The Turnaround Letter

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LOOKING TO INSIDERS FOR CLUES TO A TURNAROUND

It's been said that insiders sell their personal holdings of their company's shares for many reasons, but they buy for only one reason: the stock is headed higher. For turnaround investors, insider stock purchases can provide important clues that a recovery may be ahead.

Corporate officers, directors and major stockholders are required to report their purchases and sales of stock to the Securities and Exchange Commission (SEC) every month. These "insider" trades can indicate that those with the best knowledge of a company believe it will do better in the future. Long before anything newsworthy happens, or before an upturn appears in a company's financials, an insider may see positive changes and purchase the company's stock. This can be a sign that "outsiders" should consider buying it, too.

These publicly-reported insider purchases are different from other kinds of "insider trading", which are illegal practices where individuals trade stocks on material, non-public information beyond the boundaries set by the law.

Our research focused on recent, large purchases reported by insiders of major U.S. companies. We chose only open market purchases, which provide a more valuable signal than option-grant purchases or other types of buying. And, as turnaround investors, we emphasized out-of-favor stocks. Listed below are seven companies with these appealing traits.

Cadence Bancorporation (CADE) – Based in Houston, Cadence is a regional bank with $18 billion in assets. It was formed by the current management team in the aftermath of the 2009 financial crisis with $1 billion they raised to acquire distressed banks. Following several acquisitions, Cadence completed its initial public offering in April 2017. While the shares have rebounded this year after a nearly 50% decline late last year, they remain barely above the $20 IPO price. Cadence is producing healthy profits and is well-capitalized although its loan reserves appear a tad light. In March, founder/chairman Paul Murphy, president Samuel Tortorici and other directors and officers purchased $43 million in shares – a strong vote of confidence in Cadence's future.

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Camping World Holdings (CWH) – Founded in 1966, Camping World is the nation's largest retailer of recreational vehicles (RVs), accessories and repair, refurbishment and other services,

"Insider Buying" Stocks

Company	Symbol	Recent Price	12-month % change	Market Cap ($bil)	EV/ EBITDA	Yield (%)
Cadence Bancorporation	CADE	22.45	-25	2.9	1.3*	3.0
Camping World Holdings	CWH	15.12	-46	1.3	7.6	4.1
Continental Resources	CLR	48.05	-26	18.1	6.3	0.0
Entercom Communications	ETM	6.76	-35	1.0	7.5	5.3
Kinder Morgan	KMI	19.86	+25	45.0	10.7	5.0
Mattel	MAT	12.51	-12	4.3	17.8	0.0
New Fortress Energy	NFE	12.79	na	2.1	12.0	0.0

Closing prices on April 29, 2019.
CADE valuation is price/tangible book value, not EV/EBITDA.
Source: CapIQ, Sentieo

with over 135 physical locations and a comprehensive online store. Revenues in 2018 were $4.8 billion. It owns the Good Sam Club brand and has strong marketing relationships with NASCAR and Major League Baseball, and it holds the naming rights to the Camping World Stadium in Orlando and the Camping World Bowl. CWH shares fell nearly 75% last year on disappointing earnings and a minor accounting issue. However, CEO Marcus Lemonis, who has voting control in the company (Lemonis is also the host of the popular TV show "The Profit"), bought almost 100,000 shares in mid-March. Interestingly, the highly regarded hedge fund Abrams Capital added 413,000 shares to its 11.7% stake in March, as well.

Continental Resources (CLR) – Continental is among the largest independent oil exploration and production companies in the United States. Its operations are focused on the Bakken region of North Dakota and also parts of Oklahoma. The company is expected to continue posting strong oil production growth. Its shares are quite volatile, given Continental's leverage to commodity prices and modestly elevated debt level. Recently, Harold Hamm, the colorful founder, chairman and CEO, acquired close to 2 million shares this year after a buying hiatus last year. Hamm owns 77% of the company's shares.

Entercom Communications (ETM) – Entercom is the second-largest radio network in the United States. It also owns the radio.com digital platform and organizes live entertainment events. In 2017, the company acquired the CBS Radio operations. Its high debt and exposure to intense media competition have pressured its revenues and profits in recent years, leaving its shares at the same price as in late 2009. However, the chairman emeritus, Joseph Field, who is the largest shareholder with a 10.5% stake, acquired 960,000 shares this year, indicating that the company's prospects may be turning upward.

Kinder Morgan (KMI) – One of the largest energy infrastructure companies in North America, Kinder Morgan has interests in 84,000 miles of natural gas, CO_2 and refined petroleum product pipelines as well as 157 terminals. Nearly all of the company's capacity is under either "take-or-pay" or fee-based contracts, and so the business carries limited commodity price risk. Several years ago the company simplified its complex MLP structure by converting to a corporation. KMI generates prodigious free cash, allowing it to boost its well-covered dividend and make sizeable share repurchases. Richard Kinder, founder and executive chairman, receives a token $1 annual salary and owns 11% of the company. He has been a large and steady buyer this year, purchasing over $80 million in shares since January.

Mattel (MAT) – *Turnaround Letter*-recommended Mattel is in the midst of a comprehensive and difficult turnaround. Much of its difficulties arise from years of weak management, leaving its toy roster dated and its expense base bloated. However, the new CEO, Ynon Kreiz, appears to be taking the company in a promising direction. Results in the just-completed first quarter were encouraging, with revenues (adjusted for currency changes) and profits showing meaningful improvements. The company's recent guidance, however, suggests that much work is still needed. Nevertheless, CEO Ynon Kreiz bought $1 million in shares in mid-February, his first open market transaction. The CFO and the lead independent director also acquired meaningful shares.

New Fortress Energy (NFE) – This new company's shares remain below the $14 price when it completed its spin-off from investment manager Fortress Investment Group in January. New Fortress Energy is an integrated LNG production company focused on developing and operating LNG projects. Essentially, it delivers natural gas to markets around the globe where prices are unusually high. Its founder and 15.7% owner, Wesley Edens, recently added about $8 million to his holdings, and director Randal Nardone boosted his own stake by $5.7 million.

Disclosure: An employee of the Publisher owns Mattel shares.

CLOSED END EQUITY FUNDS: BUYING STOCKS AT A DISCOUNT

When is it possible to buy stocks at large discounts to what everyone else pays? When you buy them through a closed end mutual fund.

Like open-end mutual funds, closed end funds ("CEFs") hold actively managed baskets of publicly-traded stocks. Yet unlike their cousins that can expand or shrink their size based on whether investors are buying or selling, closed end funds have a fixed number of shares. Investors can trade the shares throughout the day at whatever price the market determines. In the ideal world, the shares would trade at the value of the underlying basket of stocks net of liabilities, or net asset value ("NAV"), but this rarely is the case.

Most CEFs trade at a discount to NAV. Reasons for this include: the fund may focus on an out-of-favor segment or hold illiquid securities; investors may have lost faith in the manager's ability to pick stocks; or perhaps the fees and incentives of the managers aren't aligned with investors' interests. Some closed end funds hold stocks with large gains, reducing the after-tax NAV should these stocks be sold, as investors are responsible for paying taxes on realized gains.

In some cases, shares of CEFs trade at substantial discounts of 15-20% to NAV. This benefits investors in several ways: the discount can shrink (providing extra returns), they can buy the fund's income stream at a reduced price, and they can re-invest any distributions at the discounted price, in effect putting a dollar to work at a cost of perhaps 85 cents. Moreover, sometimes activist investors will push for the liquidation of a closed end fund, which would reduce its discount to nearly zero.

Listed below are some CEFs with large discounts to NAV that we think are worth a look. Some of the yields appear high, and so potential investors will want to be aware that the yield is based on *all* distributions, including dividends and capital gains (and some CEF's even return the investors' capital to them in the form of dividends).

Closed End Equity Funds

Company	Symbol	Recent Price	% Discount to NAV	Net Assets ($mil)	Yield* (%)
Adams Diversified Equity	ADX	15.23	14	1,800	12.9
Adams Natural Resources	PEO	16.94	17	595	6.9
Boulder Growth & Income	BIF	11.16	17	1,351	3.7
Central Securities Corporation	CET	12.28	17	765	0.8
General American Investors	GAM	35.14	17	897	7.9
Herzfeld Caribbean Basin	CUBA	5.95	22	47	5.7
Royce Global Value Trust	RGT	10.48	14	124	0.4

Closing prices on April 29, 2019.
Fund assets as of most recent reporting period.
*Yield includes income, capital gains, and other distributions.
Source: CapIQ, fund data.

Adams Diversified Equity (ADX) – Based in Baltimore, the respected Adams Funds family, founded in 1929, has two entrants on our list due to their high discounts and high quality. The Adams Diversified Equity fund holds a roster of 93 large-cap U.S. equities, with a bias toward tech and growth stocks. Microsoft, Amazon, Apple and Visa currently comprise about 15% of its assets. Its capable management, growth orientation and low .56% expense ratio have boosted returns to above the S&P500 index in recent years. The fund has a minimum annual distribution of 6%, which includes dividends and capital gains (and possibly a return of capital), providing a regular flow of cash to investors.

Adams Natural Resources (PEO) – The Adams Natural Resources fund focuses primarily on energy companies. ExxonMobil, Chevron and EOG Resources currently comprise over 35% of its assets. The fund also holds 54 other companies across the energy services, refining, chemical, packaging and metals/mining industries. Performance has been a struggle in recent years with the volatile energy prices. Expenses are a reasonable .79%, and the fund carries the firm’s commitment to a minimum 6% annual distribution rate.

Boulder Growth and Income Fund (BIF) – This fund holds a highly concentrated portfolio of 15 value-oriented large-cap equities, along with a small amount of other non-cash securities. Berkshire Hathaway (at 33% weight), JPMorgan, Cisco, Yum Brands and Caterpillar comprise nearly 60% of assets. Investment performance has been weak compared to the S&P500, partly explained by the fund's high 13% cash holdings. With the sizeable discount to NAV, the fund occasionally repurchases its shares, including buying in about 0.7% of its shares in the first quarter.

Central Securities Corporation (CET) – Founded in 1929, this old-school fund has nearly a quarter of its assets invested in a 23% stake in privately held Plymouth Rock Company, a diversified property and casualty insurance company in the upper East Coast. This investment appears to be successful, given its $170 million current value compared to its $0.7 million cost. The balance of the holdings are well-known large-cap U.S. companies like Intel, Analog Devices and Motorola Solutions. Share turnover is very low, at an 8% rate last year. Expenses are also low at .69%. CET pays a steady dividend, and its returns have been healthy compared to the overall market.

General American Investors (GAM) – Venerable GAM, established in 1927, holds a diversified portfolio of well-known U.S. stocks, led by TJX Companies, Microsoft and waste services company Republic Services. The fund is authorized to repurchase shares any time the NAV discount reaches at least 8%, which allowed it to buy-in over $41 million of shares last year at a 16% discount. The 1.2% expense ratio is a bit high, and near-term returns have lagged. However, the long-term cumulative investment return, including dividends and other distributions, has been impressive.

Herzfeld Caribbean Basin (CUBA) – This fund focuses on stocks that would benefit from easing of the United States' trade embargo with Cuba. Its shares surged to a 30% premium in 2015 when the embargo was temporarily eased, but have since slipped to a sizeable discount. The fund holds mostly mainstream U.S. and Latin American equities like construction company MasTec, cruise liner Royal Caribbean and Puerto Rican bank Popular. It also holds some obscure Cuba-based assets but these rightfully have been written down to zero. While quirky (and expensive, with a 2.7% expense ratio), this fund might offer some appeal to savvy investors interested in working the discount.

Royce Global Value Trust (RGT) – Managed by value investing legend Chuck Royce and his highly regarded Royce & Associates, this fund focuses on small and mid-cap value stocks around the world. It is highly diversified, holding nearly 200 stocks, with about 90% of its assets in developed market equities. RGT has a somewhat elevated 1.7% expense ratio, yet part of this may be due to its small size. Potential investors should be aware of RGT's volatile performance, reflected in a -18% return last year following a 36% gain the prior year.

RECOMMENDATIONS

Purchase Recommendation: Gilead Sciences

Gilead Sciences
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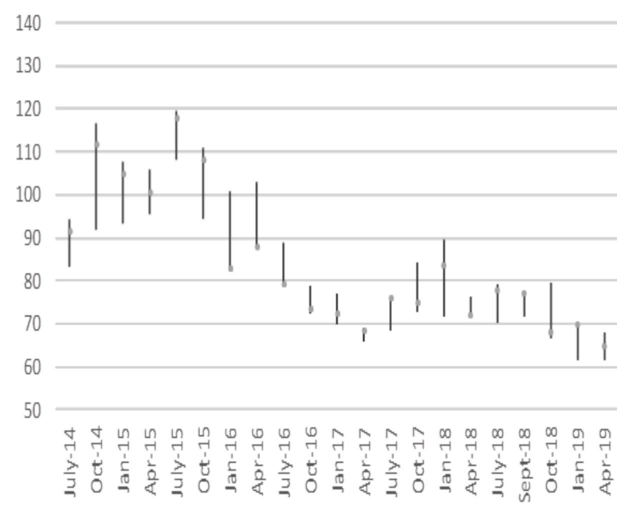
www.gilead.com

Category: Large Cap ($83 billion)
Symbol: GILD Exchange: Nasdaq
Business: Biopharmaceuticals
Annual Revenues (2018): $22.1 billion
Earnings (2018): $5.5 billion
4/29/19 Price: $64.92
52-Week Range: $79.61-60.32
Estimated Dividend Yield: 3.9%
Price Target: $105



Background: Gilead Sciences is a major biopharmaceuticals producer focusing on life-threatening diseases. Founded in 1987 by Michael Riordan, a 29-year-old medical doctor, Gilead has grown to over $22 billion in revenues through both internal growth and by acquisitions. Two-thirds of Gilead's current sales are produced by its powerful HIV treatment franchise. Products to treat hepatitis C ("HCV") generate another 17% of its revenues, with hepatitis B, blood cancer, cardiovascular and anti-infection products comprising the balance. The company completed its initial public offering in January 1992 at $15, producing a 256x price gain, excluding any dividends, to its peak $120 (post-splits) price in 2015.

However, since the 2015 peak, Gilead's shares have fallen by nearly half. The company's remarkably strong historical revenue growth has now reversed, with accelerating declines over the past three years to a 15% rate in 2018. While its HIV franchise continues to grow, demand for its HCV products is shriveling as patients are being cured and competition from new and cheaper treatments has intensified. Near-term prospects for growth from other products currently appear limited. The shares also bear the weight of fears over increased government pressure to reduce prices, including potential "Medicare for All" legislation. With this narrative, amidst a strong bull stock market, it's perhaps not a surprise that Gilead shares continue to slip.

Analysis: Gilead's discarded shares offer considerable value. At a highly discounted 6.6x EV/EBITDA multiple, the shares are cheaper than nearly all comparable peers. The company's revenues are stabilizing, as continued growth in the HIV franchise should offset declines in HCV treatment revenues. With little value ascribed to the research pipeline, any improvement in its prospects offers additional growth potential.

Its wide 50% EBITDA margins, combined with minimal capital spending needs, will likely allow Gilead to generate over $7 billion in free cash flow this year, ahead of last year's prodigious $5.6 billion in free cash flow. This would be more than enough to pay for the modest $1 billion in capital spending and $2.4 billion in dividends, leaving over $4 billion of surplus cash flow (nearly 19% of revenues). Gilead's balance sheet, already flush with over $30 billion in cash (more than the $27 billion in debt), buttresses its fundamentals and provides firepower for acquiring promising new treatments.

Importantly, the company recently brought on a new CEO. Daniel O'Day, previously the long-time head of the pharmaceutical division of Roche Holdings, joined on March 1st. His fresh perspective and expertise in oncology should help boost Gilead's revenue growth prospects, and he is likely to impose cost controls that would improve margins.

Long-term investors have an opportunity to look past the company's uninspiring current narrative to potentially healthy returns driven by both the generous dividend and a potential rebound in the stock price.

We recommend the PURCHASE of shares of Gilead Sciences (GILD) with a $105 price target.

Sale Recommendations: PennyMac & Ally Financial

While **PennyMac** shares have not reached our 26 price target, we are moving them to a SELL, for a 54% total return since inception. The yield is attractive, but we believe the company's turnaround is essentially complete.

While **Ally Financial's** strong earnings and asset quality have helped the shares approach our 33 price target, we are concerned that deteriorating credit conditions in the auto finance sector make the risk/reward balance less favorable. Therefore, we are moving ALLY shares to a SELL, with a 26% total return since inception.

Disclosure: An employee of the Publisher owns PennyMac and Ally Financial shares.

NEWS NOTES:

While **Consolidated Communications** suspended its high dividend, its business fundamentals remain essentially unchanged. Cash previously paid as dividends will be redirected to reduce its debt for the next few years. After a sharp sell-off, we think the shares have some bounce potential from here.

Disclosure: Accounts managed by an affiliate of the Publisher, and an employee of the Publisher, own CNSL shares.

PERFORMANCE

The tables below and on the next page show the performance of all of our currently active recommendations, plus recently closed out recommendations. For additional details please visit the "Our Portfolio" pages (under the "Subscribers" menu) at *www.turnaroundletter.com*.

SMALL CAP[1] (under $1 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL	REC. ISSUE	PRICE AT REC.[4]	4/29/2019 PRICE	TOTAL % RETURN[3,4]	CURRENT STATUS[2]
Consolidated Communications Hldgs.	CNSL	July 11	12.90	5.41	-34	Buy (22)
McDermott International, Inc.	MDR	Apr 15	11.19	8.92	-20	Buy (28.5)
NII Holdings, Inc.	NIHD	Nov 15	7.00	1.96	-72	Hold
Gannett Company, Inc.	GCI	Aug 17	9.22	9.35	+14	Buy (14)
Midstates Petroleum Company, Inc.	MPO	Feb 18	16.88	12.72	-25	Buy (30)
Hovnanian Enterprises	HOV	May 18	50.25	15.50	-69	Buy (106.25)
Blue Apron Holdings	APRN	July 18	3.25	1.04	-68	Buy (2)
Oaktree Specialty Lending	OCSL	Aug 18	4.91	5.30	+14	Buy (7)

MID CAP[1] ($1 billion - $10 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL	REC. ISSUE	PRICE AT REC.[4]	4/29/2019 PRICE	TOTAL % RETURN[3,4]	CURRENT STATUS[2]
Janus Henderson Group plc	JHG	Aug 05	32.36	25.19	-1	Buy (44.50)
PennyMac Mortgage Investment Trust	PMT	Sept 13	21.40	21.07	+54	Sell
Allscripts Healthcare Solutions, Inc.	MDRX	Feb 14	16.43	9.87	-40	Buy (24)
Globalstar, Inc.	GSAT	Nov 14	2.16	0.51	-76	Hold
Mattel, Inc.	MAT	May 15	28.43	12.51	-43	Buy (38)
Chesapeake Energy Corporation	CHK	June 15	14.11	2.95	-79	Buy (7)
SeaWorld Entertainment, Inc.	SEAS	Apr 16	21.45	26.27	+24	Buy (35)
BorgWarner, Inc.	BWA	Aug 16	33.18	42.04	+32	Buy (58)
Washington Prime Group, Inc.	WPG	Dec 16	10.02	4.51	-33	Buy (17)
Conduent, Inc.	CNDT	Feb 17	14.96	12.68	-15	Buy (24)
Weatherford International plc	WFT	Mar 17	5.66	0.54	-90	Hold
AMC Entertainment Holdings, Inc.	AMC	Jan 18	14.40	15.50	+24	Buy (25)
Brookdale Senior Living, Inc.	BKD	Sept 18	9.74	6.28	-36	Buy (16)
Adient, plc	ADNT	Oct 18	39.77	24.04	-39	Buy (64)
JELD-WEN	JELD	Nov 18	16.20	20.06	+24	Buy (25)
Gamestop	GME	Apr 19	10.29	8.76	-15	Buy (16)

KEY:
(1) Based on market capitalization at original recommendation.
(2) Price target in parentheses.
(3) Total return includes price changes and dividends.
(4) Prices and returns are adjusted for stock splits.
* Sold mid-month.

LARGE CAP[1] (over $10 billion) CURRENT RECOMMENDATIONS

RECOMMENDATION	SYMBOL	REC. ISSUE	PRICE AT REC.(4)	4/29/2019 PRICE	TOTAL % RETURN(3,4)	CURRENT STATUS(2)
Ford Motor Company	F	Dec 03	13.00	10.32	+21	Buy (20)
General Electric Company	GE	July 07	38.12	9.73	-51	Buy (20)
Bank of America Corporation	BAC	Oct 08	35.00	30.77	-6	Buy (34)
General Motors Company	GM	May 11	32.09	40.01	+48	Buy (45)
Xerox Corporation	XRX	Aug 11	38.32	33.03	+37	Buy (40)
Weyerhaeuser Company	WY	Apr 12	21.89	26.46	+56	Buy (40)
BP plc	BP	July 13	41.78	43.02	+36	Buy (55)
Freeport-McMoRan Copper &Gold	FCX	Aug 13	28.21	12.43	-48	Buy (20)
Citigroup, Inc.	C	May 14	48.16	71.03	+55	Buy (85)
Ally Financial, Inc.	ALLY	Sept 14	24.95	29.98	+26	Sell
Royal Dutch Shell plc	RDS-B	Jan 15	69.95	64.41	+15	Buy (85)
Nokia Corporation	NOK	Mar 15	8.02	5.32	-23	Buy (12)
The Mosaic Company	MOS	Sept 15	40.55	26.13	-30	Buy (50)
Rolls-Royce Holdings plc	RYCEY	Mar 16	9.25	12.05	+36	Buy (14)
Macy's, Inc.	M	July 16	33.61	24.09	-16	Buy (48)
Viacom, Inc.	VIAB	Jan 17	35.52	29.39	-12	Buy (54)
Volkswagen AG	VWAGY	May 17	15.91	16.08	+5	Buy (24.5)
Credit Suisse Group AG	CS	June 17	14.48	13.52	0	Buy (24)
Toshiba Corporation	TOSYY	Nov 17	14.49	16.54	+15	Buy (28)
LafargeHolcim Ltd.	HCMLY	Apr 18	10.92	10.26	-2	Buy (16)
Newell Brands	NWL	June 18	24.78	14.42	-39	Buy (39)
Vodafone Group plc	VOD	Dec 18	21.24	18.52	-13	Buy (32)
Barrack Gold Corp.	GOLD	Feb 19	13.02	12.66	-3	Buy (20)
Mohawk Industries	MHK	Mar 19	138.60	130.56	-6	Buy (220)

RECENTLY CLOSED OUT RECOMMENDATIONS (ALL CATEGORIES)

RECOMMENDATION	SYMBOL	Category	BUY ISSUE	PRICE AT BUY	SELL ISSUE	PRICE AT SELL	TOTAL % RETURN (3,4)
Civeo Corp.	CVEO	Small	July 17	2.05	July 18	4.36	+113
Peabody Energy Corp.	BTU	Mid	Sept 17	28.59	July 18	44.82	+58
FTI Consulting, Inc.	FCN	Mid	Feb 15	40.24	Aug 18	78.96	+96
TriMas Corporation	TRS	Small	Sept 16	19.18	Sept 18	31.30	+63
First Data Corporation	FDC	Large	June 16	12.53	Sept 18	24.97	+99
Crocs, Inc.	CROX	Mid	May 16	8.35	Oct 18	21.07	+152
DSW, Inc.	DSW	Mid	Oct 16	20.78	Oct 18	34.10	+73
Advance Auto Parts	AAP	Mid	Oct 17	99.50	Dec 18	178.95	+80
Civeo Corporation	CVEO	Small	Jan 19	1.20	Mar 19	2.67	+123
Bristow Group, Inc.	BRS	Small	Nov 86	0.75	*Mar 19	1.84	+649
Oaktree Capital Group	OAK	Mid	Oct 14	51.23	*Apr 19	48.75	+18

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