

# HSAX & CO., LLC

“the opportunities never stop”

Sunday, May 6, 2017

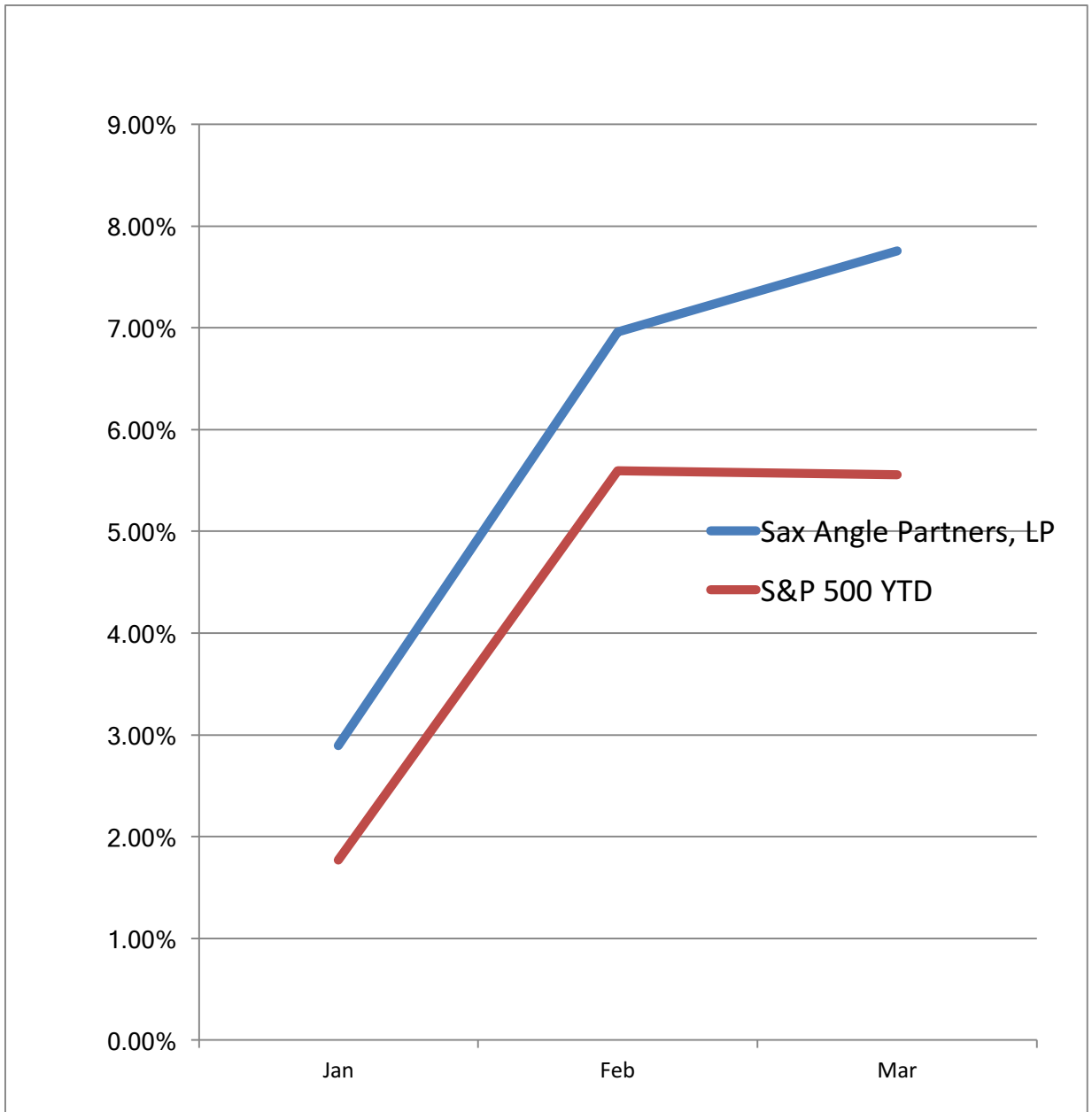
## Sax Angle Partners, LP 1st Quarter 2017 Partner Letter:

*"When you're hot, you're hot / And when you're not, you're not / Put all the money in and let's roll 'em again" Jerry Reed Grammy Award for Best Male Country Vocal Performance 1971*

### Results and Benchmark Comparisons:

Sax Angle Partners was **up 0.73%** for the month of March, **up 7.33 %** for the quarter and **YTD for 2017** net of all fees. Your own individual returns may vary based upon timing of withdrawals/additions and fee arrangements. The benchmark index, S&P 500, returned **-0.05% and 6.07% total return** (dividends reinvested) during these same time periods. The Fund returned 25.22% over the last twelve months ending March 31, 2017 versus the S&P 500 total return of 17.17%.

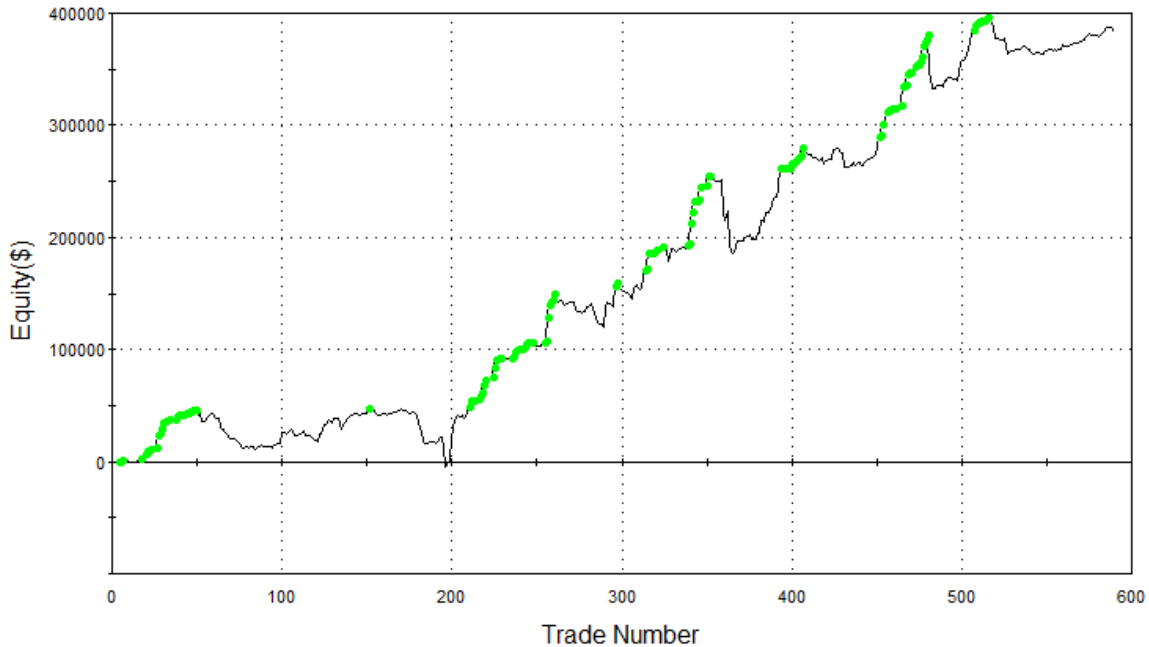
This letter serves as both a report to the partners of how their investment is doing and serves as a report card to me. I am a strong believer in reviewing past results. If you don't analyze past results, you are not likely to improve upon them.



Sax Angle Partners vs. S&P 500 w/o dividends

**Winners and losers:** Winning trades were ahead of losing, 354 to 232 for a winning percentage of 60.41%. More than 60% of the long trades were profitable and 62.11% of our short trades were profitable. This is the largest winning percentage we have seen in quite a while and the best short winning percentage on record.

Equity Curve Line (1/3/2017 13:47:56 - 4/20/2017 09:50:16)



Equity line says it all.

**Top 5 Winners and Losers as of April 4th 2017**

<b>Winners</b>	<b>Realized Gains</b>	<b>Unrealized Gains</b>	<b>Totals</b>
GoGo Inc	\$170,107.00	\$4,816.00	\$174,923.00
Abbott Laboratories	\$95,825.00		\$95,825.00
Edwards Life Sciences	\$61,557.00		\$61,557.00
Triumph Group	\$55,968.00	-\$3,327.00	\$52,641.00
Qualcomm Inc	\$51,493.00		\$51,493.00
<b>Total Gains</b>			<b>\$436,439.00</b>
<b>Losers</b>	<b>Realized Losses</b>	<b>Unrealized Losses</b>	<b>Totals</b>
Coty	\$42,884.00	-\$37,875.00	\$5,009.00
Syntel	\$20,027.00	-\$22,442.00	-\$2,415.00
Taser International	-\$15,564.00	-\$1,531.00	-\$17,095.00
Amtrust Financial	-\$13,075.00	-\$15,112.00	-\$28,187.00
Tailored Brands	-\$12,410.00		-\$12,410.00
<b>Total Losses</b>			<b>-\$55,098.00</b>

Confidential

## Current holdings:

The best way for you to follow our investments is through the weekly updates on the portfolio holdings at <http://saxangle.com/fund-holdings/>. The password is partners22. Please do not share this password.

No review of the Top 10 holdings would be replete without asking ourselves what if we did nothing and let ride the investments from the previous quarter. With that in mind we examined the Top 10 holdings from the end of last year to the end of the 1<sup>st</sup> quarter 2017. The results are outlined below.

Description	12-30-16	3-31-17	% Ret
ABBOTT LABORATORIES	38.41	44.41	15.6%
Medtronics PLC	71.23	80.99	13.7%
Paycom Software Inc	45.49	57.19	25.7%
Spade & CO	18.67	23.2	24.3%
Inovalon Hldgs Inc	10.3	12.27	19.1%
Allergan	210.01	239.8	14.2%
Taser (now Axon Enterprise)	24.24	22.79	-6.0%
SPDR Gold Trust	109.61	118.72	8.3%
Edwards Life Science	93.7	94.07	0.4%
Transdigm	248.96	220.03	-11.6%
GoGo Inc.	9.22	11	19.3%
<b>Average Return</b>			<b>11.2%</b>

## Buy and Hold Hypothetical Returns

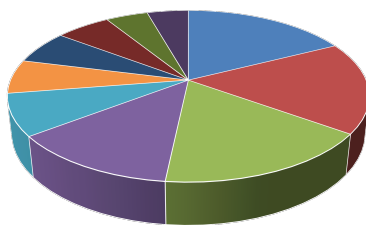
A buy and hold strategy on an equal dollar amount would have beat both the actual returns of the Partnership as well as the S&P 500. *This should provide investors and partners further validation that the “insider fund” strategy makes a lot of sense. Our implementation of it though could have been improved upon.*

The efficient market hypothesis assumes that all information about a company is already reflected in its price and therefore investors are best served by investing in low-cost index funds. Eugene Fama, of the University of Chicago, defined its essence: that the price of a financial asset reflects all available information that is relevant to its value. Accordingly, research is basically worthless and no one beats the market for long periods of time. The efficient market hypothesis theory has had a great impact on investor beliefs ushering in the era of index funds and their sponsors like Vanguard. I *agree* that much information is already reflected in the price. **But there is a possibility that some information is not public and hence not reflected in the price.** That is the essence of “the insider fund”, Sax Angle

Partners. Keep that in mind when you read about our top holdings. Pay attention to the sections labeled **catalysts**.

Confidential

## Portfolio holdings 4-19-17



### Top Ten Holdings of the Fund

**Coty, Inc COTY** is one of the world's leading beauty companies with approximately \$9 billion in revenue, a rich entrepreneurial heritage and an iconic portfolio of leading brands. It's controlled by JAB group, the investment vehicle of the Riemann family of Germany. In October of last year Coty completed the merger with P&G's fine fragrance, color cosmetics and hair styling recently, making it the global leader in fragrances, with the number two position in salon hair and number three in color cosmetics.

---

*The "new" CEO from P&G bought \$1.4 million of stock in February of this year. The following month an officer and a director bought \$248 K and \$597.6 K of stock respectively. This insider behavior attracted us to the name. We haven't been able to justify the purchase on fundamentals but the insider buying as well as the favorable demographics of millennials entering this market in large numbers leads us to believe where there is smoke there is fire.*

---

**Analog Devices, ADI** designs, manufactures, and markets a portfolio of solutions that leverage analog, mixed-signal, and digital signal processing technology, including integrated circuits (ICs), algorithms, software, and subsystems. It offers data products, which translate real-world analog signals into digital data, as well as translates digital data into analog signals; high-performance amplifiers to condition analog signals; and radio frequency ICs to support cellular infrastructure.

---

*ADI has large and successful buying from a director, most recently purchasing an additional \$2.1 million of stock at a 52-week high. The most bullish of insider buying is when officers and directors are buying near the high. That usually means business is good and probably getting better. This certainly seems to be the case for the chip business with autonomous cars on the horizon and no end in sight for the wireless and internet of things markets. Our DCF analysis pegs the value at \$92.54, a substantial premium to its recent \$78.66 price.*

---

**Triumph Group, TGI Triumph Group, Inc.** designs, engineers, manufactures, repairs, overhauls, and distributes aero structures, aircraft components, accessories, subassemblies, and systems worldwide. Its aero structures group segment designs, manufactures, builds, and repairs acoustic and thermal insulation systems, aircraft wings, composite and metal bonding, composite ducts and floor panels, empennages, engine nacelles, flight control surfaces, helicopter cabins, precision machined parts, stretch-formed leading edges and fuselage skins, and wing spars and stringers

---

*CEO Crowley bought \$1.3 million of stock in November 2016 and was accompanied by VP Holzthum's purchase of \$255k worth. In February of this year, Co reaffirmed guidance for FY17, sees EPS of \$3.15-3.45 At less than 9 times earnings the stock looks inexpensive to us.*

---

**Gogo, GOGO** through its subsidiaries, provides communications services to the commercial and business aviation markets in the United States and internationally. If you've ridden an airplane and used Wi-Fi services, you were most likely a GoGo customers.



---

*Catalyst- The connection speed and service have been terrible but the Company is deploying a new technology that promises to bring broadband connectivity to the skies. This is a big largely untapped market. Insiders have been big buyers too.*

---

\

**Delta DAL** is one of the largest airlines in the world. It had a remarkable run over the summer of 2016 added by the revelation that Warren Buffett was buying the airlines after years of saying he would never touch one. We traded this name successfully, exiting all our position. Now we have reestablished a core position in Dal as well as United Airlines and are making good money on it.

---

*Again, recent insider activity alerted us to this stock laggard. After a 12% pullback from late December, Delta has attracted some insider buying. A director picked up \$250k on April 17<sup>th</sup>. That alone would not have caused us to pull the trigger but the chart looked good on Delta having found some support at the 200-day moving average and bounced nicely. We were happy to get back in the stock as we unloaded most of our large position in the low 50's.*

---

**Triumph Group, TGI** designs, engineers, manufactures, repairs, overhauls, and distributes aero structures, aircraft components, accessories, subassemblies, and systems worldwide. The company serves the aviation industry, including original equipment manufacturers of commercial, regional, business, and military aircraft and aircraft components, as well as commercial and regional airlines and air cargo carriers. Triumph Group, Inc. was founded in 1993 and is headquartered in Berwyn, Pennsylvania.

---

*After reaching as high as \$40 per share earlier in 2016, the CEO purchased \$1.3 million worth at \$25.56 on November 7th accompanied by two vice presidents purchasing an additional \$300k. BAML price target is \$35 using a DCF valuation with a terminal growth rate of 0.9% and discount rate of 9.6%. Revenues are heavily dependent on Boeing: (49% percent of revenues are derived from Boeing (both*

*commercial and military). An increase in defense spending and stable commercial orders could provide upside to these numbers.*

---

**Qualcomm QCOM** is one of the most storied tech companies of all time, literally having patented cellular communication. QCOM owns the essential patent rights around ubiquitous 3G technology and extensive patents on 4G and LTE. QCOM is heavily investing in 5G which promises to be the next “big” thing. The company has two business lines, licensing IP and fabless semiconductor design and manufacture.

---

*Qualcomm was one of our biggest winners last quarter. Now it is probing a 52-week low as a licensing disputes with Apple seem to have turned into full blown war. This has created a large amount of risk associated with the stock even for a company like Qualcomm that is considered the father of modern cellular smartphone communications. Nearly every 3G, 4G, and to a lesser degree, LTE device manufacturer pays them a royalty. None the less it doesn't help you to have a gorilla in your cage that doesn't want to share the bananas.*

---

**Vista Outdoor VSTO** Vista Outdoor Inc. designs, manufactures, and markets consumer products for the outdoor sports and recreation markets worldwide. It provides its products under the Alliant Powder, Bee Stinger, BLACKHAWK!, Bollé, Bushnell, Butler Creek, CamelBak, Cébé, Champion Target, Eagle, Final Approach, Gold Tip, GunMate, Gunslick Pro, Hoppe's, Jimmy Styks, M-Pro 7, Millett, Night Optics, Outers, Primos, RCBS, Redfield, Serengeti, Simmons, Stoney Point, Tasco, Uncle Mike's, and Weaver brand names. The company sells its products to outdoor enthusiasts, hunters and recreational shooters, athletes, and law enforcement and military professionals through various mass, specialty, and independent retailers. The company was incorporated in 2014 and is headquartered in Farmington, Utah.

---

*We were first attracted to VSTO because of a sizeable insider buying. Chairman Deyoung purchased 20,000 shares at \$20.80 on February 16 as well as an officer and a director purchasing approximately \$100k each. Our cost of \$20.90 is substantially from its 52-week high of \$52.08. Vista guided below consensus to \$1.90-\$2.10 per*

*share earnings for 2017. If they report a number in line with this on May 11th, the stock should rally.*

---

**Tempurpedic TPX** Tempur Sealy International, Inc., together with its subsidiaries, develops, manufactures, markets, and distributes bedding products worldwide. It operates through two segments, North America and International. It offers its products under the TEMPUR, Tempur-Pedic, Sealy, Sealy Posturepedic, and Stearns & Foster brand names.

---

*I was first attracted to the bed before the stock. If you haven't tried a Tempurpedic bed, I urge you too. There is nothing quite like it. It has spurred an onslaught of imitators of its body-moldable soft cushion. About the only negative I can say is that the very expensive mattresses don't wear out. I'm going on 12 years on my King with no reason yet to replace it.*

---

**Occidental OXY** Occidental Petroleum Corporation engages in the acquisition, exploration, and development of oil and gas properties in the United States and internationally. The company operates in three segments: Oil and Gas, Chemical, and Midstream and Marketing. The Midstream and Marketing segment gathers, processes, transports, stores, purchases, and markets oil, condensate, NGLs, natural gas, carbon dioxide, and power. This segment also trades around its assets consisting of transportation and storage capacity, as well as oil, NGLs, gas, and other commodities. Occidental Petroleum Corporation was founded in 1920 and is headquartered in Houston, Texas.

---

*If you need to own an oil company (which we don't) in this commodity space, I think you should look at Occidental. They have the largest amount of insider buying in the sector, a juicy 4.7% dividend yield, and the most acreage in the Permian basin which is the most desirable shale play in the U.S. Officers and directors have bought over \$2.4 million of stock in the last 6 months, all of which are underwater.*

---

**Pure Storage PSTG** is a Palo Alto based company engaged in building a data platform through its Purity Operating Environment, an optimized software for solid-state memory that offers enterprise-class storage and protocol services, including Flash Array and Flash Blade optimized hardware products for

**1887 Gold Dust Lane, Suite 203A, Park City, UT 84060**  
**wk. 435-658-1934 ▪ fax: 206.984.4109 ▪ email: harvey@hsax.com**

solid-state memory to enhance the performance and density of flash, optimize its advanced software services, and reduce solution cost for customers. Flash is the future of storage so this company looks like a reasonable bet on a high growth tech market.

---

*We live in a world of ubiquitous and unbounded data. This on demand world in the cloud has a physical address and it is in data centers humming 24 X 7 around the globe. The trend in data storage is inexorably toward greater and greater amounts of storage and faster and faster access speeds. Pure Storage's name says it all. We believe this small cap fast growing entry into the field is an acquisition candidate for one of the entrenched players like a Seagate or a Facebook or Google that wants to assert more control of its data destiny.*

---

**Facebook, FB, Apple, AAPL, Alphabet, GOOG** We recently repurchased these three mega cap tech stocks. We have owned them off and on for years but it has become clearer to us that these companies have created insurmountable economic moats.

---

*Facebook may have the best business model in the world, as almost all of their content is proprietary to them and basically donated by its community of users. They made \$3 billion in net profits in the last quarter, growing revenues 49% and earnings 76%. I doubt you can name another company growing at that rate with near zero cost of goods.*

---

### **Housekeeping:**

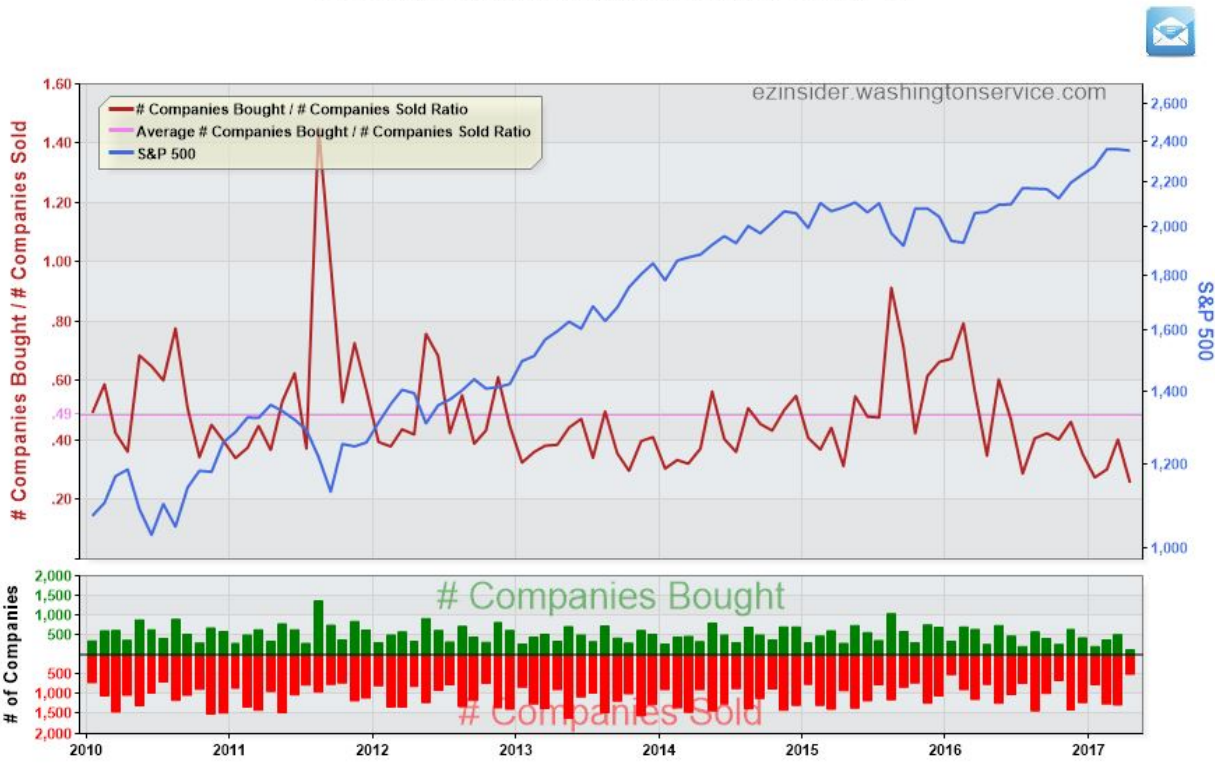
Sax Angle Partners is trying to make the most amount of money possible with a low level of risk. That may sound like an oxymoron, but we consider buying stocks at depressed prices that insiders are accumulating to be less risky than buying the market through a low-cost index fund. Nonetheless this strategy is volatile and may not be suitable for everyone or every investable dollar you might have. ***We do manage separate accounts with different investment objectives and strategies. Our fees for this service are highly competitive too.***

I wrote in the 1<sup>st</sup> quarter 2016 partner letter that "As part of our review of our peers, we come across outstanding emerging managers who have very different investment strategies than Sax Angle Partners. **One such strategy is run by Russell Kellities of Theta Funds.** We recently hosted Russ for a day of seminars at Park City Hotel. Several sophisticated investors liked the value proposition and have subsequently invested. I think Theta Funds is an excellent companion to your investment in Sax Angle Partners as it's mostly uncorrelated to the market and very different than what we do at the Fund. You can learn more about Theta Funds and separately managed accounts from our new financial advisor, Michael Ross. Michael has been charged with the task of finding new investors while with making sure that we are paying close attention to the ones we have!

**Our outlook:**

Corporate insiders have talked a good game about the improved business prospects under the Trump administration but as seen by this recent chart below, it's mostly talk.

Ratio of # Companies Bought / # Companies Sold vs. S&P 500



Reflects data as of 4/20/17

Insiders are boycotting the market by and large

Insider Buying is Anemic

Insider buying is at historic lows giving some credence to the bears that this the most overvalued market in years. This is not a bullish sign when the people that know corporate America the best are putting

their money elsewhere. Although this may be on the cusp of changing a bit. The SEC just reported notable buys by a Bank of America director purchasing \$595k worth of stock, several large Wells Fargo purchase, Cree Director for \$221k, an Eastman Kodak director for \$9 million, Twitter CEO Jack Dorsey bought \$9.5 million, and United Continental Holdings director scooped up 10,000 shares for \$693k. Animal spirits may finally be picking up.

Interest rates remain bewildering low even though the Federal Reserve has made it abundantly clear they would like to raise the Fed funds rate two or three more times this year. I agree with Warren Buffett that the stock market looks like a good value if rates remain low. Buffet stated in an CNBC interview on February 27th "Measured against interest rates, stocks are actually on the cheap side."

The Trump tax plan as it stands now is incredibly bullish for stocks and particularly bullish for hedge funds. Partnership income has a proposed tax rate of 15. This is frankly too good to be true but we are hopeful that even if we don't get the full Monty, the trajectory is at least going our way. If this gets approved you will want to move out of mutual funds into hedge funds like ours with its partnership income status. *You may want to do that any way as few hands have been as hot as ours over recent months.*

Even though we are very bullish, we are not blind to negative feedback loops. A sharply divided country is not likely to instill across the board consumer confidence. Since consumer buying is 70% of the economy, that might begin to chip away at recent employment gains and business optimism. Increased protectionism in the effort to promote a made in America agenda could lead to higher prices for many products. Combined with near full employment and a fiscal stimulus program, interest rates may rise. Couple all of that with the reality that a tough stance with China and the EU may have unintended consequences causing foreign investors to shun dollars in lieu of promoting or protecting the renminbi or euro. The Euro project looks ever more tenuous even though Macron is heavily favored to win and the market has rallied a bit on that. If France votes to leave the European Union, it's hard to imagine how the EU continues to function. Adding just some of that together with lingering uncertainty may serve to contract P.E. ratios of the market even if the economy reacts favorably to the "new" Republican agenda. In the immortal words of Dickens, the present may be best summed up " *It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way*" Sound familiar?

Thanks again for your support. 2016 was a rewarding year for patient investors. People are prone to setting goals for the new year. We are going to build on a good 2016 with a spectacular 2017.

Sincerely,

*HWS*

Harvey Warren Sax

President

Confidential