



FAT ALPHA

V A L U E I N V E S T I N G

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INSIDE CURRENT ISSUE

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Since the inception of FatAlpha, this is the 11th month the S&P has had a down month. Once again the strategy outperformed as the portfolio dropped only 3.93% vs 6.13% for the market. It is the 9th time out of 11 that the strategy has done this. This puts year to date return at -1.7% vs -2.7% for the benchmark.

Month on month only Cooper Tires and Avnet appreciated at 17% and 2% respectively, while the largest losses came from Kohl's and Chicago Bridge and Iron at -17% each.

Last month I had warned that several stocks in the market were fully valued and hence the correction was only natural. Many like to point to China, however it had more to do with valuations, lack of earnings growth (FactSet reported blended earnings down -0.7% yoy), and the beginning of rate hikes. My biggest concern remains earnings growth as this is the first time since Q3 2012 that earnings declined. Without further growth it is difficult for valuations to expand.

Having said that, time and time again, the market has historically both overshoot and undershoot and so while I keep all the bearish views in mind, I look for market confirmation. We can view this via big picture charts. Please see my article for Seeking Alpha that I published a few days ago: <http://goo.gl/RCZRxQ>

If history for the last 25 years holds then the market needs to break on the monthly before we enter a bear market. Until then, I believe we remain in a grinding uptrend. One RIA looked at August lows and supports that the odds favour a year-end rally (see 3rd link on page 3). In any case, we must all be prepare for what will eventually come. Personally, I am working on improving my shorting models and approach and reading an interesting book by ex-CLSA's Russell Napier entitled "Anatomy of the Bear".

Historically September and October are difficult months so hold on tight!

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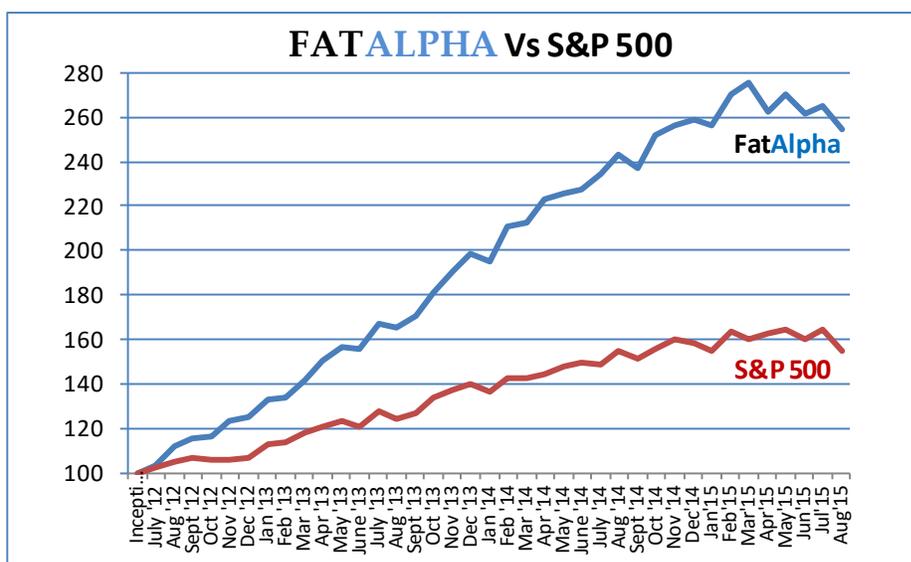
Performance

MONTHLY PERFORMANCE								
Yr/Mo	2015		2014		2013		2012	
	FatAlpha	S&P 500	FatAlpha	S&P 500	FatAlpha	S&P 500	FatAlpha	S&P 500
January	-0.83%	-2.51%	-1.76%	-3.09%	6.45%	5.72%		
February	5.49%	5.62%	7.64%	4.55%	0.71%	1.28%		
March	1.84%	-2.01%	0.91%	0.39%	5.35%	3.34%		
April	-4.80%	1.35%	5.08%	1.06%	6.47%	2.29%		
May	3.11%	1.29%	0.97%	2.32%	4.19%	2.36%		
June	-3.24%	-2.49%	0.83%	1.58%	-0.73%	-1.85%		
July	1.14%	2.62%	3.17%	-0.95%	7.45%	5.60%	2.89%	2.37%
August	-3.93%	-6.13%	3.67%	3.95%	-1.00%	-3.00%	9.12%	2.51%
September			-2.39%	-1.84%	2.78%	2.66%	3.03%	1.99%
October			6.21%	2.74%	6.26%	5.05%	0.66%	-1.36%
November			1.78%	2.75%	5.50%	2.96%	5.58%	0.57%
December			0.86%	-0.80%	4.34%	2.04%	1.79%	0.18%
Year	-1.67%	-2.71%	29.95%	13.08%	59.01%	31.97%	25.14%	6.36%

FatAlpha beat S&P 500 29 out of 38 months

S&P DOWN MONTHS		
Month	FatAlpha	S&P 500
Oct-12	0.66%	-1.98%
Jun-13	-0.73%	-1.50%
Aug-13	-1.00%	-3.13%
Jan-14	-1.76%	-3.56%
Jul-14	3.17%	-1.51%
Sep-14	-2.39%	-1.55%
Dec-14	0.86%	-0.80%
Jan-15	-0.83%	-2.51%
Mar-15	1.84%	-2.01%
Jun-15	-3.24%	-2.49%
Aug-15	-3.93%	-6.13%
Average	-0.67%	-2.47%

FatAlpha beat S&P 500 9 out 11 times



SINCE INCEPTION:	FatAlpha	154.3%	Vs	S&P 500	54.4%
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The S&P 500 benchmark used in the figures above are based on the SPDR S&P 500 ETF (SPY) with after-tax (15%) dividends reinvested. The performance figures for FatAlpha are based on the portfolio manager's personal account and include all fees and commissions charged by Interactive Brokers. If a quarterly management and performance fee of 1/10 with high-water mark are included then the performance for 2012, 2013 and 2014 was 21,95%, 50,80% and 25,55% respectively.

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CHECK THIS OUT!

Mauldin discusses GDP: an interesting must read!

<http://www.mauldineconomics.com/frontlinethoughts/weapons-of-economic-misdirection>

Keynes Vs Hayek – Two music videos about Keynesian vs Austrian Economics

Video 1: <https://www.youtube.com/watch?v=S77BiQWqES4>

Video 2: <https://www.youtube.com/watch?v=GTQnarzmTOc>

Odds favor a year-end rally... after a new low...

<http://jlfmi.tumblr.com/post/128131450860/odds-favor-a-year-end-rallyafter-a-new-low>

Oops! Your ETF Sold 20% Below the Market – Barrons on how investors with stop loss market orders got short-changed:

<http://www.barrons.com/video/oops-your-etf-sold-20-below-the-market/4F863F5F-EEFA-451C-8639-6989CA1EC8E3.html>

A look at the ETF market and how HACK raised \$1.4 billion:

<http://www.bloomberg.com/news/articles/2015-08-26/how-a-one-man-etf-shop-attracted-1-4-billion-in-just-8-months>

Rent or buy... a chicken.

<http://www.cnbc.com/2015/08/17/rent-or-buy-a-chicken.html>

Cybercriminals can now hack into your car:

<http://www.bloomberg.com/news/articles/2015-08-04/hackers-force-carmakers-to-boost-security-for-driverless-era>

This employer sticks chips under the skin...

<http://www.bloomberg.com/news/articles/2015-08-07/wearable-technology-creeps-into-the-workplace>

Germany worried over Forex manipulation

<http://www.wsj.com/articles/germanys-financial-watchdog-worried-over-scale-of-forex-manipulation-1439281634>

Momentum strategies losing steam?

<http://www.bloomberg.com/news/articles/2015-08-18/momentum-trade-gives-evidence-of-its-own-mortality-a-down-week>

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Trades

Date: August 27th, 2015
Ticker: ALL HOLDINGS
Transaction: Bought
Size: Increased positions

Note:
The gap up was an indication to me that the downside was likely over as the market closed above the high of the 24th. Therefore I increased my positions in all my holdings across the board as I expect them to outperform the broader market on a rally.

Date: August 27th, 2015
Ticker: AAPL
Name: Apple
Transaction: Bought
Price: \$111.68
Size: New position

Note:
At \$130 AAPL is a sell but at \$110 it become interesting again, always based on historical valuations. The play here is that the market makes another push up and AAPL outperforms the broader market.

Date: August 14th, 2015
Ticker: BIG
Name: Big Lots
Transaction: Bought
Price: \$43
Size: New position

Note:
Initiated a small long position at \$43 in BIG. The turnaround story here appears to be producing as consecutive quarters of negative comps in same store sales have now turn positive, while operating margins have improved. Relative to competitors it's cheap and I can see investors putting on relative value trades. It's something I may consider. The position is small as I plan to add to it depending on market movement and fundamental developments.

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Date: August 6th & 12th, 2015
Ticker: TSLA
Name: Tesla
Transaction: Short & Cover
Price: \$242.81 & \$236.20
Size: No position

Note:
Initiated a short in Tesla as momentum built in the stock when production expectations were not met. Covered the short at 236.20 based on technicals. After the earnings decline, the stock struggled to move below the low of that day. In addition, on a day the S&P was down over 1% the stock was at -0.5%. Short exhaustion. Or a rest before next push down. In any case, it was prudent to take profits.

Date: August 12th, 2015
Ticker: TEX
Name: Terex
Transaction: Sold
Price: \$25.77
Size: Exit position

Note:
Sold entire position in TEX following its announcement to merger with Finish company Konecranes. The merger is an all share deal where TEX shareholders get 60% and the Finish company 40%. According to news, analysts are puzzled as they don't expect many synergies. In any case, my view is that the story changes as the valuation changes. The Finish company has a much higher valuation, trading in Finland according to Bloomberg, at 20x earnings and around 10x EV/EBITDA. As a result the combined company will have a higher valuation than TEX alone and is thus less attractive to me.

Date: August 12th, 2015
Ticker: OUTR
Name: Outerwall
Transaction: Bought
Price: \$64.39
Size: New position

Note:
Put on a small position in Outerwall (OUTR) at \$64.39. The company's main business are its "Redbox" DVD rental kiosks. Despite the rise of video on demand, Redbox is the cheapest place to rent with DVDs starting at

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\$1.50. And with over 20k locations the combo of convenience and price results in OUTF generating over \$200m in free cash flow (Cash Flow to price is 30%). Even if FCF declines, the stock is worth more than \$64, while it trades at a historical low end based on multiples and relatively to the rest of the market is cheap. Furthermore, the company initiated a 30c per quarter dividend and continues a policy of returning 75-100% of FCF to shareholders. Buybacks continue and the stock's average share count has dropped from 32m 5 years ago to 18m currently.

Date: August 6th, 2015
Ticker: GTS
Name: Triple-S Management
Transaction: Sold
Price: \$23.75
Size: Exit position

Note:
 Sold the entire position in GTS at 23.75 following good earnings which resulting in a 10% rise in the stock. GTS is a managed care provider in Puerto Rico. The company stated that "as a result of the island's fiscal crisis, we thought it prudent to strengthen the allowance for doubtful accounts by \$4.3 million, which represents \$0.10 per diluted share, net of taxes." Revenue beat but eps was in-line. If we include this additional allowance then eps also beat. However, this allowance is an indication of potential trouble ahead. There are calls for statehood, however if we consider that Puerto Rico is pro-Democrats it's hard to see how a Republican congress will allow that to happen. Independence will probably be a nightmare scenario for GTS as a new currency would devalue. It's unknown when the crisis will be solved and will likely take time and induce volatility in GTS. Hence the prudent thing to do in this case is take profit in this stock which was bought at around \$19.

Date: August 4th, 2015
Ticker: ADM
Name: Archer Daniels Midland
Transaction: Sold
Price: \$47.85
Size: Exit position

Note:
 Sold remaining position in ADM at \$47.85. As with its competitor, Bunge, ADM also missed. The stock popped up on a day the market was down due to management expectations for a better second half. ADM appears fully valued and expectations based on expect crops can be difficult to trust. Even if expectations are met, a market re-rating can see ADM much lower.

Date: August 3rd, 2015

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Ticker: ANTM
Name: Anthem
Transaction: Sold
Price: \$154.55
Size: Exit position

Note:
Sold remaining position in ANTM at \$154.55 for the following reasons: 1) The stock is fully valued on a historical multiple valuation basis, 2) Cigna which is being acquired is not a value stock and as such is much more expensive, hence the combined company will not be a value stock, 3) Despite potential upside and synergies these usually don't turn out as planned, 4) It appears that with Obamacare the health care industry is consolidating in an attempt to reduce administrative cost and hence this focus implies there could be future growth opportunities, and 5) The additional debt will put the combined company's Debt/EBITDA at over 4x (ANTM, CI and the additional \$22bn raised). ANTM has already stated in the earning conference call that they have stopped buybacks due to the acquisition. Hence we will likely see a shift in focus to reducing debt which will mean no or fewer buybacks and potentially less dividends.

Date: August 4th, 2015
Ticker: GME
Name: Gamestop
Transaction: Sold
Price: \$45.79
Size: Exit position

Note:
Sold remaining position in GME at \$45.79. Current prices look fully valued. Historical multiples put the high end at \$48 and to justify a \$50+ value then the current cash flows would have to continue. That would imply that margins don't drop which is the most likely scenario. This can happen through a number of ways eg. game publishers take a cut, competitors (including publishers) increase digital sales, etc.

Date: August 3rd, 2015
Ticker: SAFM
Name: Sanderson Farms
Transaction: Bought
Price: \$71.31
Size: Increase position

Note:
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Bought more SAFM at \$71.31. The stock appears to have found some support in the high sixties. The stock is very cheap due to expectations by analyst for a drop in EPS next year. This is based on projections for lower chicken prices. Analysts are usually wrong (remember oil price predictions?) as a result it made perfect sense to add to the position which was small to begin with.

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