Idea Performance Table

issue date	company	security	rec.	total return in USD
bonds				
Jan. 12	Rowan Cos, Inc.	RDC 5.4 12/01/42	long	-13.4
Jan. 12	Rowan Cos, Inc.	RDC 5.85 01/15/44	long	-8.1
May 04	Under Armour, Inc.	UA 3¼ 06/15/26	short	-0.4
Jan. 26	Becton Dickinson and Co	BDX 0 06/06/22	long	-0.2
April 06	Walt Disney Co.	DIS 2.95 06/15/27	short	-0.1
April 06	Coca-Cola Co.	KO 2.9 05/25/27	short	0.5
Feb. 09	Anheuser-Busch InBev Finance, Inc.	ABIBB 3.65 02/01/26	short	1.7
Jan. 26	BAT Capital Corp.	BATSLN 0 08/15/22	long	1.9
May 18	Banco Daycoval S.A.	DAYCOV 5¾ 03/19/19	long	2.2
May 18	Banco Bradesco S.A.	BRADES 6¾ 09/29/19	long	2.3
Jan. 26	QUALCOMM, Inc.	QCOM 0 01/30/23	long	2.3
March 09	Service Corp. International/US	SCI 5 01/15/22	long	2.4
May 18	B3 S.A. - Basil, Bolsa, Balcão	BVMFBZ 5½ 07/16/20	long	2.7
March 09	Icahn Enterprises L.P.	IEP 6 08/01/20	long	3.1
March 09	Spirit AeroSystems Holdings, Inc.	SPR 5¼ 03/15/22	long	3.5
March 23	Petroleos Mexicanos	PEMEX 4 01/18/24	short	3.8
June 15	International Business Machines Corp.	IBM 1½ 05/23/29	short	3.8
April 06	Walt Disney Co.	DIS 3 07/30/46	short	3.9
May 25	AT&T, Inc.	T 1.8 09/05/26	short	4.0
April 06	Mondelez International, Inc.	MDLZ 6½ 02/09/40	short	4.4
June 15	International Business Machines Corp.	IBM 4 06/20/42	short	5.5
April 06	Mondelez International, Inc.	MDLZ 2 03/06/35	short	7.8
April 06	Coca-Cola Co.	KO 1 03/09/35	short	7.9
Feb. 09	Anheuser-Busch InBev S.A./NV	ABIBB 2.7 03/31/26	short	8.5
burrencies				
Jan. 12	Brazilian real	BRL	short	17.7
ETFs, mutual funds, and closed-end funds				
June 15	Global X Uranium ETF	URA	long	-11.1
Jan. 26	Invesco Variable Rate Preferred ETF	VRP	long	-5.4
Aug. 10	BlackRock MuniYield Quality Fund, Inc.	MQY	long	-2.9
Aug. 10	Invesco Value Municipal Inc.ome Trust	IIM	long	-2.0
Aug. 10	BlackRock MuniYield New York Quality Fund, Inc.	MYN	long	-1.4
July 27	Invesco Senior Loan ETF	BKLN	long	-1.4
Aug. 10	Nuveen North Carolina Quality Municipal Inc.ome Fund	NNC	long	-1.2
July 27	VanEck Vectors AMT-Free Long Municipal Index ETF	MLN	long	-0.1
July 27	iShares New York Muni Bond ETF	NYF	long	0.4
July 27	iShares National Muni Bond ETF	MUB	long	0.6
Jan. 26	iShares Floating-Rate Bond ETF	FLOT	long	0.9
Jan. 26	SPDR Bloomberg Barclays Investment-Grade Floating-Rate ETF	FLRN	long	1.0
Aug. 10	Eaton Vance New York Municipal Bond Fund	ENX	long	2.1
Oct. 19	Nuveen New York Quality Municipal Inc.ome Fund	NAN	long	2.8
Sep. 21	Sprott Physical Gold and Silver Trust	CEF	long	2.8
Oct. 19	BlackRock California Municipal Inc.ome Trust	BFZ	long	4.0
Oct. 19	BlackRock Investment Quality Municipal Trust, Inc.	BKN	long	5.0

Idea Performance Table

issue date	company	security	rec.	total return in USD
preferred stocks				
Jan. 26	U.S. BanCorp	USB 3½ PERP	long	-15.5
May 04	Fifth Third BanCorp	FITB 6 PERP	long	-4.6
Jan. 26	Wells Fargo & Co.	WFC 5.85 PERP	long	-3.6
Oct. 19	Charles Schwab Corp.	SCHW 6 PERP	long	-2.9
May 04	Morgan Stanley	MS 7 PERP	long	-2.8
Oct. 19	JPMorgan Chase & Co.	JPM 6.1 PERP	long	-2.6
May 04	PNC Financial Services Group, Inc.	PNC 6 PERP	long	-2.2
May 04	Goldman S.A.chs Group, Inc.	GS 5½ PERP	long	-2.0
May 04	Citigroup Inc.	C 6 PERP	long	-1.3
Oct. 19	Northern Trust Corp.	NTRS 5.85 PERP	long	-1.0
Nov. 16	General Electric Co.	GE 5 PERP	long	3.1
common stocks				
June 29	New Gold, Inc.	NGD@US	short	-73.1
March 23	Sunrun, Inc.	RUN@US	short	-69.4
May 04	Fibra Uno	FUNO11@MM	long	-34.7
May 04	Under Armour, Inc.	UAA@US	short	-27.5
Jan. 12	Transocean Ltd.	RIG@US	long	-23.6
March 09	SemGroup Corp.	SEMG@US	long	-22.1
Jan. 12	Ensco plc	ESV@US	long	-21.2
May 04	Concentradora Fibra Hotelera Mexicana S.A. de C.V.	FIHO12@MM	long	-20.5
Sep. 21	Pretium Resources, Inc.	PVG@US	long	-12.1
June 29	Detour Gold Corp.	DGC@US	long	-11.4
Sep. 21	Dixons Carphone plc	DC/@LN	long	-8.9
Oct. 05	CNA Financial Corp.	CNA@US	long	-3.5
Feb. 23	CarMax, Inc.	KMX@US	short	-2.1
Nov. 30	Hallador Energy Co.	HNRG@US	long	-1.4
June 15	JB Hi-Fi Ltd.	JHB@AU	short	0.1
July 27	Solar Capital Ltd.	SLRC@US	long	2.8
March 09	Antero Midstream Partners L.P.	AM@US	long	6.1
June 15	Uranium Participation Corp.	URPTF@US	long	8.9
Jan. 12	Expedia Group, Inc.	EXPE@US	short	9.3
July 13	Blackstone Mortgage Trust	BXMT@US	long	9.8
Feb. 23	Campbell Soup Co.	CPB@US	short	10.2
June 1	MasTec, Inc.	MTZ@US	short	10.8
Feb. 23	W.R. Berkley Corp.	WRB@US	long	11.5
June 1	Cameco Corp.	CCJ@US	long	12.2
May 18	Alliance Resource Partners L.P.	ARLP@US	long	13.8
Oct. 05	Matthews International Corp..	MATW@US	short	14.3
June 15	International Business Machines Corp.	IBM@US	short	14.9
Sep. 07	Sotheby's	BID@US	short	16.5
March 09	Delek Logistics Partners L.P.	DKL@US	long	19.3
Feb. 23	Kraft Heinz Co	KHC@US	short	24.5
April 06	Ellie Mae, Inc.	ELLI@US	short	31.2
June 29	Nvidia Corp.	NVDA@US	short	33.6

Year End Review – Part 2

One selection that we're particularly not proud of came from our Jan. 26 story that featured, among others, the U.S. Bancorp fixed-to-floating Series B preferred shares, callable quarterly since April 2011. These shares were issued in March 2006, a time of very low credit spreads, and their coupon resets at the greater of three-month Libor plus 60 basis points (a very narrow spread) or 3 ½% (a very tiny coupon). Including coupons earned, the shares have fallen 15.5% due to rising interest rates, the risk we meant to skirt. The favored alternative should have been the fixed-to-floating Series F preferred shares issued by the same bank in January 2012 and that are callable starting in January 2022, which have fared much better. Those pay a fixed coupon of 6.5% (a generous coupon) and reset quarterly beginning on the first call date at three-month Libor plus 444 basis points (a decent credit spread). Including coupons, they've fallen only 1.85% since the Series B story.

Another ill-timed opinion came from reiterating a bearish stance on Under Armour, Inc. shares (*Grant's*, May 4; UAA for the Big Board-listed Class A shares). Although we still think the bet will pan out, the stock has risen 53.3% year-to-date, or 27.5% since our May piece. Although operating income for first and second quarters of the year lagged expectations (losses of $29 million and $105 million, respectively vs. expected losses of $15 million and $37 million, respectively), third quarter figures improved. Operating income was $119 million for the quarter ended Sept. 30 (adjusted operating income came in at $143 million), much better than the $78 million expected. Another improvement was that the company generated $3.8 million in free cash flow for the first nine months of the year (due to working capital improvements), much better than the $253 million burned in the same period last year.

Given the high inventory level ($1.17 billion representing 150 days of sales compared to 92 days for Nike, Inc., for example), fourth quarter results may bring a reconciliation to reality, and re-price the stock to lower levels. International sales have been slowing down (year-over-year sales in Asia and Europe grew roughly 15% in the third quarter from over 30% in the first half of the year), and domestic sales (76% of total sales year-to-date) declined by 0.3% in the first nine months of the year. The better-than-expected adjusted earnings figures may have been helped by accruals, which will eventually be offset when the company draws down on perhaps obsolete inventory, or reverses provisions for estimated returns and markdowns.

Another bullish bet that hasn't panned out was gold, which is down 4.6% this year. Shares in *Grant's* long time picks Detour Gold Corp. (*Grant's*, June 29) and Pretium Resources, Inc. (*Grant's*, Sept. 21) have fallen 11.4% and 12.1%, respectively since our stories on them. Detour's current board of directors is engaged in a proxy fight against shareholders for seats on the board. A better management team in place, or an eventual sale of the company—or improved financial results, perhaps driven by higher gold prices—is what we're hoping for. Pretium's nuggety mine is still not achieving initial expectations of gold grade and shoveling costs, and that has taken a toll on the shares. As Jesse Livermore is known to have once said, "money is made by sitting, not trading," and we are sitting tight.

Our bet on Uranium has so far been successful. The yellow cake spot price has risen 25.2% since the June 1 issue, which has pushed up Cameco Corp. (CCJ in New York, CCO in Toronto) and Uranium Participation Corp. (*Grant's*, June 15; U in Toronto or URPTF in the pink sheets) shares, by 12.2% and 8.9%, respectively. But one pick, the Global X Uranium ETF (URA on NYSE Arca), which tracks Solactive A.G.'s Global Uranium & Nuclear Components Total Return Index, has lost 11.1% because of it holding of junior miners, some of whom are highly speculative and are still in the exploratory phase of mining with no revenues.

Since the year's debut issue of Jan. 12, we have been bearish on the Brazilian real which has depreciated by 17.7%. The deterioration came from disappointment in Congress for not passing the pension reform that is vital to the country's solvency, the failure of the market's favorite candidate to win the presidential election, a less dynamic economy (2018 GDP is expected to grow 1.4% vs. the market's 2.7% estimate at the start of the year), and a weeklong country-wide truckers' strike that paralyzed the nation.

Nevertheless, we've also shunned the country's stock market represented by the Ibovespa Index, and kept our bearish stance in the Oct. 5 issue. Since then, the Ibovespa in dollar terms has gained 4%, based on locals and sell-side optimism driving the rise. The bullishness comes from the expectation of an economic rebound and the election of Jair Bolsonaro, who gave the country's financial reins to the University of Chicago-educated Paulo Guedes to implement reforms. Bulls think that Bolsonaro's political capital will be enough to convince Congress to change the country's insolvent pension system. If the market is right, we'll reconsider our view. Risks to the downside are too great to shrug off; ominous signs from unorthodox decisions and dysfunction in the new administration hold us back—and the upside seems limited in light of rising macroeconomic risks at this point in the economic cycle.

After renewing our bearish views of Big Blue in the June 15 issue, IBM's stock has dropped 14.9% and the 4% senior unsecured notes due 2042 have fallen 5.5%, already taking into account coupons received. SoftBank's 6 7/8% perpetual subordinated notes (*Grant's*, Dec. 15, 2017) fell 10.8%, and Pemex's 4 7/8% senior unsecured notes due 2024 (*Grant's*, March 23) fell 3.8%. UK-debt collector Arrow Global Group plc.'s stock has fallen 53% and peer Lowell Group's 11% senior unsecured notes due 2023 has lost 20% since our Nov. 3, 2017 bearish story. Long picks from insurance stocks W.R. Berkeley Corp. and CNA Financial Corp. have risen 11.5% and dropped 3.5%, respectively (Grant's, Feb. 23 and Oct. 5).

Carry trades involving short dated U.S. dollar-denominated Brazilian corporate bonds (up slightly over 2% since the May 18 story, or 4% on an annualized basis) and cushion bonds (such as the McGraw-Hill Education, Inc.'s 8 ½% senior unsecured notes due 2019 that have been called and provided a return of 5.6% in eight months) have performed as expected with safe but relatively low returns. Although the closed-end muni funds that we wrote about on August 10 are still one to three percent in the red, they have started to recover in the past two months. The closed-end munis cited in our October 19 story are up three to six percent. Various preferred stock investments that we've written about (aside from the Mortgage REITs and the aforementioned U.S. Bancorp) are slightly down, as reflected in the 5.4% negative return in the Invesco Variable Rate Preferred ETF since our Jan. 26 story, but they have generated stable income, which eventually should allow investors to fully recover their basis and more.

-Fabiano Santin

Year-end review, part 1

Adjust for volatility and the humble T-bill has better returns than stocks according to a report by JPMorgan Asset Management last week. However, you subscribe to *Grant's* for actionable ideas, not calls to place money under the mattress.

With that in mind, we review our 2018 recommendations. Year-to-date (not including this issue), *Grant's* has analyzed 85 stocks, bonds, currencies, ETFs, mutual funds, preferred stocks and common equities; of these, 48 securities have generated positive returns since our write-ups. Preferred stocks, i.e., the junior most credit in a company's liability structure, have been our only asset class bust: 10 of the 11 ideas we presented have generated a negative total return (albeit in most cases small) as interest rates and risk premiums have risen this year. In contrast, only five of our 24 bond recommendations have generated negative returns this year.

Grant's bearish equity ideas have outperformed our bullish picks-to-click. Nvidia Corp. (NVDA), Ellie Mae, Inc. (ELLI), and Kraft Heinz Co. (KHC) have declined 33.6%, 31.2% and 24.5% since the issues dated June 29, April 6 and Feb. 23, respectively. Expedia Group, Inc. (EXPE on the Nasdaq) is down 9.3% from our Jan. 12 report, but shares tumbled by 24% in February following disappointing fourth quarter results. Facebook, Inc. (FB on the Nasdaq), the subject of a bearish analysis in the Aug. 11, 2017 issue, is down 19.5% year-to-date.

In contrast, our bullish calls on Fibra Uno and Concentradora Fibra Hotelera Mexicana S.A. de C.V. (a.k.a. Fibra Hotel; FUNO11 and FIHO12 on the Mexican Stock Exchange) have declined by 34.7% and 20.5% since the May 4 issue. While fundamentals for the pair continue to improve, the peso and Mexican equities sunk over the summer. After a brief honeymoon following the July 1 election, investors sold off Mexican assets on the news that incoming president Andrés Manuel López Obrador (AMLO) would: cancel work on an airport and commit billions to build new oil refineries (*Grant's*, Nov. 16).

Nevertheless, the pair of south of the border real estate investment trusts offer commanding values that, we contend, more than make up for the headline risk. Fibra Uno, John Haskell, director of research at Explorador Capital Management, told *Grant's*, "is yielding a 10.8% dividend next year, trades at a 46% discount to NAV and, to recap, owns real property assets generating inflation protected income. It's a diverse portfolio [of office, retail and industrial properties] widely serving the private sector with long term growth runway, below market rents, resilient occupancy and cash flows. And their balance sheet strength. They have a 32.6% loan to value, 90% of debt is unsecured, and 70% of debt is fixed rate. They match their revenue and their debt denomination in currency. Their debt maturities are long term. That is the kind of company that should have the income to provide resilience even in the range of negative AMLO macro scenarios."

With 84 hotels in operation on Sept. 30, Fibra Hotel is a pure-play on the Mexican hospitality sector. Over the last year the company's development pipeline has declined to two buildings under construction from seven, reducing risk of cost over-runs. Despite a high level of seaweed washing up on beaches in the third quarter, impacting occupancy in Fibra Hotel's Cancun resorts, adjusted funds from operations per share increased 17.8% year-over-year. Fibra hotel is priced to an 10.9% dividend yield and debt is a conservative 20% loan-to-value.

Both Fibra Uno and Fibra Hotel have buyback programs in place and have, year-to-date, repurchased shares equal to 1.7% and 2.5% of the total outstanding. As REITs, both company's must pay out 95% of net income each year. Fibra Uno is funding its repurchase program by selling non-core assets. On its Oct. 26 call, Jorge Humberto Pigeón Solórzano, vice president of investor relations, noted that the company had sold assets at 1.3 times book value, an equivalent of 50 pesos per share and bought back stock at 25 pesos per share. It's a "no brainer", he explained. Fibra Uno trades at 20.90 pesos today.

With the exceptions of Alliance Resource Partners L.P. (ARLP on the Nasdaq), Antero Midstream Partners L.P. (AM) and Delek Logistics Partners L.P. (DKL; both on the Big Board), *Grant's* energy related recommendations have been a bust. In the last issue, we reviewed the underpinnings for the investment case on oil (*Grant's*, Nov. 30). With a cautious view on China, we remain bullish.

It is too early to judge Dixons Carphone plc (DC on the London Stock Exchange), which is down 8.9% in dollar terms since our bullish analysis in the Sept. 21 issue. DC, as you may remember, is the product of the 2014 merger of electronics retailer Dixons Retail Group Ltd. and cellphone vendor Carphone Warehouse Group plc. With higher prices for cell phones and a weaker exchange rate, Britons are taking longer to exchange old phones for new ones. This has hurt Carphone, which has minimum volume contracts with the UK's big three cell networks. The Dixons side of the business is performing well, not that you would know from reported financials as it is grouped with the struggling Carphone business.

DC's problems were compounded by a management team lead by former CEO Sebastian James, who over-promised, sold stock and under-delivered. The board appointed Alex Baldock on April 3 and the new broom is expected to announce his turnaround plan on Dec. 12, after *Grant's* goes to press. Dixons trades at 7.4 times trailing earnings and sports a 7.4% dividend yield. Debt foots to less than one times EBITDA and, should Baldock successfully resolves its issues with Carphone, the company has receivables due from British mobile carriers worth 57% of the current market cap.

There are two notable failures in *Grant's* bearish analysis. In the issue dated Feb. 10, 2017, *Grant's* laid out the bear case on Whirlpool Corp. (WHR on the Big Board): a long-in-the tooth appliance replacement cycle, low quality earnings and tough competition from Asian manufacturers would likely lead to disappointment we wrote. We changed our tune in a Jan. 26 follow-up: "Punitive new tariffs on imported washing machines and washing-machine parts tilt the investment case to the 'don't be short' side." Since then, shares have dropped by 37.9% as fundamentals have trumped trade intervention.

On the other end of the spectrum, Sunrun, Inc., has rallied by 69.4% since our March 23 report. With 1.5 gigawatts of solar panels installed, Sunrun is the biggest name in the market for residential solar panels and batteries. The company focus is to lease, rather than sell, systems to homeowners for 20 years with an option to renew for an additional decade. In the third quarter, Sunrun installed 100 megawatts worth of panels, an 11% year-over-year increase.

Sunrun uses a bespoke metric to measure the purported value created by each installed panel: net present value per watt. The company uses a 6% discount rate (low, for an unproven business model we say) and assumes all customers renew at lease expiry (aggressive, considering negative reviews online). In the third quarter, NPV per watt fell to $1.00 from $1.15 from the previous year. So, despite the 11% year-over-year rise in panel installations, value creation fell to $86 million from $93 million between the third quarters 2017 and 2018. Worse still is the fact that the net present value from contracted revenues fell to $0.45 per watt from $0.58 over the same period, i.e., more and more of expected value comes from customer renewals.

The Street needs a positive narrative in order to raise price targets as reported financial metrics do not paint a rosy picture. In the quarter ending Sept. 30, Sunrun's operating losses amounted to $23.5 million vs. interest expenses of $34.5 million. Net debt of $1.7 billion foots to 26.3 times third quarter annualized earnings before interest, taxes, depreciation and amortization. *Grant's* remains bearish on RUN.

— Evan Lorenz