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VALUE INVESTING

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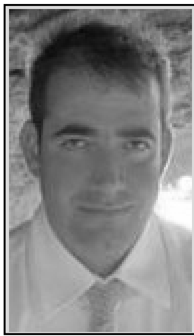

**By
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INSIDE CURRENT ISSUE

2015 is turning out to be a difficult year. This is no surprise as it was/is the most likely scenario to play out. Stock have appreciated significantly since the 2009 low while the economy is not as hot as some like to believe. Furthermore, on the international scene problems continue to pile up with Greece being in the current headlines. The portfolio dropped -3.2% vs -2.5% for the benchmark, while total return for 2015 is now 1.2% vs 1.0% for the S&P.

Greece is the scapegoat for now but the US market is correcting because of the lack of strength in the economy, earnings and stretched valuations. Despite an easy excuse to blame Greece for my current performance, I must admit that I am not happy at all with returns this year. On the one hand, I could be exaggerating as all strategies run into some tough periods regardless of approach. On the other hand, I believe we are always constantly learning and new knowledge and experiences need to be incorporated into what we do.

Two things that I am hoping will help performance is a tweak in the exit strategy and new research I am currently doing. Until now, I've usually held on to a long position until it no long registered as a buy recommendation by my models. This rule will remain in place, however an exception will be added going forward. The exception will regard stocks that despite cheapness should be sold on appreciation if certain risks remain outstanding. This will be based on my own assessment. A recent example is TRN. The stock appreciated significantly from my entry however I held on as it still registered as value. At the same time numerous risks remain which include: the highway guard litigation, and unknown potential change in dynamics to the railcar business (negative news being the oil industry decline offset by continuing surplus production and changes in safety measures which could lead to additional business). So while a typical value story has one main negative theme there were several issues in play here. Hence a take

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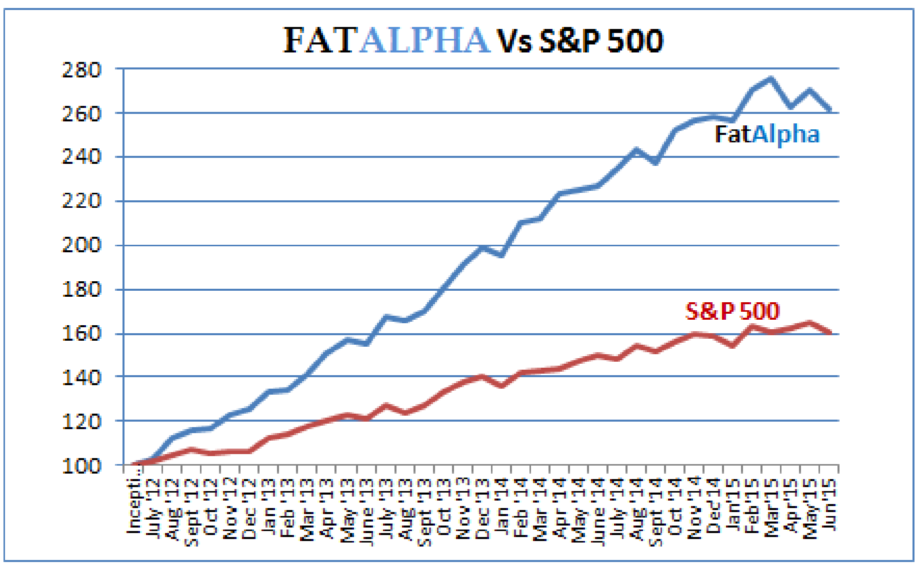
Performance

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			**3.17%**	-0.95%	**7.45%**	5.60%	**2.89%**	2.37%
August			**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	**1.19%**	1.00%	**29.95%**	13.08%	**59.01%**	31.97%	**25.14%**	6.36%
FatAlpha beat S&P 500 28 out of 36 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%
Average	**-0.34%**	-2.10%
FatAlpha beat S&P 500 8 out 10 times		



SINCE INCEPTION:	FatAlpha	161.7%	Vs	S&P 500	60.3%

Value investor in Turkey:
http://www.bloomberg.com/news/articles/2015-06-15/sardis-manager-haydar-acun-bet-against-erdogan-in-turkey-and-won

On the oil glut:
http://www.bloomberg.com/news/articles/2015-06-15/longest-oil-glut-in-decades-looms-as-opec-pumps-up-market-share

How Police stopped this Shakespearean malware:
http://www.bloomberg.com/news/features/2015-06-18/cyber-thieves-used-shakespeare-to-steal-millions-then-police-hit-back

More bubbles….
http://finance.yahoo.com/news/fitbit-opens-52-higher-market-140849498.html

A spot on article on how the IMF went down the wrong path:
http://www.telegraph.co.uk/finance/economics/11654639/IMF-has-betrayed-its-mission-in-Greece-captive-to-EMU-creditors.html

A political view on Germany's stance on Greece from the Center for Economic and Policy Research
http://www.cepr.net/publications/op-eds-columns/germany-is-bluffing-on-greece

Historical returns when the S&P is in a tight range:
http://ryandetrick.tumblr.com/post/122207942620/why-the-s-p-500-being-in-a-historically-tight

Trades

Note:
There were no trades in June.

Commentary (Continued from page 1)

profit despite cheapness could have been justified. Now after the fact, this is easier to judge. So definitely some care is needed, but I'll be trying this "rule exception" selectively going forward and will see how it goes.

The research I've been doing for most of the past month is a fresh look at backtests. This is done for two reasons. The first is to backtest an exhaustive number of individual factors, including many that I haven't looked at in the past. This is done in a more organized manner with categories used (eg. valuation, profitability, capital structure, red flags, etc). Also a variety of factors around the same theme are test to determine predictability. (For example, what is a better predictor regarding debt? Debt/EBITDA, Debt/Equity or change in debt?) This can help not only with generating more profitable ideas but also on the risk side. For example, a factor may not be seen as significant for incorporation into a model but it's "worst" group may significantly underperform. Therefore this may be useful for either a short model or as an alert for outstanding positions. The second reason is the use of a slightly different data set. I've decided to use Bloomberg's point in time data which I had some issues with but believe that over a large data set will average out. In the past I also used Bloomberg data, however I had put a 3-month time delay in the fundamentals so as to not have a forward bias. In May I wrote an article for Seeking Alpha on various data issues models face. I had forgot to mention it in last month's letter. You may find it of interest if you use your own screens or models. You can find it here: http://goo.gl/zvna8e .

On the international scene we have Greece and Puerto Rico. For the US, I would say Puerto Rico is a much more important issue to Americans as many US funds own its debt. Not to mention listed companies that could be directly or indirectly affected. On Greece, the IMF made the right decision today (June 2nd) and admitted that the debt is not sustainable and relief would be needed. It's a shame how the IMF has slid with regard to Greece. Please see this article by the Telegraph:
http://www.telegraph.co.uk/finance/economics/11654639/IMF-has-betrayed-its-mission-in-Greece-captive-to-EMU-creditors.html

Greece needs to both restructure its debt and exit the Eurozone. The debt is simply unsustainable and maintaining the current situation will not solve its problems. Some circles claim that by sticking to the Troika proposals, a potential relief will come about in the future. I don't find that solution acceptable as it basically maintains an artificial status and a manipulation of markets. Others point to the "successful" Cyprus story. What most miss is that growth was not significantly affect by the bail-in because corporations were not affected. How is this possible? The law allowed for a netting off of deposits with loans. Who has both large deposits and large loans? Companies. Hence the burden on the bail-in was on individual savers and Russians. Both groups on average did not go hungry because a) the savers didn't use those funds to live but was mainly rainy day money or to give to their kids, and b) the Russians… well I'll let you think about them. The Cyprus government machine continues to be inefficient, while not even 1 employee was laid-off. Here was a unique opportunity for the Troika to force a government restructuring. At the same time, the banking sector is still in zombie mode. The two biggest banks were merged with a few employees voluntarily leaving while the rest were absorbed instead of laid-off. Unemployment was completely suffered by the private sector, while there have been few growth initiatives. The easiest project would have been a casino, yet even that has not been achieved. A national health care scheme which has been demanded from Europe has also remained a work in progress…

Markets need to clear, and although painful in the short-term, Greece will be better off outside the Euro. The country will become more competitive, exports will emerge, and jobs will be created. Foreign investors will take the opportunity to get involved in a cheap asset, while tourism will provide a huge boost. The only way for the Euro project to succeed is through a lot more unity. There was a wakeup call in 2008 and another now. I don't see any reaction or a call for more unity and more Europe. Hence expect more countries to follow Greece out.

If you want to follow the Greek story I strongly recommend the excellent live coverage by the Guardian.

Happy independence day to my American friends and hope they enjoy their long weekend!