2019

Hubens Capital
January 2020

Biweekly Newsletter

JAN 10th

Make sure you read the Guidelines Newsletter and the Disclaimer Newsletter before reading this newsletter.

This newsletter contains a performance review of the investments that have been done since I started with building up the portfolio in February 2019. In this newsletter you will see the performance benchmarked versus the S&P. Not always the best benchmark, but this is the one investors always tend to look at. More importantly, I will explain why our stocks performed they way they did. For the long-term performance, I explain the potential that is left in our holdings. That is possibly the most important thing to look at. I will also look back at the decisions made and see where what went well and could have been done better.

STOCK MARKET & OUR INVESTMENTS

2019 was a great year for the stock markets. 2018 ended in a very bad show for stocks. This was due to trade war worries and the fear for higher interest rates. January 2019 showed a 10% positive return for stocks and undid the heavy losses in December 2018. In April the S&P found her way back to an all-time high. Between April and October, the Index had ups and downs. These were caused by escalations and de-escalations of the trade war. Trump and Xi were playing with fire and for a while a deal seemed very far away. With the dovish power (and rate cuts) of the FED and ECB, in combination with Trump making a Phase 1 deal with China, markets turned higher and higher in the last months of the year. Add to that that Boris Johnson made a deal with the EU and got a strong majority in the UK parliament with his heavy victory in the UK elections.

Strong performance of the S&P in 2019

HUBENS CAPITAL

Newsletter investments

I started with the newsletter in February. First positions were taken in February and during the year I have been adding investments to the tracking portfolio. I have been adding exposure during the year. Half of the size of the portfolio was added before July/August, and half after.

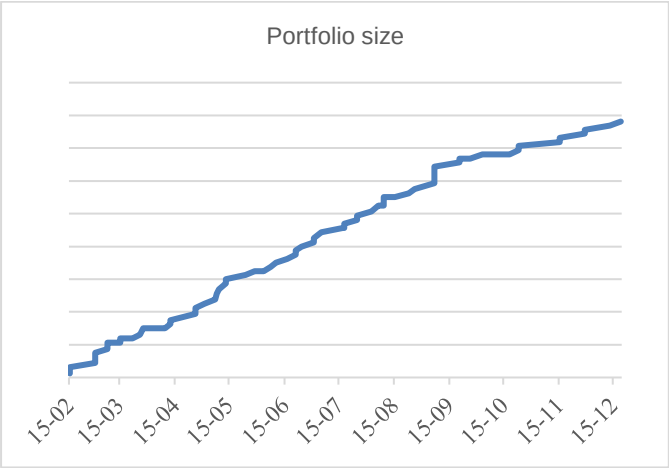
I have focused on different portfolios:

- Offensive portfolio
- Neutral/Defensive portfolio
- Dividend portfolio

Next to that I have discussed option strategies that depending on your own risk appetite and opinion can very nice additions to your personal portfolio.

Per portfolio I will discuss the performance and explain several things that went well and could have done better

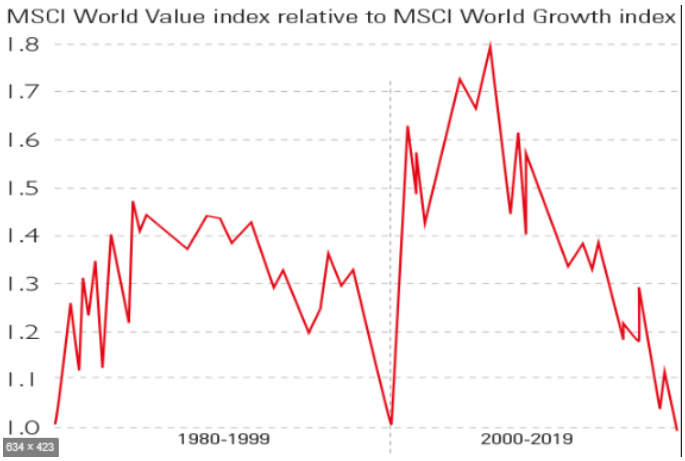
During the year we have been adding investments to the tracking portfolio. To see that this happened gradually over the year 2019, I have added the following graph. The average investment has been added around July/August. Since then the S&P has returned around 9-10%. Below you can see when I have been adding to the total portfolio investments. As you can see this happened quite gradually during the year.



Offensive portfolio

The offensive portfolio aims at building positions in stocks that are heavily undervalued. This most often happens in small caps that are thinly traded. Undervaluation can be caused by a big seller stepping in, parties having to liquidate, the stock falling out of an ETF or index, misunderstanding of the company, tax loss selling, et cetera. The aim is to find these companies, build positions and when things turn back to normal reap large returns. The idea is to buy $1 for $0.50 based on underlying value. With individual small caps it is always unpredictable when it exactly comes back. It might come back within a couple of weeks or months, but it can also take a couple of years. Sometimes we might be wrong and the investment ends with a big loss. Sometimes the investment might become much more worth than we expect. On average the portfolio is high risk/high reward and we expect on most stocks to make 30%-100% return over the span of 0-5 years with now and then an outlier on the downside and upside. The portfolio is ideal for the ones that like investing in small caps and can handle the swings on the short-term. Individual stocks do not correlate that highly with the general market. The S&P might be down 10% for the year and some of the small caps might have gone up very hard.

The opposite can happen as well. We saw this in 2019. 2019 was not a great year for value stocks. Value stocks, especially the small caps have been lagging the stock market quite a bit this year. Below you can see that value stocks have been killed in the market compared to growth stocks. Annoying for 2019, but do not be scared. We own the value and this will come back to the surface.



The stock markets, mainly the S&P, has been driven by technology growth stocks. These stocks keep on climbing without too much fundamental reasons. It is very difficult to understand how much they should be worth. You would have made a lot of money investing in these stocks a couple of years back. You can also lose a lot of money holding on to them in the next years. I am talking about stocks like Facebook, Tesla, Amazon, Netflix. If they would be half their stock price now, would you be able to say it is a screaming buy? Probably not. They barely make money but have sky-high stock prices and expectations. These investments are quite speculative in nature and somehow everyone has been following each other buying it. I focus on value, profits, revenues, book value, EBITDA margins and other financial metrics. To be able to come up with a financial value for a company and be comfortable with holding a position in an undervalued asset.

See below all stocks that we have had in the offensive portfolio and next to it:

- *Risk class (A to D). See newsletter guidelines for more information.*
- *Our performance in the stock in % in bold.*
- *Performance of the stock in % since we bought it till the end of 2019 or till the date we completely closed the position. So that's not our performance but that would have been the performance if we only bought the stock at the start.*
- *Performance of the S&P in % during our holding period of the stock.*
- *Current allocation per stock (up to % of portfolio)*
- *Average allocation during 2019. For example, if we had a 5% allocation during half the year it would be 2,5%.*

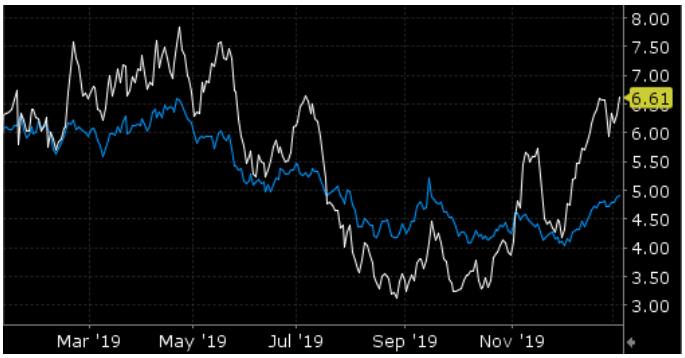
OFFENSIVE	Class	Our result %	Stock %	S&P %	Allocation up to %	Allocation Avg 2019
Earthstone (ESTE)	C	**9,7%**	-13,5%	11,1%	7,5%	8,1%
ETM (ETM)	C	**9,8%**	-21,9%	15,2%	7,5%	6,6%
Lee Enterprises (LEE)	C	**-34,6%**	-44,7%	12,2%	7,5%	4,7%
EMMIS (EMMS)	C	**-12,9%**	-13,7%	9,5%	7,5%	3,0%
Data I/O (DAIO)	C	**-26,1%**	-29,1%	15,1%	5,0%	4,5%
SOMERO (SOM.L)	C	**19,2%**	-0,7%	9,5%	2,5%	2,4%
Tornos (TOHN.SW)	C	**-15,4%**	-15,4%	7,6%	2,5%	1,2%
YY Inc (YY)	C	**-9,3%**	-9,3%	7,5%	2,5%	0,5%
Natuzzi (NTZ)	D	**3,7%**	3,7%	4,4%	2,5%	0,4%
Colony Credit (CLNC)	C	**-2,2%**	-2,2%	2,0%	2,5%	0,1%
GameStop (GME)	C	**-50,2%**	-44,5%	17,7%	0,0%	2,4%
CATO (CATO)	C	**33,7%**	28,2%	3,8%	0,0%	1,5%
NOKIA (NOKIA)	C	**-17,6%**	-16,1%	4,8%	0,0%	1,1%
Average		**-7,1%**	**-13,8%**	**9,3%**		

Comments

Our stocks (-7.1%) have not been moving in line with the S&P, but have underperformed. It might seem annoying, but there is no problem with that as long as the value comes to the surface at some point in the next years. It is very difficult to time when that happens, but it is often not that correlated to the S&P. Moreover, to be able to build positions in the stocks, they need to go against you. In the time of building up positions, the performance will often be negative as one is averaging down in the price. I strongly

believe the stocks in the offensive portfolio have very strong value which is not reflected by the current stock prices. It is waiting for that to be unlocked. We have seen it happening in ESTE and ETM, where the stocks went to very distressed levels. Not at all correlated with the S&P. There was a bit of good news and ESTE more than doubled, ETM moved up 60%. Last week's we have seen an uptrend in Somero of over 40%. These small cap value stocks are on the short term quite often surprising and unpredictable. This creates the opportunity for medium/long term outstanding gains. I have benchmarked everything against the S&P as that is the general market practice. Though, if we for example check ESTE versus the Oil&Gas exploration ETF (XOP), we see ESTE outperforming heavily. Below you see the performance of ESTE (white line) versus the XOP performance (blue line). Both in price terms of ESTE. In the last months, with the recovery of the oil price and the energy sentiment that gets out of heavy negative territory, ESTE has been strongly outperforming the XOP ETF.

ESTE (white) versus XOP (blue)



I will now look back at some decisions without using hindsight biases like: "*every stock that went down was a bad decision and every stock that went up was a good one*". Below I look at what went well and what could have gone better, thinking about the information that was available at the moment the decision was made.

Something(s) that went well in 2019

- Spotting (small-cap) value opportunities that are diversified in nature. Getting into a portfolio of holdings in different sectors.

- Not building up the position in GameStop (GME). GME seemed very undervalued when I entered the position above $10. On the way down, there was not a strong trigger to increase the position and management was not taking the measures to unlock the value. The bull case became less interesting. The stock went down, but there was no reason to add on. Same was true for Nokia, where we hacked the position after Nokia came with a very bad earnings update and outlook. Money in Nokia seemed then to become 'dead money' for a while and it was a good decision at that moment to leave the stock.

Something(s) that could been done better in 2019

- Being more patient generally would have worked out better. In small caps it is not always the best method to enter positions level based. Timing is more important and that is something that could have done better. When bad news comes out in a small cap, the stock tends to tank for a while. When the volatility goes down and the stock settles, is normally a better moment to increase the position. I will give more weight to timing versus price level for small caps in 2020. I never thought ESTE would go to $3.00 or that Macy would go to $15.00 for example. But it happened. On the other hand, when good news comes in and the stock recovers, adding to positions is also important as the uncertainty might be gone and the potential might finally come to the surface.

- I could also focus a bit more on the category D stocks. Stocks of this nature are the most risky but can be interesting for the (very) offensive investor as they also tend to be the most rewarding on average. Though, a total loss of investment has a reasonable chance here, but a triple is also possible. I will try to find a little bit more opportunities in this space, like Natuzzi.

Neutral/defensive portfolio

This portfolio (+5.3%) is for investors who do like investing in stocks but do not like the performance swings and the uncertainty that are inherent to high volatility offensive (small cap) stocks. Stocks in the neutral/defensive portfolio are stocks that are very likely to still be around in 5-10 years and will give you a satisfying return. See below the performance of the stocks that I have marked for the neutral/defensive portfolio. The performance is a bit weaker than that for the S&P (+9.2%). Also here holds that there are quite some value trades like Macy's and PostNL where we built a position on the way down and expect the value to come back. Whether that happens next month or next year that is difficult to say. I believe the value is there and will come back. Also here holds that most stocks are in the portfolio for less than 6 months and a comparison to the S&P benchmark is not always that useful. But I have added it again as investors look at this benchmark all the time. For long term performance I agree that it would be the one to look at.

NEUTRAL / DEFENSIVE	Class	Our result %	Stock %	S&P %	Allocation up to %	Allocation Avg 2019
Macy's (M)	B	**-9,5%**	-28,1%	17,7%	12,5%	9,9%
PostNL (PNL.AS)	B	**5,9%**	1,1%	17,7%	10,0%	8,6%
Vastned (VASTN.AS)	A	**-9,9%**	-14,9%	15,2%	10,0%	7,8%
Arcelor (MT.AS)	B	**8,6%**	-18,6%	11,9%	7,5%	5,8%
Aegon (AGN.AS)	A	**9,5%**	2,4%	15,2%	7,5%	5,5%
Neways (NEWAY.AS)	B	**-14,8%**	-25,4%	10,4%	7,5%	4,3%
BMW (BMW3.DE)	A	**-5,9%**	-11,5%	10,4%	7,5%	5,6%
Shell (RDSA.AS)	A	**6,0%**	5,6%	9,9%	5,0%	2,3%
Annaly (NLY)	B	**9,3%**	9,3%	7,8%	3,75%	2,1%
IBM (IBM)	A	**-3,4%**	-3,8%	8,6%	3,75%	1,4%
Van Lanschot (VLK.AS)	B	**13,3%**	12,5%	8,6%	3,75%	1,4%
Eurocommercial (ECMF	B	**21,0%**	15,5%	7,0%	2,5%	1,9%
Ford (F)	B	**-1,6%**	-1,6%	13,6%	2,5%	1,6%
Covestro (1COV.DE)	B	**4,2%**	4,2%	10,5%	2,5%	1,0%
Ares Capital (ARCC)	A	**0,6%**	0,6%	7,4%	2,5%	0,8%
NIBC (NIBC.AS)	B	**-1,6%**	-1,6%	7,4%	2,5%	0,8%
Energy Transfer (ET)	B	**3,8%**	3,8%	11,9%	2,5%	0,7%
Altria (MO)	A	**11,0%**	10,0%	7,8%	2,5%	0,5%
Saratoga (SAR)	B	**-2,1%**	-2,1%	4,4%	2,5%	0,4%
B&S Group	B	**-2,7%**	-2,7%	2,5%	2,5%	0,3%
ABN Amro (ABN.AS)	A	**3,5%**	3,5%	2,5%	2,5%	0,3%
AT&T (T)	A	**19,2%**	33,8%	1,5%	0,0%	1,2%
ING (ING.AS)	A	**20,2%**	22,5%	6,9%	0,0%	0,9%
Daimler (DAI.DE)	B	**13,1%**	-3,1%	4,7%	0,0%	0,5%
BE Semiconductors (BE	B	**33,7%**	72,6%	9,2%	0,0%	0,4%
Average		**5,3%**	**3,4%**	**9,2%**		

Something(s) that went well in 2019

- Scalping Arcelor Mittal a couple of times. Taking advantage of the volatility. The performance of Arcelor Mittal's stock was -18.6% since we opened the position. We were able to get to a performance of 7.4% by during the year buying and selling Arcelor after big swings up and down.
- Quite some of the stocks that were added have low debt levels and are paying a significant sustainable dividend yield.
- Spotting the Besi opportunity. Besi is in a growing market and was heavily undervalued on quite some financial metrics. Moreover, they were paying a dividend and had no net debt at all.

Something(s) that could been done better in 2019

- *Also, for this portfolio, being more patience at times and not focusing too much on a predefined*

entry level. Waiting longer for an overreaction in a stock before going towards very large allocations. With PostNL I got too easily into a large position. Could have waited longer. With Macy's & Vastned I did a better job for example.

Dividend portfolio

The dividend portfolio is meant for the ones who do prefer to get income out of the investments. For these investors, income is important, and they do not want to just rely on long term expected capital appreciation. Especially for people who are getting closer to retirement, having a well spread dividend portfolio will bring a lot of calmness. The power of dividends can be seen in the following graph. The S&P Total Return Index is trading at more than double the price of the S&P Index. The difference is that the total return index reinvests dividends. The S&P even has a relatively low dividend historically, still the total return is more than double the S&P Index!

The S&P Total Return Index

I have been aiming at constructing the dividend portfolio in such a way that it is mostly based on companies that are expected to keep paying significant dividends. Spreading your portfolio over at least 10-15 high yield stable dividend stocks, brings significant income and reduces your portfolio risk. Currently the dividend portfolio looks like this and I have added a column with the dividend they were paying 5 years ago. The dividend amounts of our dividend portfolio stocks have gone up with around 50% in the last years. Dividends tend to increase and to keep the yield per stock similar, the stocks tend to increase in value. It is nice to have stocks like Amazon, Facebook and Netflix. But on the long term, historically, dividends drive 60%-80% of the total return of the stock market. Some people might find it boring to invest in dividend paying companies as they are often slowly moving and stable. History learns that on the long term these companies do outperform non dividend paying companies.

Stock	Yield	Less Safe	Yield 2014
Annaly (NLY)	10,6%		12,7%
NIBC (NIBC.AS)	9,2%		0,0%
Colony Credit (CLNC)	8,9%		NA
ABN Amro (ABN.AS)	8,8%		4,9%
Saratoga (SAR)	8,8%		0,7%
Macy's (M)	8,8%	X	7,0%
Eurcommercial (ECMPA.AS)	8,7%		8,4%
Ares (ARCC)	8,2%		8,1%
Aegon (AGN.AS)	7,4%		5,7%
Van Lanschot (VLK.AS)	7,3%		2,3%
Energy Transfer (ET)	6,9%		5,5%
Vastned (VASTN.AS)	6,8%		7,6%
Altria (MO)	6,7%		4,0%
Ford (F)	6,6%		5,2%
Shell (RDSA.AS)	6,3%		6,3%
Covestro (1COV.DE)	5,9%	X	0,0%
IBM (IBM)	4,8%		3,2%
BMW (BMW3.DE)	3,5%	X	4,6%
Average Yield	**7,5%**		**5,1%**

POTENTIAL

I believe there is a lot of potential left in the stocks in the newsletter. A lot of our stocks have not reached anywhere close to the target levels I have set based on my analysis. See below per portfolio the potential left, which is the stock price at 31-12 compared to my current target price. When the potential is higher, it does not automatically mean I would take larger positions. Important factors are downside risk, geographics, financial stability of the company, dividend policy, liquidity, etc.

OFFENSIVE	Class	Price 31-dec	Target	Potential %
Earthstone (ESTE)	C	6,33	13,00	*105%*
ETM (ETM)	C	4,64	10,00	*116%*
Lee Enterprises (LEE)	C	1,42	3,00	*111%*
EMMIS (EMMS)	C	4,03	8,50	*111%*
Data I/O (DAIO)	C	4,19	8,00	*91%*
SOMERO (SOM.L)	C	274,00	400,00	*46%*
Tornos (TOHN.SW)	C	6,68	12,00	*80%*
YY Inc (YY)	C	52,79	100,00	*89%*
Natuzzi (NTZ)	D	1,70	4,00	*135%*
Colony Credit (CLNC)	C	13,16	20,00	*52%*

NEUTRAL / DEFENSIVE	Class	Price 31-dec	Target	Potential %
Macy's (M)	B	17,00	35,00	*106%*
PostNL (PNL.AS)	B	2,01	3,50	*74%*
Vastned (VASTN.AS)	A	26,70	40,00	*50%*
Arcelor (MT.AS)	B	15,80	26,00	*65%*
Aegon (AGN.AS)	A	4,07	5,75	*41%*
Neways (NEWAY.AS)	B	9,96	17,00	*71%*
BMW (BMW3.DE)	A	55,05	85,00	*54%*
Shell (RDSA.AS)	A	26,17	31,00	*18%*
Annaly (NLY)	B	9,42	12,00	*27%*
IBM (IBM)	A	134,04	200,00	*49%*
Van Lanschot (VLK.AS)	B	20,05	26,00	*30%*
Eurocommercial (ECMF	B	25,00	35,00	*40%*
Ford (F)	B	9,30	14,00	*51%*
Covestro (1COV.DE)	B	41,47	60,00	*45%*
Ares Capital (ARCC)	A	18,65	25,00	*34%*
NIBC (NIBC.AS)	B	7,52	11,00	*46%*
Energy Transfer (ET)	B	12,83	17,00	*33%*
Altria (MO)	A	49,91	60,00	*20%*
Saratoga (SAR)	B	24,95	32,00	*28%*
B&S Group	B	9,60	15,00	*56%*
ABN Amro (ABN.AS)	A	16,22	24,00	*48%*

OPTION STRATEGIES

Do not forget to have a look at the option strategies in the newsletters that I sent out. They were very nice trades in addition to your portfolio in 2019. Quite often they are aimed at increasing the return on some of the stocks that are already in the portfolio. They will help you achieving a better performance of your personal portfolio. I will do my best to hand you, like in 2019, interesting option trade ideas.

OVERALL CONCLUSION

Value stocks have underperformed in the last years, and especially in 2019. According to research, it was the heaviest underperformance in 2019 since 2000. The S&P has been dragged up mostly by technology stocks this year. Our offensive portfolio underperformed as a result of the general underperformance of the value stock market. On one hand this is annoying and not the result one would wish for. On the other hand, we have been able to buy these value stocks at low and lower levels. This is expected to pay off at some point. Unless fundamentals ultimately don't matter in the market, which would be very unlikely. We have experienced a very strong upswing in Q4, also in value stocks. Moreover, this year has started off very well for our portfolio stocks. Our neutral/defensive portfolio with also mostly safer value stocks has posted a positive return of 5.3% during our holding period in 2019. But also underperformed the S&P, which gained 9.2% in the period we held the stocks. The underperformance here is smaller than in the offensive portfolio, as the offensive stocks have a much higher volatility.

I am looking forward for the remainder of the year and I think the portfolios are very strong and solid and have a strong potential. Maybe it does not always show up rapidly, but in the end it will.

A 100% potential you can see as buying a dollar for 50 cents. Maybe you first bought at 60 cents and then at 50 cents. There is no need to panic, even not if it goes to 40 cents. The thing you need to realize is that you expect it to be going back to a dollar. Maybe not today or tomorrow, but at some point, you will be paid. If you have several different bets like this, it is very likely it will work out for you. On an individual investment you can be wrong. The dollar might only be worth 10 cents or might be worth 2 dollars! But if you have 5 to 10 of these kinds of high potential investments, the risk is very much subdued.