

Monthly Performance:

The quarter closed up 4.4% for FatAlpha vs 0.6% for the S&P 500. September was a down month for both the market and the portfolio as they dropped -1.55% and -2.39% respectively. Volatility increased in a month which historically has poor returns. Investors should keep a close eye on the 100-day moving average and the market's price action around that level. The past six times this occurred, it was a buying opportunity. See my article which outlines how an investor could have entered long:

<http://seekingalpha.com/article/2474205-2-simple-charts-to-monitor-the-s-and-p-500>

On a positive note if this pullback repeats the pattern of the past then this drop should be over before month end and the market should continue on its merry way. Standard & Poor's historical analysis of mid-term election years shows that the average return until April is 15% with the market advancing 94% of the time. Sounds good to me!

The portfolio was weighed down this month due to VLO, SANM, HPQ and ALK which dropped -15%, -11%, -7% and -6% respectively. Of these four, I find that only Valero Energy had a true reason as the refining stocks took a pounding on margin concerns. And while the sellers' argument is respected I'd like to see some financials before taking action on what is one of the top 5 cheapest stocks in the Russell 3000 with a EV/EBITDA of 4.5x and a P/E of 9. This month I rebalanced the portfolio, increasing concentrations and leaving little cash. I believe this more aggressive stance will help the portfolio as we approach the usually profitable Xmas season.

Readers would do well to also see my article on Staples as

MONTHLY PERFORMANCE		
Date	FatAlpha	S&P 500
July '12*	2.89%	2.13%
Aug '12	9.12%	1.98%
Sept '12	3.03%	2.42%
Oct '12	0.66%	-1.98%
Nov '12	5.58%	0.28%
Dec '12	1.79%	0.71%
Jan '13	6.45%	5.04%
Feb '13	0.71%	1.11%
Mar '13	5.35%	3.60%
Apr '13	6.47%	1.81%
May '13	4.19%	2.08%
June '13	-0.73%	-1.50%
July '13	7.45%	4.95%
Aug '13	-1.00%	-3.13%
Sept '13	2.78%	2.97%
Oct '13	6.26%	4.46%
Nov '13	5.50%	2.80%
Dec '13	4.34%	2.36%
Jan '14*	-1.76%	-3.56%
Feb '14	7.64%	4.31%
Mar '14	0.91%	0.69%
Apr '14	5.08%	0.62%
May '14	0.97%	2.10%
June '14	0.83%	1.91%
July '14	3.17%	-1.51%
Aug '14	3.67%	3.77%
Sept '14	-2.39%	-1.55%
2012	25.14%	5.60%
2013	59.01%	29.60%
2014	19.20%	6.70%
Since Inception	137.19%	46.04%

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we could very well be witnessing a case study value trap.
<http://seekingalpha.com/article/2444435-staples-is-a-meltdown-coming>

As I mentioned in my trades below, Credit Suisse speculation allowed me to exit at a better price than expected. SPLS has earnings out on Nov 19th and speculative investors could try a put position. On the other hand, we must always keep an open mind as stubbornness has burned many investors. In either case, volatility in this stock is almost a guarantee.

Transaction History by Date:

Date: September 29th, 2014
Ticker: NSIT
Name: Insight Enterprises
Transaction: Bought
Price: \$22.92
Size: New position

Note:

Initiated a position in Insight Enterprises (NSIT) at \$22.92. NSIT is a provider of technology solutions to business and governments worldwide. The company has been flashing across my value models for the past two months, however having watched the stock for some time (it is a prior holding), I found it pricey. Fundamentals have not radically changed over the past year despite a significant rally. Today's price represents a good entry point for a stock that trades at 4.5x EV/EBITDA, with almost no debt and a Free cash flow/EV of 10%. Disadvantages is that it's a low margin tech services business that probably should have done better in last quarter considering the Win 8 migration. But like most value stocks, it's not cheap for nothing...

Date: September 26th, 2014
Ticker: WRB
Name: W.R. Berkley
Transaction: Bought
Price: \$47.82
Size: New position

Note:

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Initiated a small position in W.R. Berkley (WRB) at \$47.82. This insurance company that was founded by the CEO, Bill Berkey, in 1967 has been growing premium income, earnings and book value in the double digits for the past ten years while paying a dividend for a lot longer. It appears cheap, as do many insurance companies, however WRB is the only insurer from my list of potentials that had only two quarters of declining pretax income in the last 10 while both sales and eps increased in 10/10. (The other potentials were a lot worse). Besides paying a dividend the company does perform small amounts of buybacks.

Date: September 15th, 2014
Ticker: TRW
Name: TRW Automotive
Transaction: Sold
Price: \$103.00
Size: Exited position

Note:

Sold the remaining position in TRW Automotive (TRW) at \$103. Germany's ZF announced it will pay \$105.60 cash for TRW. The deal is expected to close in the first six months of 2015. I decided to forgo the extra \$2.60, and put the money to work for a better return. Funny I got contacted by a US lawyer asking me if I was happy with the deal. He saw me put a comment on the web. It's crazy how many law firms look for disgruntled shareholders in almost any corporate action.

Date: September 3rd, 2014
Ticker: SPLS
Name: Staples
Transaction: Sold
Price: \$12.60
Size: Exited position

Note:

Sold my remaining position in SPLS pre-market at \$12.60. Market volatility presented a good opportunity to get out of this value trap. The stock rallied because Credit Suisse came out with a note that Staples and Office Depot (ODP) should merge and that this would save the combined company \$1.44 billion a year. By CS estimates this would result in doubling operating profit in 2017. Analysts wish lists are one thing and reality are another. Holding or buy on this

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Sep. 30



news is on hope. I don't invest on hope but facts. I expect this short-term rally to result in a dead cat bounce with the stocks returning to lows and recording new 52-week lows on very likely weak results next quarter.

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