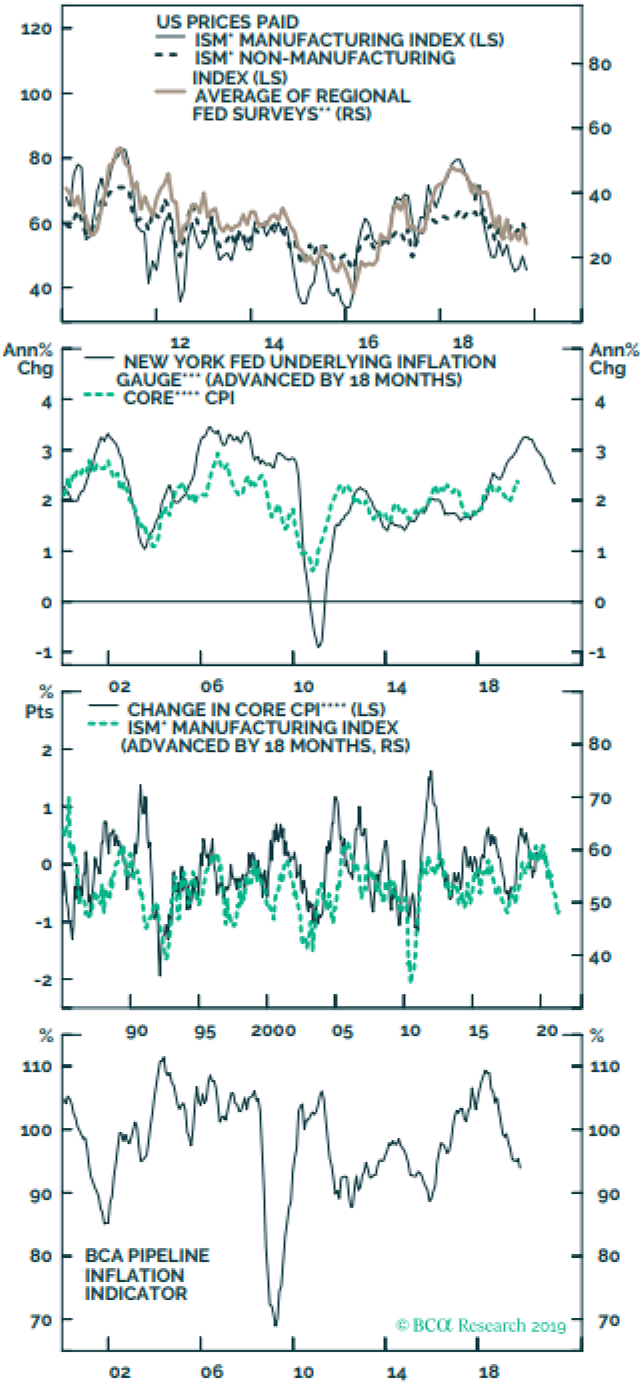
Waiting For Inflation

If global growth accelerates next year, history suggests that bond yields will rise (**Chart 9**). Looking further out, the extent to which bond yields will continue to increase depends on whether inflation ultimately stages a comeback. Right now, most of our forward-looking inflationary indicators remain well contained (Chart 10). However, this could change if falling unemployment eventually triggers a price-wage spiral. ...

Are High Debt Levels Inflationary Or Deflationary?

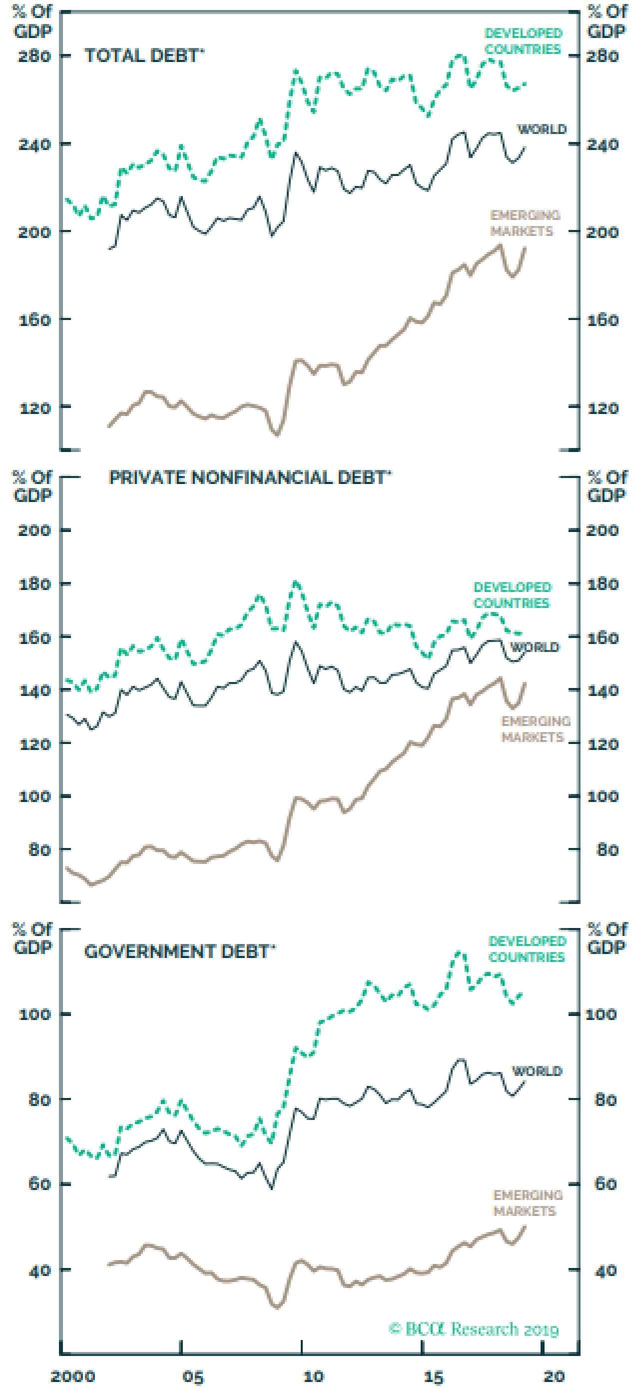
Total debt levels in developed economies are no lower today than they were during the Great Recession. While private debt has fallen, public debt has risen by roughly the same magnitude, leaving the overall debt-to-GDP ratio unchanged (**Chart 11**). Meanwhile, debt levels in emerging markets have risen substantially. ...

CHART 10
An Inflation Breakout Is Not Imminent



* INSTITUTE FOR SUPPLY MANAGEMENT.
** SOURCE: AVERAGE OF PRICES PAID EXPECTATIONS INDEXES (IN 6 MONTHS) FOR THE DALLAS, KANSAS CITY, NEW YORK EMPIRE, PHILADELPHIA, AND RICHMOND FED REGIONAL SURVEYS.
*** TREND INFLATION MEASURE BASED ON BROAD PRICE VARIABLES, MACROECONOMIC VARIABLES, AND FINANCIAL VARIABLES. SOURCE: FEDERAL RESERVE BANK OF NEW YORK.
**** EXCLUDING FOOD AND ENERGY.

CHART 11
Global Debt Levels Remain High



* SOURCE: BIS.

The Final Verdict

... Is the endgame for today’s high debt levels deflation or inflation? The answer is inflation. People with a 30-year fixed rate mortgage will always favor inflation over deflation. And there are more voters who owe mortgage debt than own mortgage debt.

Politics is moving in a more populist direction. Whether it is left-wing populism of the Elizabeth Warren/Jeremy Corbyn variety or right-wing populism of the Donald Trump/ Matteo Salvini variety, the result is usually bigger budget deficits and higher inflation.

Even in those countries where populism has been slow to take hold, there may be pragmatic reasons for loosening fiscal policy. For example, Germany's trade surplus with the rest of the euro area has fallen in half since 2007, largely because German unit labor costs have increased more than elsewhere (Chart 15). As Germany loses its ability to ship excess production to the rest of the world, it may end up having to rely more on easier fiscal policy to bolster demand.

Of course, the path to higher inflation is paved with interest rates that stay lower for much longer than the economy needs to reach full employment. This means we are entering a period where first the US economy, and then many other economies, will start to overheat, and yet central banks will still refrain from tightening monetary policy until inflation rises well above their comfort zones. Such an environment will be positive for stocks for as long as it lasts, even if it eventually produces a mighty hangover.

From Bespoke:

Trump vs. the Average Presidential Election Cycle

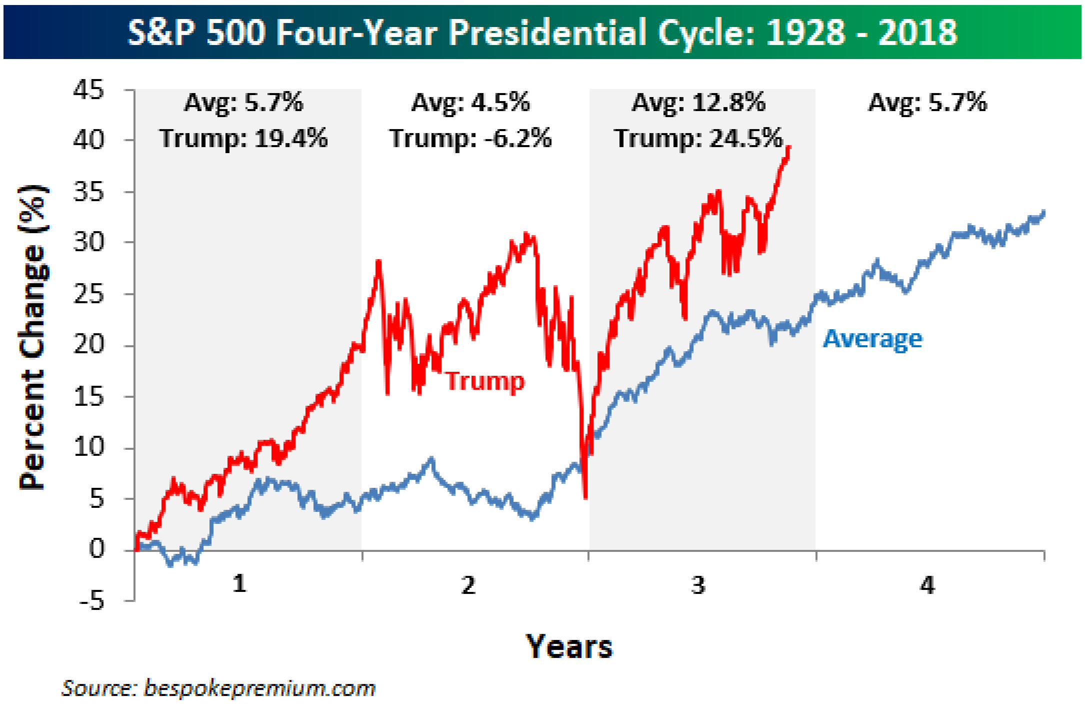
Wed, Nov 20, 2019

With year three of the current four-year Presidential Election Cycle coming to an end in six weeks, below is an updated look at the average performance of the S&P 500 in each year of the cycle going back to 1928. As shown, years one and two have historically been weaker than years three and four of the cycle. The S&P has been up 56.5% of the time in both year one and year two, but the index has been up 81.8% of the time in year three and 72.7% of the time in year four. Year three has been by far the best year of the cycle with an average gain of 12.81%, and the playbook has stuck to the script in year three of the current cycle with the S&P up 24.5% year-to-date. While year four has historically been consistently positive with gains 72.7% of the time, the average change for the S&P in year four (+5.71%) is just barely better than the average change in years one and two.

S&P 500 Avg. Presidential Cycle Returns: 1928-

Year	Average S&P 500 Change (%)	Percent of Time Up (%)
1	5.66	56.5
2	4.54	56.5
3	12.81	81.8
4	5.71	72.7
All Years	7.14	66.7

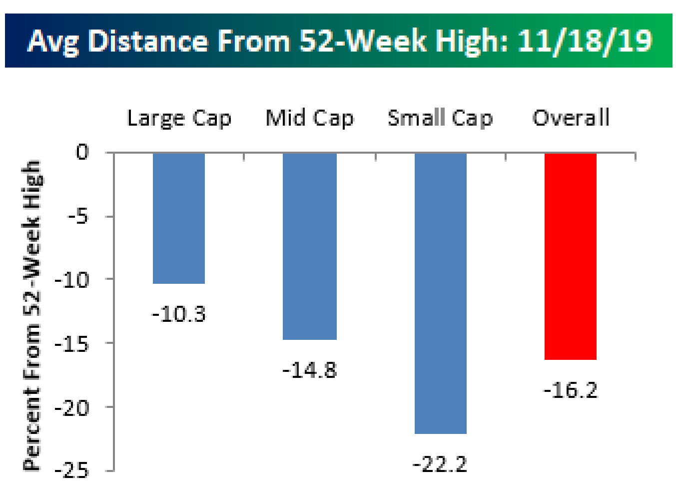
Below we show the S&P 500 under Trump so far versus a composite of the S&P four-year Presidential cycle. The S&P gained 19.4% in year one of the current cycle versus an average year-one gain of 5.7%. Year two is historically the worst year of the cycle with an average gain of just 4.54%, and in Trump's second year, the S&P actually fell 6.2%. So far this year, the S&P is up 24.5% versus the average gain of 12.8% during year three of the cycle. As shown in the chart, year four generally trends positively but experiences pullbacks shortly after Q1 and again in October leading up the Election Day before closing out the year strong.



Which of These Sectors is Not Like the Other

Tue, Nov 19, 2019

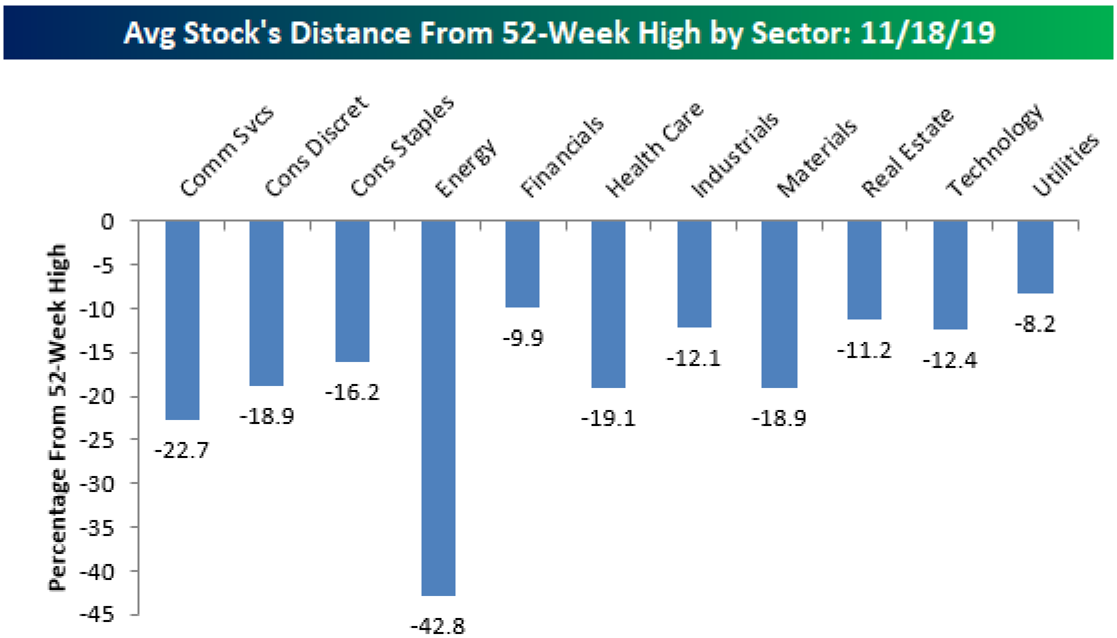
The S&P 500 is right at all-time highs, but if you look at your portfolio or a random list of stocks, with some of the winners there are bound to be some clunkers. Before getting too restless, though, it's important to keep in mind that not all stocks rally or decline in unison with each other. The chart below perfectly illustrates this. In it, we show the average distance that stocks in the S&P 1500 are trading with respect to their 52-week highs. For the S&P 1500 as a whole, stocks in the index are collectively trading an average of 16.2% from their respective 52-week highs. Large-cap stocks in the S&P 500 are the closest to 52-week highs at just a hair above 10%. Mid Caps are down an average of 14.8% while small caps have been the big laggard with stocks in the S&P 600 down an average of 22.2% from their 52-week highs.



Small-cap stocks have been a laggard for the last year, and one of the key drivers of that weakness has been the Energy sector. The chart below shows how far stocks in the S&P 1500 are trading relative to their 52-week highs broken out by sector. It's not often that you see one sector as such a big outlier relative to all the others, but the Energy sector is in a league of its own these days.

Stocks in the sector are more depressed than any other, trading down an average of 42.8% from their 52-week highs. Behind Energy, the next closest sector is Communication Services at an average of 22.7%. That's a spread of more than 20 percentage points between the two sectors with stocks furthest below their 52-week highs!

While stocks in the Energy and Communication Services sectors are the furthest below their 52-week highs, sectors that are the closest include Utilities and Financials:



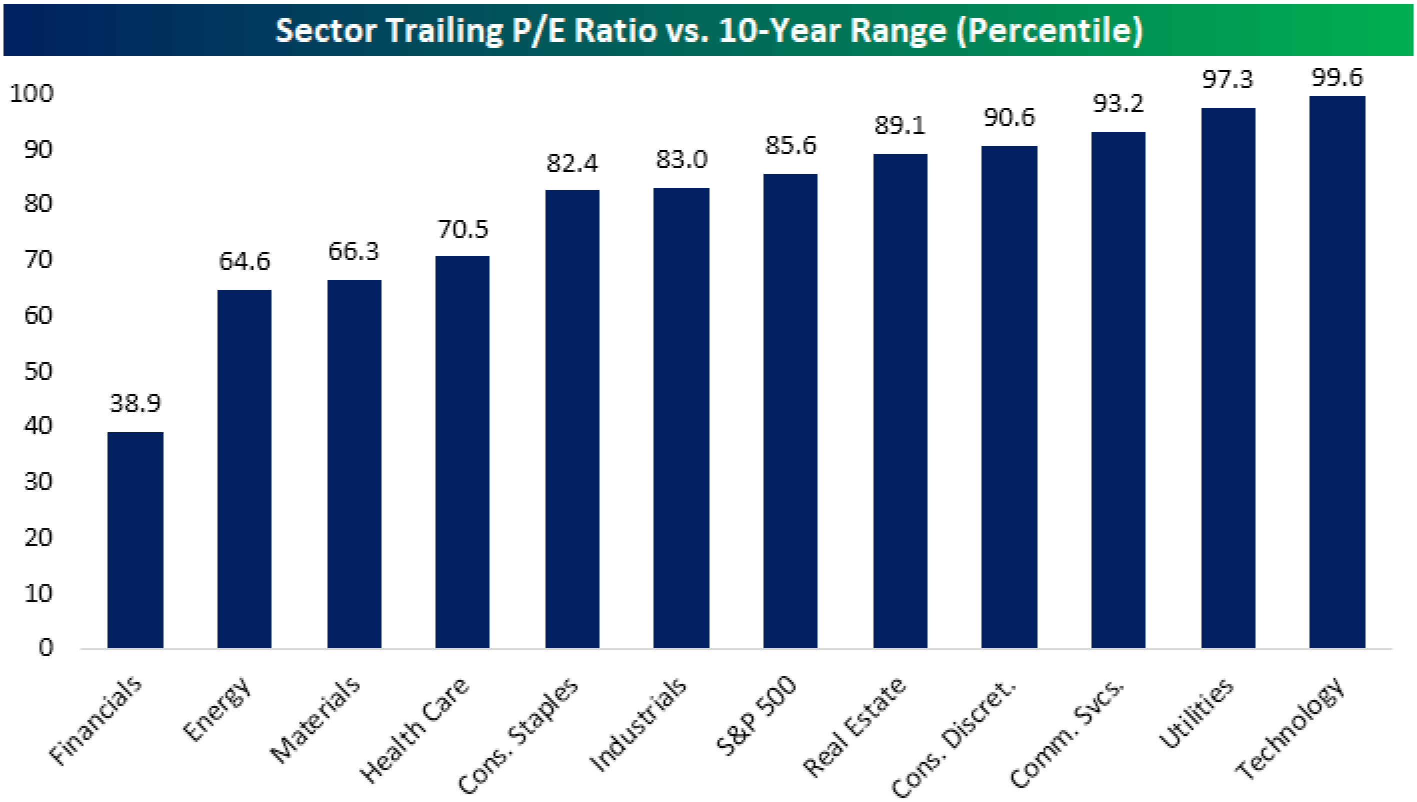
Technology Sector Valuation Has Gotten Elevated

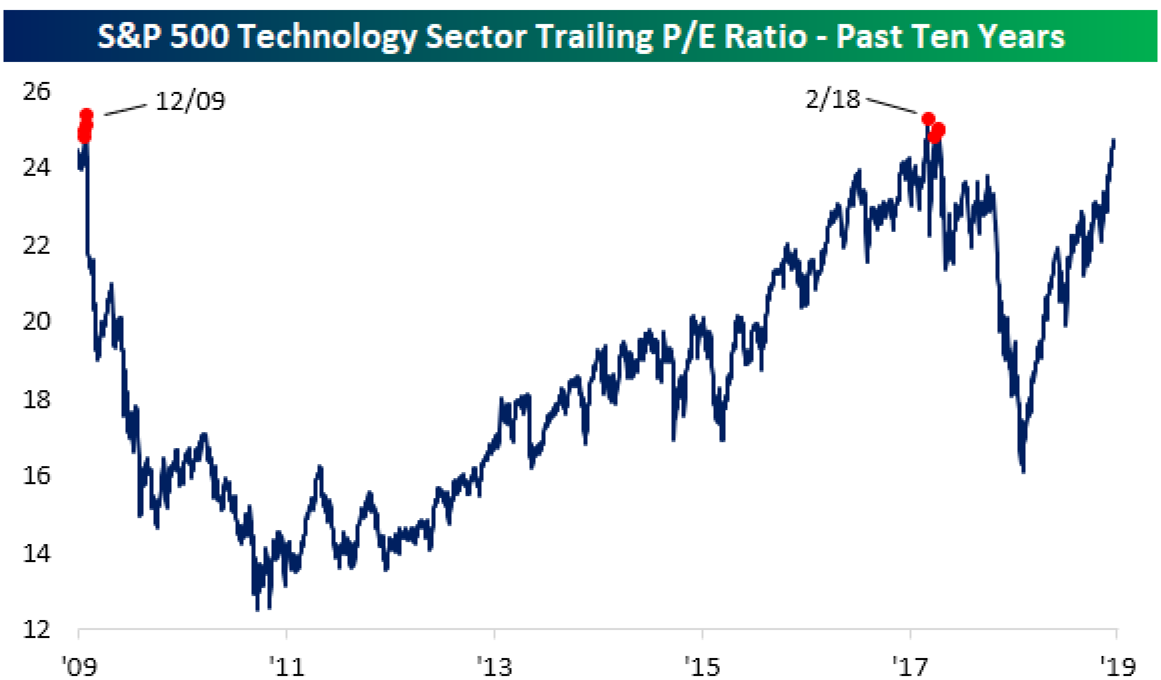
Mon, Nov 18, 2019

... As shown below, the only sector with a current valuation that's in the bottom half of its range over the last ten years is Financials. Every other sector is currently trading with a valuation above the 60th percentile.

Utilities and Technology are currently extremely elevated in the 97th and 99th percentiles, respectively. The trailing price-to-earnings ratios for Consumer Discretionary and Communication Services are also in the top 10% of all days of the past 10 years. Finally, the S&P 500 as a whole has a current P/E that is higher than 89.1% of all readings over the last ten years.

The chart below shows the Technology sector's trailing price-to-earnings ratio over the past ten years. In the time since the dramatic sell-off around this time last year, valuations have more than recovered rising from a low of 16.11x earnings on January 3rd to 24.75 on Friday. In the chart below, the red dots indicate the only times that Tech had a higher P/E than now over the last ten years. As shown, in the past decade there have only been a handful of times, just nine trading days in fact, that the Tech sector's P/E ratio moved above 24.75; 0.4% of all days in that time frame. Those days came in two pockets. One in February and March of last year and the other in late December of 2009. While Tech is at a premium compared to the past decade, it is still well off of levels from the late 1990's/early 2000's around the time of the tech bubble. The current valuation would need to more than triple to reach the 1999 peak of 82.62x earnings.





Follow-ups

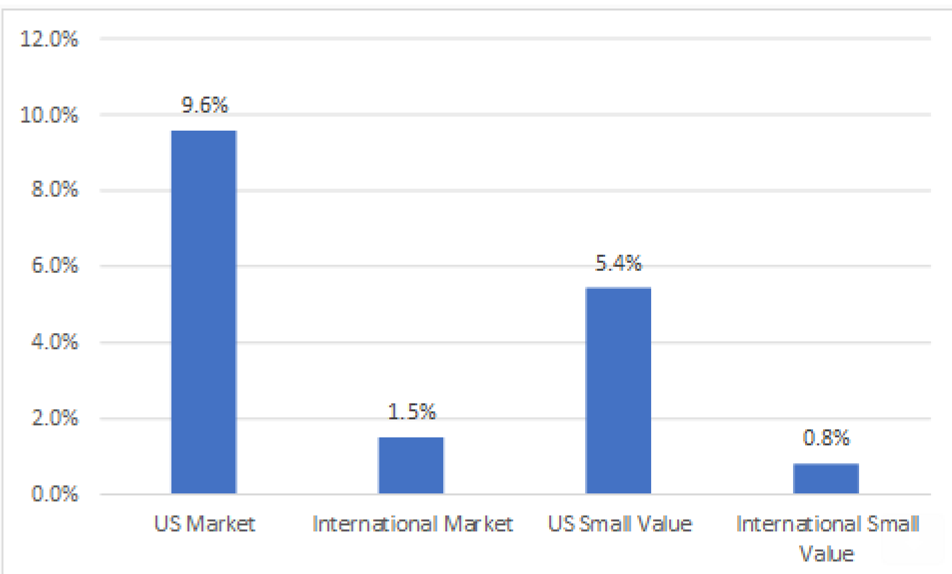
From Verdad's Dan Rasmussen on 11/11:

Reversals

Eugene Fama won the Nobel Prize in Economics in part for his work finding that small-cap value stocks outperformed the broader market. Harry Markowitz won the Nobel Prize in Economics in part for his work advocating diversification.

But attempting to follow this seemingly sound advice—and strong empirical work—has not exactly benefitted investors of late. Based on our research, small-cap value stocks have lagged the broader US market by a massive margin. International stocks have lagged US stocks by a massive margin. And international small-cap value has been a wasteland from a return perspective. Below is a chart comparing the annualized returns for the last five years through August of 2019 for funds investing in the US market, international market, US small-cap value, and international small-cap value.

Figure 1: Five-Year Annualized Equity Returns through 8/31/2019

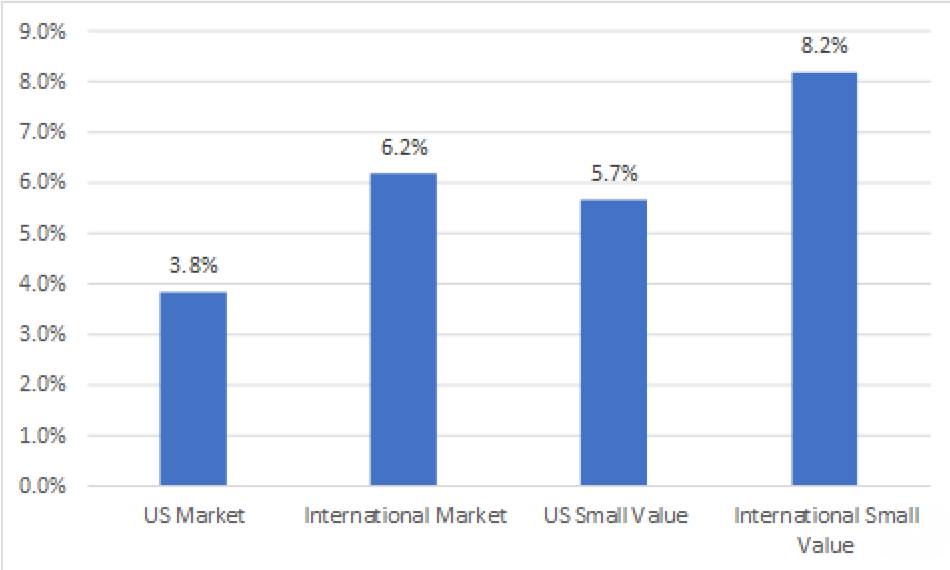


Source: Capital IQ. US Market is Vanguard's Total Stock Market fund. International Market is Vanguard's Total International Market. US Small Value is Vanguard's Small Cap Value fund. International Small Value is Dimensional Fund Advisor's International Small Cap Value fund.

The small-cap value premium and the benefits of international diversification might be Nobel Prize–winning ideas—and the empirical research might be highly statistically significant and brilliantly done—but a high-IQ approach to investing has severely lagged the S&P 500 for a decade now.

Yet a curious thing has happened in the last two months: a sharp shift in momentum. Recently, egghead investing seems to have come back into fashion. Below are the returns for these four styles over the past two months.

Figure 2: Returns from 8/31/2019 to 10/31/2019



Source: Capital IQ. US Market is Vanguard's Total Stock Market fund. International Market is Vanguard's Total International Market. US Small Value is Vanguard's Small Cap Value fund. International Small Value is Dimensional Fund Advisor's International Small Cap Value fund.

Will this trend continue? Will high-IQ investing make a comeback? Or is it past time to fire the eggheads and go all in on the S&P 500?

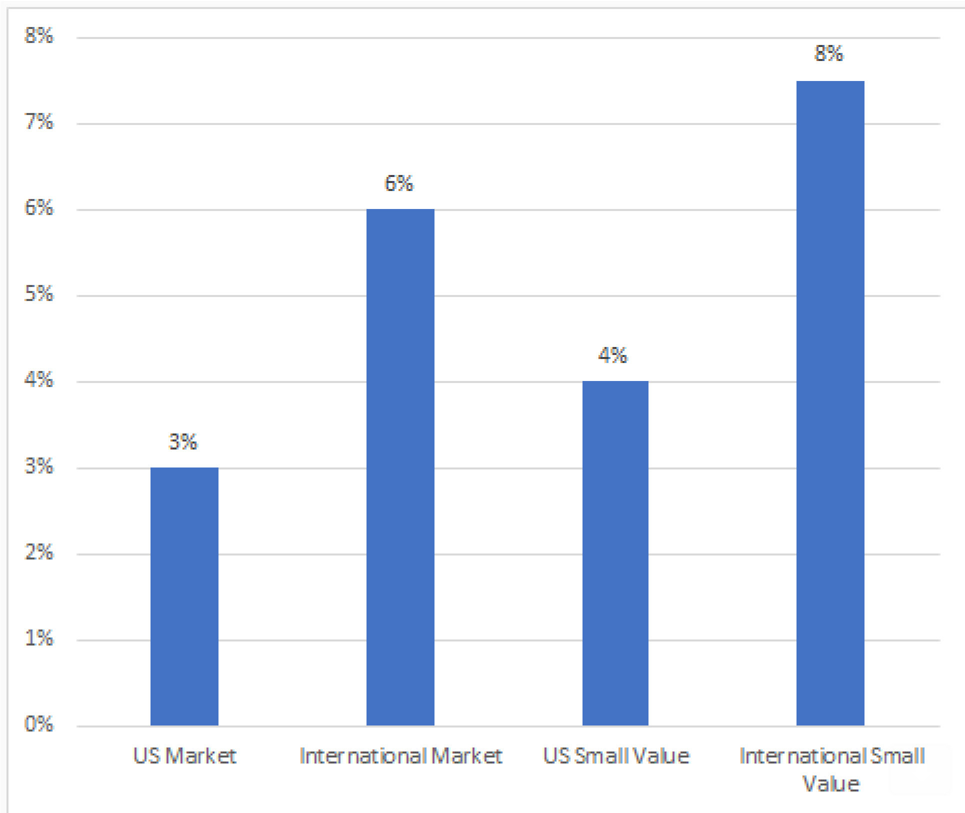
Some of the most insightful quantitative analysts on Wall Street believe this reversal has legs and that international and small-cap stocks could be set for serious outperformance. Though each of these firms uses a slightly different methodology, the basic idea is to look at what has predicted long-term returns in the past (most significantly valuations) and then compare where we are today to history. Below is a table summarizing the perspectives of multiple quantitative analysts on return expectations of these major asset classes (none of these firms specifically forecast small-cap value, so I have included their broad small-cap forecasts). Vanguard and Morningstar forecast nominal returns, while AQR, Research Affiliates, and GMO forecast real return. To make them apples-to-apples, I added the breakeven inflation rate to the real forecasts so all numbers are nominal.

Figure 3: Nominal Return Forecasts

	Vanguard	AQR	Research Affiliates	GMO	Morningstar
US Market	4–6%	6.0%	2.2%	-2.0%	2.6%
US Small			3.1%	0.2%	
International Market	7–9%	6.8%	7.1%	2.3%	6.5%
International Small				3.6%	

Based on our analysis, all five firms believe that international equity markets will outperform the US equity market over the next decade, with an average forecast of 3% annual returns for the US market and 6% for international markets. There were no specific forecasts for small-cap value, but the two firms that projected small-cap returns both assumed that small caps would beat large caps, on average by 1.5%. So if we average the forecasts, their return expectations for the next decade look something like the below.

Figure 4: Average Nominal Return Forecast



Source: Vanguard, GMO, Research Affiliates, AQR, Morningstar, Verdad

This would mark a sharp reversal from the past decade. In fact, it would represent a near perfect mirror image of the last decade's returns. This is consistent with the work of Nobel Prize–winner Richard Thaler, who famously found that portfolios of prior losers outperform those of prior winners over a long horizon.

We believe the best predictor of future returns isn't the last 5–10 years of experience. Rather, markets tend to be mean reverting, with yesterday's winners being tomorrow's losers. Just examine the below chart by decade of US versus international growth and value stocks.

Figure 5: Style Returns by Decade

	89-99	99-09	09-19
US Growth	20.0%	-7.5%	15.8%
US Value	14.7%	0.7%	12.8%
International Growth	10.1%	2.3%	9.9%
International Value	8.5%	3.2%	6.3%

Source: Capital IQ

Returns have been atrocious for small-cap value and international stock portfolios over the past decade. Investors may well be tempted to give up on international and small-cap value completely. But a recent reversal in trends, and the forecasts of multiple different but empirically based quantitative models, suggest that betting on a reversal could be the better course.

From Verdad's Nick Schmitz on 11/4:

... by far, we believe the easiest way to lose nearly all of your money is IPOs, and the more exciting the IPO, the more the catastrophic the base rates. For those watching the recent near-death experience of WeWork as it limps along at about one fifth of the value it was about to IPO at just last month, or the slew of disappointing results from high-growth high-expectation IPOs like BlueApron, you would be right to ask how extraordinary these "shockingly" bad outcomes really are.

Of the last 3,700 US IPOs since the late 1980s for which we have data, the median IPO lost about 31% of its value from day-one close price to three years later and 41% to five years later. But what is most astounding is just how frequently investors lost a lot more than that. Below we've highlighted not just the percentage of time investors would have lost money, but the percentage of time investors would incurred bankruptcy-level losses of more than 75% of their capital.

Figure 1: IPO Five-year Buy-and-Hold Price Return Base Rates by Sector

		Percentile				
Sector	N	10%	25%	50%	75%	90%
Communication Services	294	-100%	-97%	-68%	-10%	87%
Information Technology	922	-98%	-88%	-55%	30%	169%
Health Care	832	-97%	-83%	-44%	47%	191%
Industrials	328	-97%	-79%	-41%	47%	135%
Consumer Staples	92	-94%	-82%	-41%	44%	145%
Consumer Discretionary	425	-99%	-83%	-38%	51%	187%
Materials	75	-99%	-88%	-34%	48%	146%
Energy	233	-96%	-73%	-22%	52%	135%
Financials	378	-86%	-51%	-12%	49%	140%
Real Estate	75	-82%	-53%	-3%	43%	87%
Utilities	20	-87%	-60%	-1%	41%	111%
All	3674	-98%	-83%	-41%	39%	160%

Source: Capital IQ, all IPOs since the late 1980s with transaction data available. From day-one close price to five-year hold or delisting.

Buying and holding IPO stocks, you would have lost about half of your wealth half of the time and 75% or more of your wealth in one out of three or four IPOs. And according to the data, the most toxic of these growth-bankruptcy-prone IPOs have been the seemingly most exciting technology and communications stocks, where you would have lost about 60–70% of your wealth half of the time (like SnapChat within its first two years) and 90% or more of your wealth in almost 25% of IPOs (like BlueApron within its first two years).

And it's not just the trendy industries that were correlated with bankruptcy-level losses. All measures of excitement and optimism were correlated with long-term loss of capital. Below we show how much the market traded up new IPOs at open on the first day of trading (from offer to close price) compared to their subsequent long-term median price return. We also compare the first-day valuation multiple of IPOs to their subsequent long-term median price return.

Figure 2: IPO Returns by Day-1 Stock Performance and Day-1 Valuation Multiple

First Day Open					First Day Open Valuation				
Decile	Open	1yr price	3yr price	5yr price	Decile	Price to Sales	1yr price	3yr price	5yr price
1	-22.4% to -4.2%	-19%	-47%	-57%	20%	No valuation data	-10%	-28%	-34%
2	-4.2% to 0.0%	-6%	-26%	-34%					
3	0.0% to 0.3%	0%	-3%	-10%	3	0.0x to 0.2x	12%	17%	-36%
4	0.3% to 3.6%	-7%	-15%	-24%	4	0.2x to 0.7x	7%	2%	-30%
5	3.6% to 8.5%	2%	-12%	-20%	5	0.7x to 1.5x	-2%	-10%	-44%
6	8.5% to 14.3%	-4%	-14%	-25%	6	1.5x to 2.6x	1%	-11%	-35%
7	14.3% to 22.9%	-2%	-17%	-21%	7	2.6x to 4.4x	-5%	-25%	-26%
8	22.9% to 33.8%	-11%	-33%	-38%	8	4.4x to 8.4x	-9%	-23%	-35%
9	33.8% to 61.5%	-12%	-37%	-54%	9	8.4x to 20.7x	-25%	-61%	-53%
10	61.5% to 249.5%	-51%	-86%	-83%	10	20.7x to 162.4x	-41%	-84%	-68%

Source: Capital IQ, all IPOs since the late 1980s with transaction data available.

And these aggregate results are not that dramatically skewed by the tech bubble. Professor Jay Ritter, the country's leading academic on IPO stats, found essentially the same failure rates when measuring all 8,000 or so IPOs dating back to the 1970s—almost half of IPOs lost more than half of their wealth over five years, as depicted in the chart below.

Panel A: All 7,713 IPOs

5-year buy-and-hold return	From the first close		From the offer price	
	Number of IPOs	Percentage	Number of IPOs	Percentage
BHR<50%	3,246	42.1%	3,028	39.3%
-50%<BHR≤0%	1,397	18.1%	1,355	17.6%
0%<BHR≤50%	965	12.5%	973	12.6%
50%<BHR≤100%	627	8.1%	667	8.7%
100%<BHR≤200%	698	9.1%	749	9.7%
200%<BHR≤300%	284	3.7%	349	4.5%
300%<BHR≤400%	168	2.2%	196	2.5%
400%<BHR≤500%	90	1.2%	105	1.4%
500%<BHR≤1,000%	154	2.0%	181	2.3%
1,000%<BHR≤2,000%	64	0.8%	77	1.0%
2,000%<BHR≤3,000%	11	0.1%	22	0.3%
3,000%<BHR	9	0.1%	11	0.1%
1975-2011	7,713	100.0%	7,713	100.0%

Source: Ritter

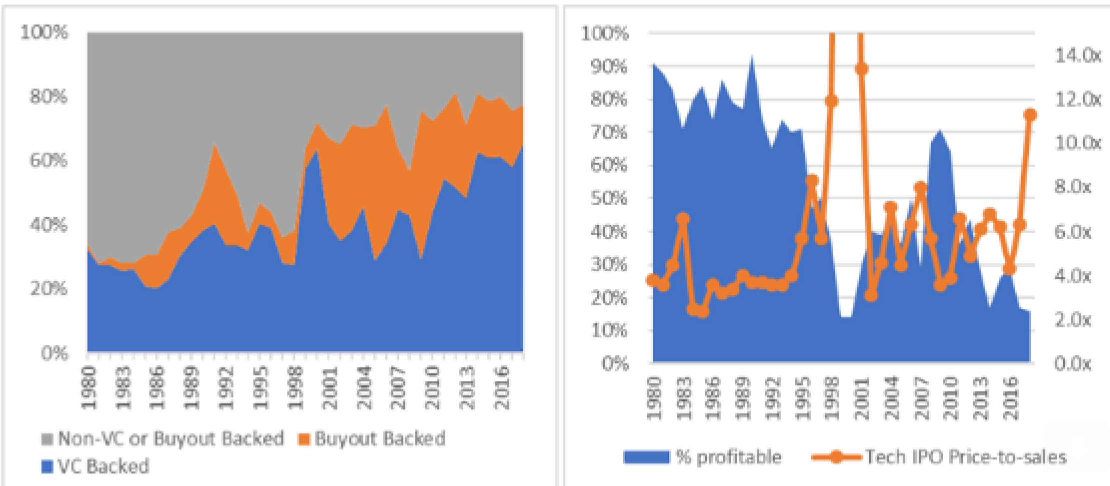
Unlike actual bankruptcies, most of these firms don't blow it for investors through explicit reorganization or liquidation. According to the Kauffman Foundation's look at about 1,500 IPOs, only about 10.5% of them "fail" explicitly, with a third of them getting acquired after five years and half of them continuing operations beyond five years.

But this 11% explicit failure rate masks the high probability of catastrophic outcomes in the base rates above. The base rates above suggest the most probable outcome for betting the boat on an IPO is extreme disappointment and investor insolvency, whereas only about 1/100 are the kind of 10x or more fat pitches that would help make up for the catastrophic losses you're taking on the typical investment. ...

IPO stock prices suffer from the harsh bigotry of high expectations. ...

But 2019 is the first time since the tech bubble that IPOs have been selling above 10x revenue on average with only about 15% of the stocks being profitable. This seems to be largely a consequence of the overcrowding of IPO markets with VC- and PE-backed public offerings that used to only be about 30% of IPOs but are now about 80% of offerings, as depicted in Figure 6 below.

Figure 6: % of IPOs by Backing (Left) and Tech IPO Profitability and Valuation Statistics (Right)

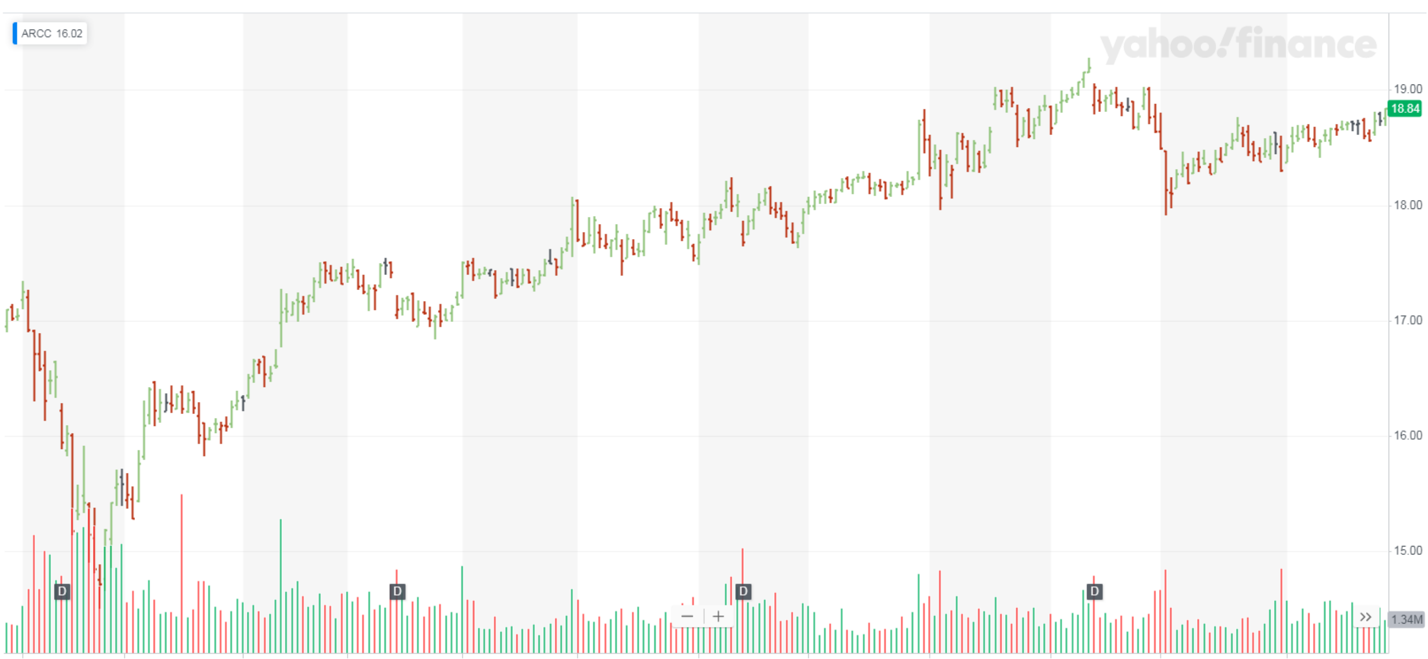


Source: Recreated from Jay Ritter's data.

And you've got to wonder, if WeWork, SnapChat, and BlueApron are the all-stars of these VC firms and still failed spectacularly in their IPOs, what makes up the rest of these private portfolios? So we'll give the Halloween scare trophy to today's VC-backed tech IPOs.

Positions

ARCC - On 11/29 bought this BDC for a client @ 18.727:

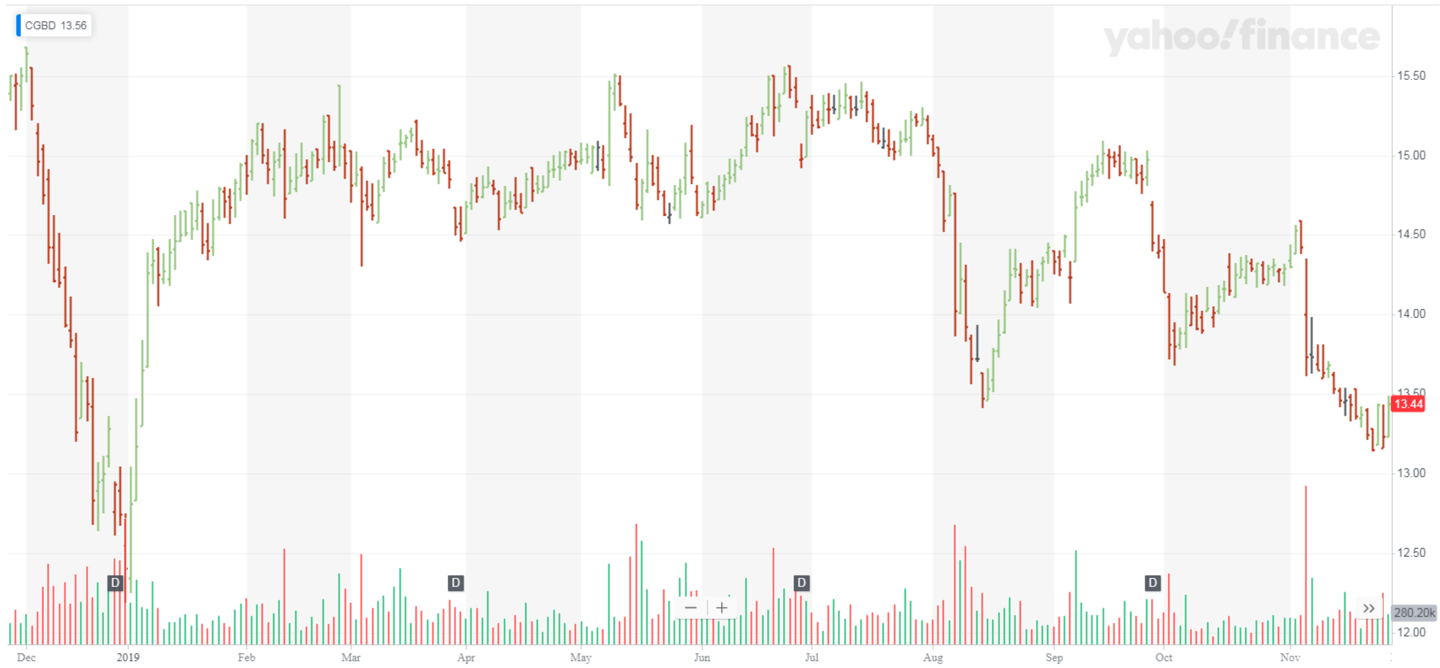


Insider Buying:

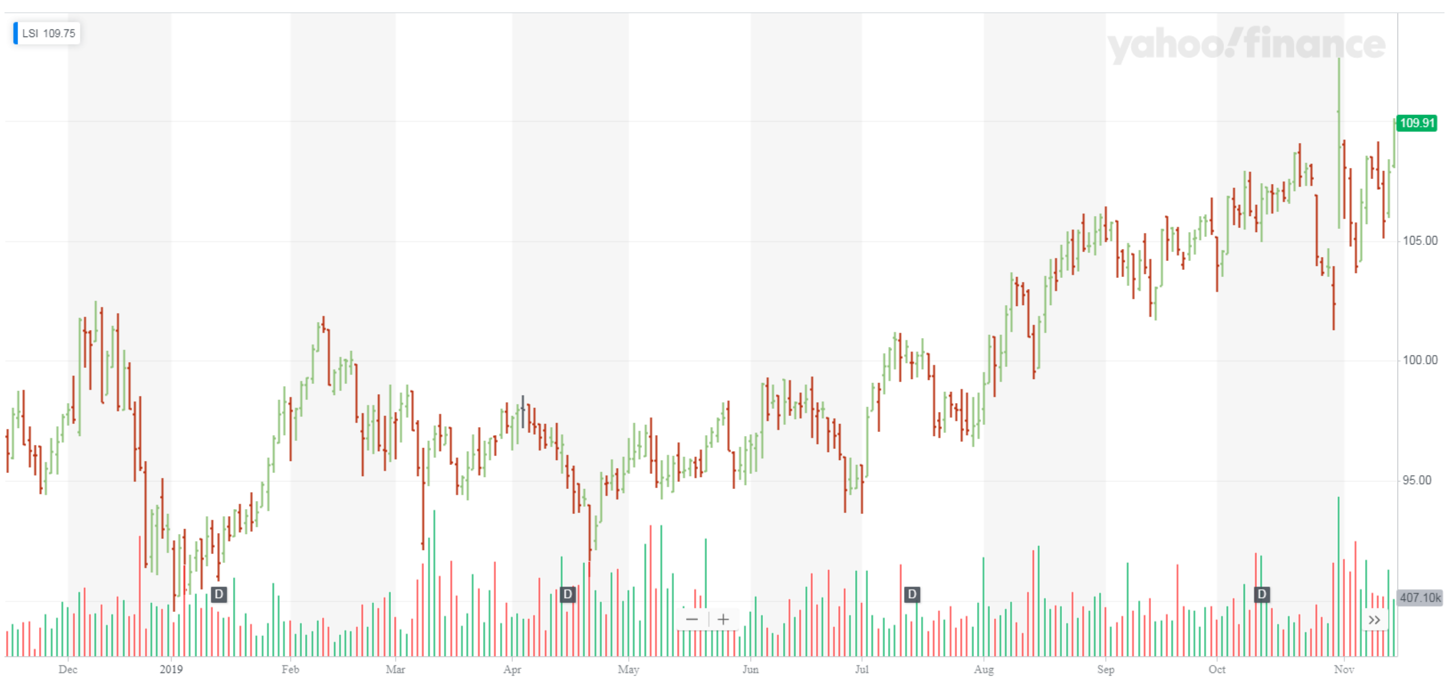
Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
11/01/2019	1	Bartlett Harry Stephen		542
10/31/2019	1	Bartlett Harry Stephen		14,177
08/14/2019	1	McKeever Steven B		5,425
08/06/2019	1	Roll Penelope F		2,000
08/01/2019	1	Kelly Daniel G		6,000

ARI - On 11/14 sold this cmRIET for 3 clients @ 17.872. It was sold by High Dividend Opportunities on 3/23, and is rated a Sell by Forbes Real Estate Investor. It had an average Target Price of 17.94 from 6 analysts, all of whom rated it a Hold.

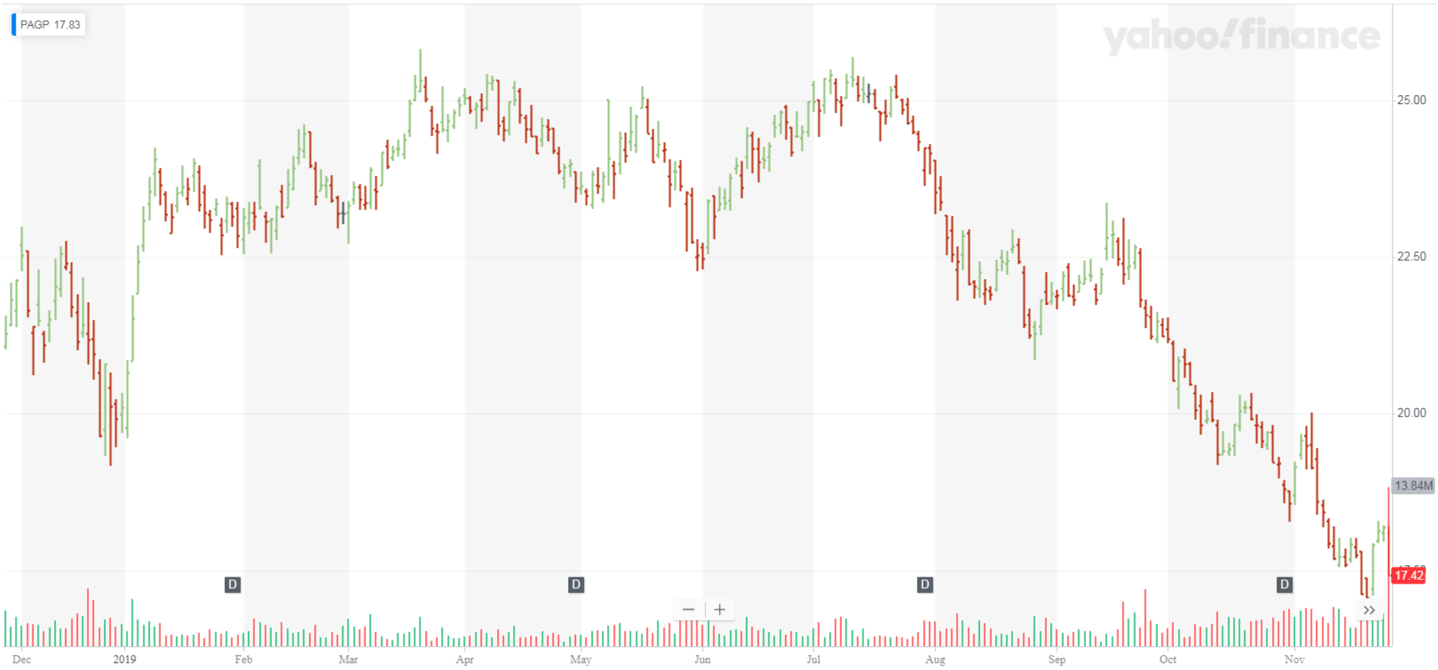
CGBD - On11/27 sold this BDC for a client that needed to raise cash @ 13.4502. It was sold by BDC Buzz on 11/6 @ 14.25.



LSI - On 11/14 sold this Self Storage REIT yielding 3.7% for 5 clients @ 109.37. It is rated a Hold by Forbes Real Estate Investor with a Current Value of 95. It had an average Target Price of 109.14 from 7 analysts, 4 of whom rated it a Buy, and 3 a Hold.



PAGP - On 11/26 bought this Pipeline MLP for a client @ 17.7659, and on 11/29 for another client @ 17.5899. Energy & Income Advisor rates it a Buy under 26.5.



Insider Buying:

Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
11/20/2019	2	Armstrong Greg L, Chiang W		120,000
11/18/2019	1	Goyanes Everardo		20,000

From InsiderInsights on 11/25:

Plains GP Holdings (PAGP) @ $18.13 (Recommended Via 11/25 Email Alert.)

After passing on energy names last issue in the face of the obviously heavy insider buying of the sector, we're dipping a toe in the industry despite continuing headwinds. We're going for income, however, which we view as a less risky way to test the bottom for energy.

Plains GP Holdings (PAGP) owns a controlling general partner interest and an indirect limited partner interest in Plains All American Pipeline, L.P. (PAA), one of the largest energy infrastructure and logistics companies in North America.

PAGP is down with the whole energy complex, and is now back at multi-year lows— raising its indicated yield to 8% in the process. Fifteen of the 18 analysts following PAGP still rate it a Buy or better, with low-to-mid price targets ranging from $21 to $25.

Insiders just gave a solid vote of confidence on the risk/reward of this total-return play. Three executives with excellent track records bought $2,415,088 worth of PAGP last week for between $17.14 to $17.91 per unit. Two of the buyers increased their holdings substantially, by 54% and 80%.

CEO Willie Chiang was the insider who boosted his stake by 80% with a million dollar buy. He sounded positive on the Q3 conference call, and he has subsequently backed up his words with actions.

Commenting on Q3, Mr. Chiang noted that “results exceeded expectations in our fee based segments and reflect a continuation of strong performance in our supply and logistics or S&L segment.” Following that, he increased 2019 full year adjusted EBITDA guidance by $100 million, to $3.075 billion.

PAGP weakened after the Q2 event in any case, perhaps because management’s preliminary guidance for 2020 adjusted EBITDA was lower, at between $2.55 billion and $2.6 billion. But CEO Chiang put his preliminary 2020 guidance into context by saying that even though management’s expectations for production growth in the all-important Permian are now 100,000 barrels a day less than prior estimates, “we expect 2020 Permian production to end the year 300,000 to 400,000 barrels a day higher than year-end 2019.”

In answer to a production question on the Q3 call, Mr. Chiang further predicted that “we really hit a point of inflection in 2021, where the cash flow starts kicking in from the completed capital projects, and our capital load starts dropping. So at that point, it gives us more flexibility to do things.”

Calling a bottom in energy cycles is difficult, and energy insiders tend to earlier than most with their bullish activity. Managements at both Plains and Target Hospitality ... are making noises that Permian activity could increase next year. We are betting that does occur, but can only hope it is in the first half. That hope arguably hangs on some breakthrough in trade talk, but then, most of our bullish investment theses now do.

From Energy & Income Advisor's Roger S. Conrad on Nov. 26th:

The Alerian MLP Infrastructure Index has dropped more than 20 percent since late July. It’s now just a few percentage points above the early 2016 low, and 60 percent under the mid-2014 high.

The chief catalyst for the most recent decline: Growing concern that falling North American rig deployment will stall oil and gas production in 2020. This raises risk midstream volumes will slacken, reducing company revenues and ultimately triggering distribution cuts.

We don’t deny the danger. But third quarter earnings results and updated guidance clearly show vulnerability is not evenly spread across the sector. In fact, a growing number of master limited partnerships appear increasingly able to resist whatever weakness the coming year brings.

After billing themselves as quasi-utilities earlier in the decade, it’s fair to say MLPs have a credibility problem. So it’s no wonder many investors are now considering cashing out in this selloff ....

Our strong advice is to not give into the temptation. In fact, there’s unlikely to be a better opportunity to establish positions in well-run, historically solid US midstream energy companies. And that definitely includes MLPs.

We’ve contended for some time that 70 publicly traded companies plus private capital entities is too many individual owners of US pipelines, storage, gathering and processing assets. ...

the Alerian Index’ 10-year performance, ... is actually underwater by roughly 17 percent before distributions. And it’s equally a warning to investors that until there’s more consolidation, there will be more US midstream pain.

There are, however, a number of sector companies already identifiable as long-term winners. ...

Incentive distribution rights paid to general partners have long been a cause of investor concern about MLPs. ...

Plains GP Holdings' (NYSE: PAGP) swap of its GP interest for common units eliminated IDRs at Plains All-America Pipeline (NYSE: PAA). ...

Use of distributable cash flow as a primary profit metric was never an issue when MLPs were riding high but now draws criticism. So does the long-held practice of growing what are already generous distributions, instead of buying back shares. And capital spending allows draws deep skepticism, even when projects are for all practical purposes pre-contracted.

Common units of Enterprise and Magellan yield nearly 7 percent, while others midstreams pay out 10 percent or more. That makes raising new equity prohibitively expensive for most MLPs. And since debt is only a slightly better option, there's a premium on "self-funding" projects with cash from operations and/or proceeds from asset sales.

Self-funding, however, is precisely what at least a dozen MLPs and other midstream companies are doing now. And so long as management executes on new projects and maintains profitability of operating assets next year, there will be even more cash flow to pay dividends, buy back stock and/or cut debt.

The next several quarters will pose a significant stress test for all North American midstream companies. That's particularly true for MLPs, given the reputational damage they've sustained the past few years.

Not all will pass, as cost cutting efforts by major customers shrink revenue, triggering distribution cuts and quite possibly bankruptcies. But companies that do stay on course will prove their resilience to investors. And doing so, they'll repair reputational damage and bring back the investors whose exodus has triggered this year's declines. ...

Our thoughts

We have doubled the allocation to Pipeline MLPs to 4% for most clients seeking Capital Appreciation or Income.

SBRA - On 11/4 sold this Healthcare REIT for a client @ 24.1901. It was rated a Sell by Forbes Real Estate Investor with a Current Value of 22. It had an average Target Price of 22.2 from 7 analysts, 2 of whom rated it a Buy, 4 a Hold, and 1 a Sell.