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Edition 8

# THE MICRO CAP & OTC STOCK LETTER

## EXPLORING THE INVESTOR IMPACT OF AN ADOPTED SEC RULE[1] + AN UNDERVALUED GROWTH OPPORTUNITY IN THE DEFENSE INDUSTRY

**SUMMARY**

- The Securities and Exchange Commission ("SEC") has adopted new regulation of the OTC stock market by establishing as a formal rule a proposal first floated last Fall
- The practical implication of the ruling is that broker-dealers, after a nine month transition period, will be prohibited from quoting electronically bids and offers for companies with shares trading on the OTC markets that do not make financial information public in the format specified by the SEC
- Some currently "dark" stocks will likely start following the SEC guidance, while others will be relegated to trading on the "grey" market or in a potentially forthcoming "expert" market limited to accredited investors – this transition could create dislocation and buying opportunities in the next twelve months
- Optex Systems, Inc. (OTC: OPXS) is a niche provider of optical systems in the defense industry – it is rapidly growing, performing well during COVID and trading at a very attractive valuation; OPXS, therefore, is being added to the tracked portfolio
- Mechanical Technology, Inc. (OTC: MKTY), after being profiled in Edition 4 of this letter on June 26, 2020, has appreciated from \$0.69 to \$2.09; based on this rapid price improvement in a short period with limited new information, MKTY is being sold from tracked portfolio at the 10/16/20 closing price. Readers who are long this stock, especially long this stock based on this Letter's recommendation, should consider reducing or exiting the position

**SEC ADOPTS NEW REGULATION OF OTC STOCK MARKET**

"SEC Bolsters Safeguards Against Penny Stock Fraud" proclaimed the *Wall Street Journal* headline positively on September 16th. As he discussed the same rule (then a rule proposal) in a May editorial for *Traders Magazine* OTCMarkets CEO, Cromwell Coulson, referring to value investors active in these markets wrote: "it is easy to understand why these

[1] Title adapted from May 2020 editorial in *Traders Magazine* entitled "Exploring the Investor Impact of an SEC Rule Proposal"; the rule proposal mentioned has now been adopted with a potentially material impact to investors in the OTC markets. This dynamic is the subject matter of the first part of this letter.

Note: all securities price references for this edition of the letter based off of October 16, 2020 closing price. This is the closing prices available at the time of completion of the letter and the letter was published as expeditiously as possible thereafter.

thoughtful investors adamantly oppose the SEC curbing their ability to invest in shares of distressed or dark companies that do not make current information available and do not want those markets to be closed".

Such is the contrast in many well-intentioned expansions of regulatory oversight. The regulator, here the Securities & Exchange Commission, has seen enough frauds and scams perpetrated on retail investors and wants close up an area where certain investors have lost money in the past. Specifically, the area of concern is companies traded on the OTC markets that do not disseminate current financial information on a widely-available public basis. The SEC's solution (proposed last Fall and now adopted this September) is to prohibit retail brokerage platforms from electronically publishing bid/ask quotes on these securities[2]. And, yes, the OTC stock market has its fair share of unscrupulous management teams and businesses not worthy of investment consideration – however, the existence of winners *and* losers in markets and the reward for doing extra analysis and research are important features of capitalism. In my opinion, our government should be embracing these features in the long term interest of all markets and, frankly, in the furtherance of our country's foundation in capitalism and individual freedom to choose (even if such choices ultimately are to one's own detriment at times). The SEC judges trading in "dark" stocks as bad just as NYC mayor, Bill de Blasio, considers drinking large sodas to be bad[3].

The market covered by this rule is large – in fact, the SEC estimates that ~3,000 of the ~10,000 securities traded on the OTC markets do not share current financial information publicly. These ~3,000 securities represent a very large number considering that US exchange listed stocks (all quite uniform in their public disclosure, liquid, and in today's market extremely expensive given their support from passive fund flows and Federal Reserve support) have declined to under 4,000 names according to Bloomberg[4]. Under the new rule, the ~3,000 "dark" companies that currently provide financials to shareholders typically upon request (as mandated by state laws) but not publicly likely would no longer be tradeable in traditional brokerage accounts via electronic bids and offers. Liquidity likely will decline from current levels in these "dark" stocks leaving investors, including investors who purchased shares in the past while certain of the companies were fully compliant SEC filers, with illiquid holdings.

By the time the comment period on the proposed rule closed in December 2019, over 100 market participants had weighed in on the proposal, over 90% expressing their opposition to the proposal. These commenters were, for the most part, <u>retail investors and enthusiasts in the OTC market</u> who were greatly disturbed that their market access was about to be cut off – not brokerage firm executives or Wall Street lobbyists as a cynic might assume. The reality is that the traditional brokerage firms largely started turning their backs on the OTC markets in the past several years because there is very little money to be made off trading commissions compared to the perceived compliance issues – thereby resulting in the lack of lobbying effort one way or the other.

In its ruling, the SEC acknowledged the concerns of the OTC value investing community by noting: "The Commission acknowledges that OTC investors may incur costs associated with a loss of liquidity and possible associated decrease in share value if OTC issuers elect not to provide current and publicly available paragraph (b) information. While these costs to investors may be significant, the Commission believes that deterring fraud and manipulation in OTC securities justifies the requirement for paragraph (b) information to be current and publicly available to maintain a quoted market in these securities. This loss in share value, if it occurred, could arise from an increase in the costs of resale associated with the OTC stock when migrating to the grey market."

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[2] The SEC ruling distinguishes between "solicited" and "unsolicited" customer orders. The former dis-allowed and the latter permitted in some instances. Time will tell how important this distinguishing factor is in trading these markets.
[3] https://www.grubstreet.com/2014/04/de-blasio-soda-ban.html.
[4] https://www.bloomberg.com/opinion/articles/2018-04-09/where-have-all-the-u-s-public-companies-gone?sref=wq27fGHv

The SEC provides some consolation in the following statement, however, trying their hand at explaining (to the best of the ability of a group of government attorneys) how business valuation analysis and fundamentals operate: "The Commission does not believe that the securities of issuers with operations and profitability (or the prospect of future profitability) will become "worthless" as a result of the amendments, as suggested by one commenter. Issuers with operations and profits, even without a quotation for their securities by a broker-dealer, would presumably continue to represent a claim on these profits and assets. For newer issuers with prospective future profits, OTC shares would similarly represent a claim on these prospective profits. Therefore, they should continue to have some positive value." To the commenter I would've suggested noting that the securities in question would be materially impaired in value and unable to be liquidated on a reasonable basis, not that they will become "worthless". To the SEC, I would say that they should be concerned about "moving the goalposts" in the middle of the game, even if it doesn't result in a complete loss of an investor's value in securities purchased in good faith prior to the decision to change the rules.

Fortunately for investors in these markets there is a nine month transition period before the new rules become binding and effective. A few of the "dark" stocks that I own, but which have not made it into past editions of this letter (for example, J.G. Boswell, OTC: BWEL) appear to have come under some selling pressure after the release of these new rules. Names I've discussed thus far in this letter (Pardee Resources, Beaver Coal, American Restaurant Partners, Hanover Foods) haven't had any serious selling pressure or decline in stock price. Readers of past letters know that this ruling was not an entire surprise – the SEC publicly proposed it last Fall. Each security discussed thus far in prior letters has been one that is considered attractive enough on the basis of valuation and dividend yield that a strong case can be made to own it even through a period of extreme illiquidity. Perhaps this is why these four "dark" stocks that have been written up thus far have not been impaired by this SEC ruling announcement. Nonetheless, investors who may own them, but who do not have the luxury of a long term horizon or tolerance for illiquidity, should probably start thinking about exiting their positions.

### *The Real Missed Opportunity for Regulatory Improvement to Protect Investors; a Gap that Remains Open*

In my opinion, the real travesty of this ruling is the failure of the SEC to address why there are these "dark" companies in the first place. The longstanding practice of the SEC, governed by the same Rule 15c2-11 that has been amended here, is to allow publicly-traded companies who follow SEC reporting (10-K filed once a year, 10-Q's every three month, etc.) de-register from SEC filing if they can prove that they no longer have 300 shareholders of record. Often companies interested in pursuing a de-registration will buy back stock of small holders at a premium or engage in reverse stock splits coupled with a buy-out of odd lot shareholders to get under the 300 threshold. Each of these is a legitimate strategy, but the problem with the system is most companies that achieve a sub-300 shareholder count typically have hundreds or thousands of shareholders that hold their stock in "Street Name". Investors holding their shares in brokerage accounts (as opposed to in their name at the transfer agent) shows up together in the shareholder registry under the name, Cede & Company. Cede & Company is a company that consolidates Street Name securities through its role as a processor of stock certificates on behalf of the Depository Trust Company.

The SEC talks about "modernizing" the rule with their amendments, but in modernizing portions of it they leave this issue of shareholder count gaping wide open. In doing so they put forth an irrelevant number, 300 shareholders of record, as if it's a meaningful figure. A company can go public via a traditional IPO, the vast majority of shareholders will be listed on the stock records as "Cede & Company" and after investors have paid money in good faith to purchase the securities, the SEC then allows certain of these companies to de-register all based on an irrelevant metric that typically greatly understates the actual number of beneficial owners. Now the SEC is taking it a step further and giving these companies the ability to effectively disappear as publicly traded companies on brokerage platforms.

The reality is that there are very few true "dark" companies. Most companies, in my experience, that de-register in the process described above post their financials on their website for any interested parties to review. Those that don't will typically share with investors that can prove they are shareholders financials upon request (as required in most state's corporations laws). Others, such as regulated banks and utilities, must file periodic financials, publicly available, with their regulators. An enterprising investor can get their hands on the financials of virtually all OTC stocks either by purchasing 1 share of stock or searching the Internet. Now the SEC is requiring uniform disclosure practices (company websites don't count, emails upon request don't count) and many of these interesting investment opportunities will disappear from electronic trading. A lost opportunity for new investors and newly illiquid holdings for existing investors.

Reading the SEC's rulings and comments, it appears that they view continued trading on brokerage platforms as an inducement to encourage these "dark" companies to start publicly producing financials (in the venues prescribed by the SEC). This is a naïve perspective. What the SEC is missing, in my opinion, is that many of these companies would prefer to not be public companies and in providing this avenue to vanish from trading platforms is granting this wish while leaving retail investors who purchased the shares in question holding the bag. These investors would've purchased the stock they own based on their analysis (well done or poorly considered; thorough or impulsive) based on the prevailing rules of the game at the time of purchase, which have now been altered after the fact.

I certainly wish that the SEC had considered "modernizing" its rules around when and how a company can de-register as an SEC filer when it embarked on its well-intentioned modernization of other elements of OTC stock trading. It should be much more difficult than it currently is for OTC companies to go down this route of de-registration.

***Avenues for Trading "Dark" Company Stock After the Nine Month Transition Period***

The default migration for OTC stocks that do not comply with the SEC's new disclosure rules will be to what is known as the "grey" market. Investopedia.com defines the grey market as: "an unofficial market for financial securities. Market trading generally occurs when a stock that has been suspended trades off the market or when new securities are bought and sold before official trading begins." The *Traders Magazine* editorial referenced on page one notes the likely migration to the grey market (as do portions of the SEC ruling itself): "Under the rule proposal, more than 3,000 'No Information' securities that do not make current information available would no longer be eligible for public quoting. Without an alternative solution, these securities would instead be relegated to the Grey market. Transactions in Grey market securities have no public quote, forcing brokers to source liquidity and pricing primarily over the phone without data-driven technology."

I've never traded stocks in the grey market so can't speak from experience or any first-hand knowledge on how it operates. NoNameStocks.com, a blog covering the OTC markets I follow, has written up a list of brokerage platforms and whether they support grey market trading (http://www.nonamestocks.com/2019/06/my-brokerages-fidelity-schwab-etrade.html) – according to them Schwab is the one broker they have a relationship with that allows trading in grey market stocks.

I anticipate that investors that hold some securities that migrate to the grey market will spend time understanding how to transact in this market. I will certainly provide readers of this letter updates as I learn to navigate the grey market. An outcome of this SEC ruling could be much larger numbers of securities trading in the grey market, including many securities of legitimate businesses that choose not to publicly issue financials (J.G. Boswell comes to mind). If prices of these securities come under heavy pressure they could, in select situations, represent attractive buying opportunities (as the SEC helpfully points out, their shares still represent valid claims on the profits of the business in question).

I also anticipate that an "Expert Market" for "dark" stocks could emerge. OTCMarkets.com, the leading Inter Dealer Quotation System ("IDQS")[5] for OTC issues has been working on an expert market for accredited investors interested in "dark" stocks, but it is yet to go live, and the SEC expressed openness to this idea in their ruling document. A market like this operating with only accredited investors (defined as those with a net worth over $1 million or $200,000 of annual income for individuals) would limit the number of market participants but certainly would be preferable to the description of grey markets above (i.e., operating over the telephone with no visibility into bid/ask levels).

In the coming months I'll be spending significant time working towards understanding how to trade grey market stocks and hopefully following the development of an expert market for "dark" stocks.

***Summary***

The ultimate adoption of this SEC rule was an unfortunate development, but may open up attractive future trading opportunities for investors willing to explore avenues for trading in the "grey" market or in the "expert market" that may emerge. For the ~70% of OTC traded securities that already provide public financial disclosure (plus some unknown percentage of the ~30% that will start providing financials to maintain tradeable status) this rule should provide some uniformity to market disclosure and standards that could be beneficial to the vibrancy of the OTC markets. For those readers looking to read more about this (and have some time on their hands) the entire ruling document from the SEC is available at the link below along with the press release announcing the changes:

https://www.sec.gov/news/press-release/2019-189

## OPTEX SYSTEMS, INC. (OTC: OPXS)

The individual stock write-up for this edition of *The Micro Cap & OTC Stock Letter* is Optex Systems, Inc., for whom key valuation and historical information is summarized below. Before getting into the business, these figures are attractive to me. The business is growing rapidly, has held up well in the period ending June 30 (during COVID-19), and trades at very attractive multiples – sub 5x LTM EBITDA, sub 10x LTM price-earnings.

**Current Market Valuation**

*($ and Units in thousands)*

| | |
|---|---|
| Price Per Share as of October 16, 2020 | $1.96 |
| Basic Shares Outstanding | 8,762 |
| Impact of Cashless Exercise of Warrants (1) | 968 |
| Total Shares Outstanding | 9,730 |
| **Market Capitalization** | **$19,070** |
| *LTM Price / Earnings* | *8.40x* |
| *Price / Book Value* | *1.43x* |
| Plus: Total Debt | $377 |
| Less: Cash and Equivalents | ($2,788) |
| **Total Enterprise Value** | **$16,659** |
| *TEV / LTM EBITDA* | *4.63x* |

1. Optex has 4.1 million w arrants outstanding from a past financing w ith an exercise price of $1.50 / share and a termination date of August 26, 2001. Whether one assumes cashless exercise (likely outcome) or w arrant proceeds added to cash and the full 4.1 mm w arrants added to shares doesn't make a material difference on valuation multiples.

**Historical Financial Summary**

*($ and in thousands)*

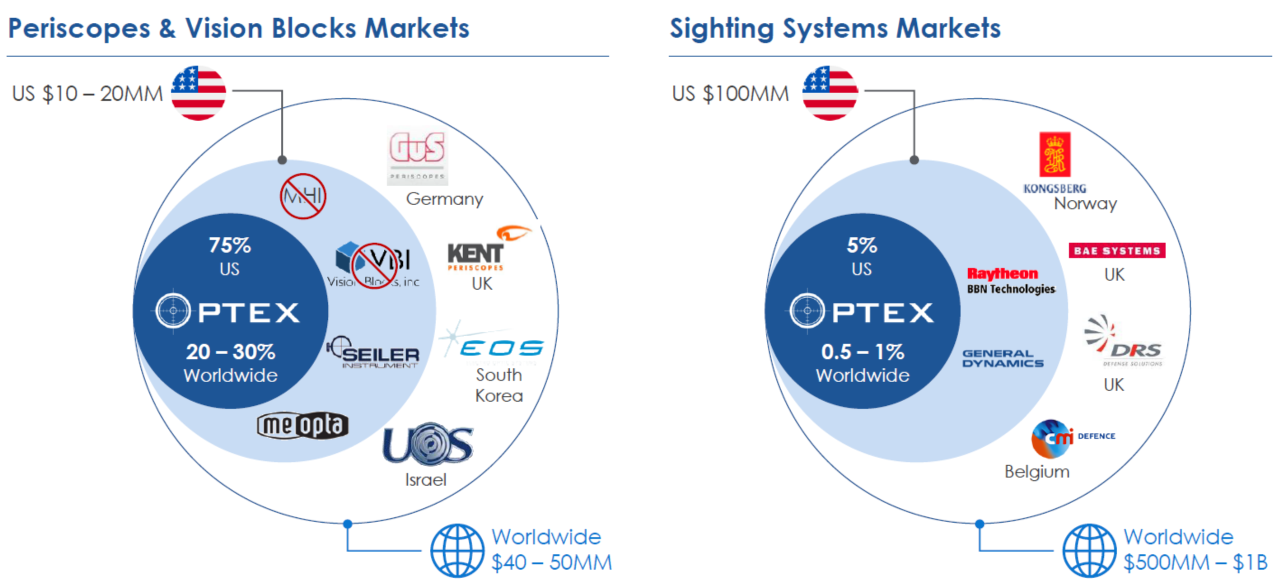
| FYE September: | 2016 | 2017 | 2018 | 2019 | LTM 30-Jun-20 |
|---|---|---|---|---|---|
| **Total Revenues** | **$17,279** | **$18,547** | **$20,853** | **$24,530** | **$24,887** |
| ***Growth*** | ***32.9%*** | ***7.3%*** | ***12.4%*** | ***17.6%*** | **--** |
| Gross Profit | $3,051 | $3,414 | $4,515 | $6,253 | $6,325 |
| *Margin* | *17.7%* | *18.4%* | *21.7%* | *25.5%* | *25.4%* |
| SG&A | ($3,062) | ($3,210) | ($3,029) | ($3,056) | ($3,148) |
| *% of Revenues* | *17.7%* | *17.3%* | *14.5%* | *12.5%* | *12.6%* |
| EBIT | ($11) | $204 | $1,486 | $3,197 | $3,177 |
| *Margin* | *NM* | *1.1%* | *7.1%* | *13.0%* | *12.8%* |
| Normalized Net Income (1) | ($34) | $133 | $1,056 | $2,285 | $2,271 |
| *Growth* | *NM* | *NM* | *692.4%* | *116.5%* | -- |
| **EBITDA** | **$334** | **$541** | **$1,813** | **$3,537** | **$3,600** |
| ***Margin*** | ***1.9%*** | ***2.9%*** | ***8.7%*** | ***14.4%*** | ***14.5%*** |

Source: CapitalIQ and Company filings / presentation.
1. Normalized Net Income calculated as EBIT less Net Interest Expense less 28% assumed income tax rate. Due to NOL's historically company has not been a material tax payer and changes to w arrant liability have obfuscated historical reported Net Income. This normalized metric should be a closer approximation of long-term conversion of EBIT to Net Income.

[5] Effectively a venue where brokers can post bids and offers of OTC stocks that don't trade on an exchange.

Optex Systems is a manufacturer of optical sighting systems primarily for the defense industry. The company is the largest manufacturer of laser-protected periscopes for the U.S. military and also manufactures sighting systems for armored land vehicles and rifle scopes for commercial customers. For Optex's primary products, the company appears to control close to 100% of US market share and enjoys sole source contracting status on many products, a luxury in an industry dominated by government purchasing and competitive bidding processes. Growth opportunities include more work for international militaries (many of whom, among US allies, are increasingly adopting US tanks as standard such as the Bradley fighting vehicles manufactured by General Dynamics and supplied by Optex) and new product introductions. While one might be concerned about the cycle of heavy equipment procurement (like tanks), optical systems are among the most commonly worn out parts on fighting vehicles anecdotally (enemy troops or insurgents are fond of shooting at them beyond just the normal wear and tear on a high precision piece of equipment). The company doesn't break out revenue by new equipment vs. replacement parts and components, however, it would be fair to assume an element of a razor-razor blade dynamic with Optex's products.

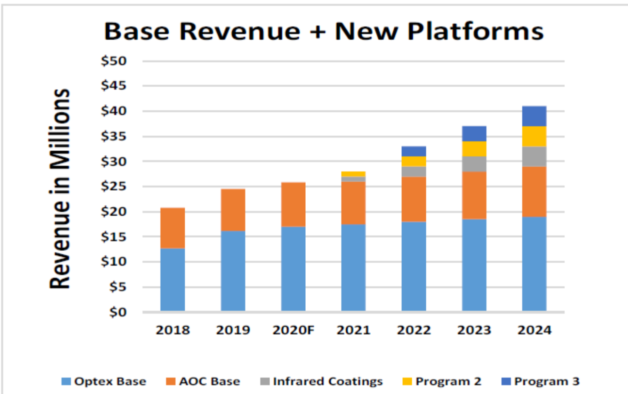
The following graphic, from Optex's investor presentation, depicts the company's market position in key products:

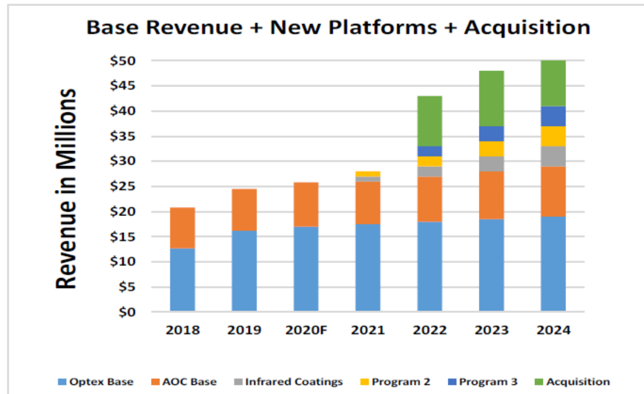



As unfortunate as the geopolitical uncertainty in the world today is, in contrast to most financial markets and securities for which it is one of the most significant risk factors in markets, Optex is a beneficiary from global conflict. The defense industry also, in contrast to the many binary winners and losers from the upcoming Presidential election, should be okay under both a second term Trump Administration as well as under a Biden Presidency as Joe Biden's campaign has indicated no intention to cut defense spending. According to *The Hill*, writing in October 2020: "Defense budget analysts have predicted relatively flat budgets regardless of who wins the White House", with the Democratic chairman of the House Armed Services Committee, Adam Smith, being quoted as saying Biden "has stated unequivocally that he does not envision cuts in the defense budget".

On a longer-term basis, Optex should have wind at its back. US military troops and fighting vehicles have more optical systems today than they did in the Vietnam-era or earlier periods, foreign militaries are certainly working to catch up on these capabilities, and one could reasonably expect this trend to continue into the future.

On the topic of the future, Optex is a rare instance of a micro cap or OTC stock with publicly available forecasts for their business (particularly in the era of pulled guidance from public companies in the time of COVID-19). The charts below, also from Optex's current investor presentation, forecast revenues for the next five fiscal years. Drivers of revenue growth for the company include: new products (two yet to be disclosed programs are expected to be rolled out in the coming two years and recently Optex unveiled a new infrared coatings line), barriers to entry (including relevant security clearances and the challenges of displacing a longstanding incumbent in a niche but mission critical product), and pricing power associated with being sole source on so many products (only real competitor in the tank periscope business line, Miller-Holzwarth, was purchased out of bankruptcy in 2013 by Optex)[6].




An important (albeit subjective) assessment I make in any micro cap or OTC stock I purchase are around the characteristics of management. In a corner of the capital markets with more than its fair share of promoters, I am looking for leadership with strong industry experience, skin in the game, and who spends the vast majority of their efforts driving value through company operations as opposed to capital markets activities. While I have not met in person with management at Optex, my assessment from afar of CEO, Danny Schoening, is that he fits the bill. Mr. Schoening, with a background at Honeywell, and CFO, Karen Hawkins, with a background at General Dynamics, together own over 10% of shares outstanding and come across as sincere and credible. Readers may form their own initial assessments listening to Mr. Schoening present the company's investor presentation at LD Micro's recent virtual investor conference (https://ld500.ldmicro.com/, click over to "Wednesday September 2nd" and search for "Optex").

A final comment on the company's financial profile and revenue projections. Between 2016 and 2019, Optex grew its revenues by 42%. EBITDA, however, grew exponentially from $334K to $3.5 million. This dynamic was driven by incredibly strong controls over cost and scalability inherent in a business running one shift in facilities that can handle multiples of the current volumes given the existing manufacturing footprint. The company is also very efficient with free cash flow, spending <$200K on CAPEX in a typical year. Over this three year period, gross margins *increased* from 18% to 25% and SG&A held flat at $3.1 million. If Optex can indeed grow its revenues organically from ~$25 million today to $40 million by FY 2025 and hold gross margins at 25% this would more than double the current EBITDA of $3.6 million. If EBITDA multiples holds steady the implied shareholder return is also a double, however, if one takes

[6] https://www.salemnews.net/news/local-news/2013/06/assets-of-miller-holzwarth-inc-sold-for-750-000/. Note: this period coming out of DOD budget cuts in the wake of the Tea Party era in Washington D.C. was a difficult one for the defense industry in general. Department of Defense spending runs on a different cycle than other spending categories in the economy, making defense industry stocks like Optex valuable from a correlation standpoint to portfolios.

into account shareholder friendly uses of the free cash flow generated in the period and a potential multiple re-rating, Optex's stock starts looking like a multi-bagger from here!

**TRACKING RESULTS TO-DATE**

The table on the following page outlines results to-date of ideas discussed in past editions of this letter. Long ideas are added at the closing price of the day prior to completion of the letter with an offsetting long position in Gold (via the ETF, IAU) in an approach to achieving a balanced portfolio discussed in Edition 1.

ALL ideas discussed as suitable long opportunities for an enterprising investor in the Micro Cap and OTC Markets are included without cherry picking the winning picks after the fact. Of course, all investors should do their own due diligence on these situations before investing and should treat this corner of the capital markets as highly speculative.

The table on the next page reflects all past ideas discussed updated through the closing price as of October 16, 2020. The next edition of the letter will have a performance table updated with the following moves – all assumed to be transacted at the closing share price of each security on 10/16/20:

- **Mechanical Technology, Inc. (MKTY) is assumed to be sold out completely** after enjoying per share appreciation from $0.69 to $2.09 since it was discussed in Edition 4. Readers who purchased the stock after reading this letter may want to consider exiting or reducing their position. While MKTY has exciting prospects in its new cryptocurrency mining operation, ~$50 million of NOL's to offset any income tax due for the foreseeable future, and has filed a Form 10 to return to status as a current SEC filer[7], the stock has run far very fast and no longer presents the very attractive risk-reward that it did in June at the time of original write-up.
- **Optex Systems, Inc. (OPXS) will be added to the tracked portfolio** at an assumed investment of ~$10,000 using the closing price of $1.96 on 10/16/20
- The tracked portfolio's position in IAU will be adjusted to achieve a 50/50 ratio of long Micro/OTC Stocks and Gold as of 10/16/20 after adjusting for the changes above.

A new feature of the table this month is that companies who are not current filers of public financials are marked red. Readers of this letter to-date will know that these ideas have been discussed with the possibility in mind that the SEC will adopt their new rules around these "dark" companies. Some will likely be relegated to trading in the "grey" market or a future "expert market" for accredited investors and some will potentially start publicly disclosing financial information to provide the opportunity for shareholders to trade in traditional brokerage accounts on the OTC markets. Each of these names either feature very attractive dividend yields (Pardee Resources, Beaver Coal, and American Restaurant Partners) or were entered into the tracked portfolio at an extremely low valuation with a modest current yield (Hanover Foods) such that any loss of liquidity is offset by other attractive features.

If investors need liquidity on their holdings in these securities marked red, they should consider exiting their positions in the nine month transition period we are in now before the new SEC rule goes into full effect. Notably, none of these names have traded off materially in the wake of the SEC rule announcement, giving investors an opportunity to trade out of their positions at modest cost. For investors with the luxury of a longer time horizon I would suggest "clipping coupons" on each stock's dividend yield and waiting for the day that they may be sold out at an eventual premium. This

[7] Filing a Form 10 to return to SEC filing status is the opposite of the process of de-registering as an SEC filer described in the first section of this letter. I applaud MKTY management and board for going down this route.

was the original investment thesis on each of the names and the SEC rule, while perhaps misguided, doesn't necessarily change that thesis.

| | Date | Investment | Proceeds / Dividends | Current Value | Multiple | IRR |
|---|---|---|---|---|---|---|
| ***Long OTC and Micro-caps*** | | | | | | |
| Ojai Oil Company (OJOC) (1) | 4/20/2020 | ($10,000) | $50 | $12,500 | 1.26x | 59.2% |
| Barnes & Noble Education (BNED) (2) | 4/20/2020 | ($10,001) | $0 | $13,666 | 1.37x | 89.0% |
| Pardee Resources (PDER) (3) | 5/12/2020 | ($9,963) | $292 | $11,309 | 1.16x | 43.2% |
| Mechanical Technology (MKTY) (4) | 6/26/2020 | ($10,005) | $0 | $30,305 | 3.03x | 3602.7% |
| Beaver Coal (BVERS) (5) | 7/15/2020 | ($10,600) | $320 | $10,800 | 1.05x | 20.8% |
| American Restaurant Partners (ICTPU) (6) | 8/7/2020 | ($10,205) | $0 | $10,400 | 1.02x | 10.4% |
| Hanover Foods - Class B (HNFSB) (7) | 9/4/2020 | ($9,984) | $0 | $9,984 | 1.00x | 0.0% |
| **Total Long Ideas** | | **($70,758)** | **$662** | **$98,964** | **1.41x** | **179.5%** |
| ***Offsetting Gold Position*** | | | | | | |
| Gold (IAU) (8) | Various | ($79,172) | $0 | $83,016 | 1.05x | 16.9% |
| ***Market Neutral - 13F*** | | | | | | |
| Energy | 5/29/2020 | ($10,000) | $9,982 | $0 | 1.00x | NM |
| **Total** | | **($159,930)** | **$10,644** | **$181,980** | **1.20x** | **81.6%** |

1. Assumes 125 shares were purchased on 4/20/20 at $80 / share for $10,000 investment.
2. Assumes 5,236 shares were purchased on 4/20/20 at $1.91 / share for $10,000.76 investment.
3. Assumes 81 shares were purchased on 5/12/20 at $123.00 / share for $9,963.00 investment.
4. Assumes 14,500 shares were purchased on 6/26/20 at $0.69 / share for $10,005.00 investment.
5. Assumes 8 shares were purchased on 7/15/20 at $1,324.99 / share for $10,599.92 investment.
6. Assumes 13 shares were purchaed on 8/7/20 at $785.00 / share for $10,205.00 investment.
7. Assumes that 128 shares were purchased on 9/4/20 at $78.00 / share for $9,984.00 investment.
8. Assumes 1,232 shares were purchased on 4/20/20, 477 shares were purchased on 5/12/20, 614 shares were purchased on 6/26/20, 951 shares were purchased on 7/15/20, 388 shares were purchased on 8/7/20, and 922 shares were purchased on 9/4/20. In each case to achieve a 50% gold / 50% stock ratio at that point in time.

Note: as of October 12, 2020.

## ABOUT THE AUTHOR

**Marcus Frampton, CFA, CAIA, FRM** is the Chief Investment Officer of a ~$70 billion sovereign wealth fund. After graduating from University of California, Los Angeles in 2002 with a major in Business-Economics and Minor in Accounting, Marcus joined the investment banking analyst program at Lehman Brothers. After three and half years at Lehman Brothers, he joined PCG Capital Partners, a San Diego-based private equity firm. Following his time at PCG and before his current role, Marcus worked for two years at LPL Financial focusing on M&A and other strategic investments for this Hellman & Friedman and TPG portfolio company.

Marcus currently serves on the Board of Directors of Scientific Industries, Inc. (OTC: SCND), Nyrada, Inc. (ASX: NYR), and the Managed Funds Association (the leading advocacy group for the hedge fund and managed futures industry).

Consistent with the outside employment policies of Marcus' employer, he is interested and open to exploring collaborations with readers of this letter with similar interests. These could range from collaborating around pursuing investment opportunities into the types of situations discussed in this letter to comparing notes on investment opportunities in personal accounts. Additionally, Marcus has capacity to serve on and add value to additional public company Boards of Directors beyond the two that he is currently involved with. Please contact Marcus at mhframpton@hotmail.com for interest in exploring any of these or other ideas.

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