SOVEREIGN MAN

THE 4TH PILLAR

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DECLARE YOUR ECONOMIC INDEPENDENCE

This element might have saved the *Titanic.* And it's now your opportunity for a 21% dividend yield

If the *Titanic's* bow had steel rivets hardened by this little-known, but vitally important, element instead of sub-standard iron rivets, it may never have sunk after it struck an iceberg in the North Atlantic.

That same element is crucial to today's global steel markets… and it's your opportunity to profit. In this month's issue of *The 4th Pillar*, I'm excited to present one of the most compelling investments that I've come across in years – a mining company with a legendary Chairman, zero debt, a robust, dependable supply chain and a simple business model. And it throws off oodles of cash to its shareholders…

TIM'S RECOMMENDATIONS IN TWO MINUTES

[illegible]
BUY shares at a limit of [illegible] or better.

Xenith (XIP on the Australian Securities Exchange)
HOLD.

[illegible]
HOLD/BUY up to a limit of [illegible]

Healthscope (HSO on the Australian Securities Exchange).
TAKE PROFITS at a limit of A$2.44.

[illegible]
HOLD/BUY up to a limit of [illegible]

[illegible]
HOLD.

[illegible]
HOLD.

[illegible]
HOLD.

[illegible]
HOLD/BUY up to a limit of [illegible].

Carnarvon Petroleum (CVN on the Australian Securivties Exchange)
HOLD.

About This Preview

To celebrate the 100th issue of our flagship investment service, *The 4th Pillar*, we decided to give you a special look inside with this preview.

Although we had to redact some information that could give away our currently open recommendations, I'm sure you'll find a lot of value from Tim's thinking.

And for the first time in over six months we're offering a generous 50% discount...

Click here to learn more about The 4th Pillar and get it at 50% off

The element that may have saved the *Titanic* – and is your opportunity to profit today – is

[illegible]

An insanely profitable [illegible] miner with over 100 years of production ahead of it, trading 13% below its [illegible] IPO price and on a 21% dividend yield

[illegible] is a Perth, Australian-based company with a [illegible] mine in South Africa's [illegible]

I've had my eye on [illegible] for a month, and now with it passing my extensive due diligence, and the stock offering a great margin of safety (trading well below its [illegible] IPO price of [illegible] per share), it's an opportune time to pick up shares.

In the mining business, it all starts with the right people. Commodity markets are highly cyclical, and management must be sufficiently skilled to navigate the highs and sometimes extended lows. For instance those managers who, in good times, take on too much debt may destroy capital – and sometimes the entire business – when the market inevitably swings the other way.

In [redacted] case, I have no concern about a lack of managerial experience or talent that will waste away your capital. And the company is debt free.

[redacted] the former Chairman of [redacted] Now in his mid-70s, [redacted] has decades of experience in this business and is a living legend in the [redacted] mining communities. His private company, [redacted] a global metals and mining investor, was a foundational investor in [redacted] and through its various subsidiaries, still holds 9.3% of [redacted] shares.

Incentives for [redacted] senior management align directly with those of shareholders, as they all have significant shareholdings, from which thevy make many multiples of their salaries and directors' fees in dividends.

The company's CEO, [redacted] an Indian metallurgical engineer, has an annual salary of £400,000 (with no pension fund or superannuation contributions) but makes up for this in dividends from ordinary shares. For the most recent 6 months, [redacted] has declared a dividend of [redacted] per share. This will be payable on May 21st. For the first six months of the company's life as a public company, the dividend paid, back in October last year, was [redacted] per share. With [redacted] in dividends and a [redacted] share price, the current yield is over 21%.

And according to the company's 2018 Annual Report, [redacted] holds [redacted] million shares, or 11.4% of [redacted] outstanding shares. He'll bank A$1.68 million, or US$1.19 million in dividends alone for the 12-month reporting period ended February 28. Clearly, he's vested in the company's long-term success, right alongside other common shareholders.

And joining [redacted] and [redacted] on the board is [redacted]

[redacted], which holds nearly 7% of [redacted] shares. Recently, CFO [redacted] was made an executive director as well.

[redacted] leadership has demonstrated its experience not only in its global supply chain but has also smartly covered its political bases in South Africa. [redacted] points to the company's record of zero employment strikes at the company's South African mine and a congenial working relationship with both the South African government and its Black Economic Empowerment (BEE) partner.

Black Economic Empowerment (BEE) in South Africa

When South Africa elected its first democratic government in 1994, the government implemented the BEE policy, also referred to as the narrow-based approach, to redress apartheid. The policy's intent was to increase the skill levels, create more jobs, and reduce poverty for South Africa's majority black population.

Then in 1999, the South African government established the Broad-Based Black Economic Empowerment (BBBEE) Commission, which aimed to increase black ownership of businesses and black representation in management positions.

Mining companies with South African operations are required to have 26% ownership by a BEE partner (with plans to increase this number to 30%). [redacted] has nearly double this requirement, with its holding company controlling [redacted] of its [redacted] mine in South Africa, while [redacted], its BEE partner, owns a majority [redacted] stake. Another [redacted] company, [redacted], is a 26% shareholder in the BEE partner's holding company.

As for [redacted] operations, its [redacted] mine in South Africa not only produces high-grade [redacted] but also boasts massive reserves and resources, enough for decades of future production. [redacted] currently produces between 3 and 3.5 million tonnes of [redacted] annually, and with 460 million tonnes located in its well-established [redacted] Field, the [redacted] mine has a projected 100+ year life.

A lengthy mine life is one key to success for the bulk commodities business. It means upfront capital costs to develop the mine and its related infrastructure can be spread over a much larger and longer duration production volume.

Contrast that with shale oil companies, for example, where, despite the technological developments like fracking, drilling optimisation, and multi-bore operations from the same drilling pad, the steep decline curves – and the necessary capital to drill more wells to overcome this decline rate – are a major risk when investing long-term in these companies.

The other key to being successful and profiting from bulk commodities operations is logistics, and [redacted] has this covered, too.

[redacted] has used its relationships and skills to negotiate long-term contracts. In 2018, [redacted] signed a 5-year Multi-Employer Collective Agreement (MECA) – a contract with more than one employer or, more commonly, more than one union party – with [redacted], a South African rail, port and pipeline company. The MECA stipulates that [redacted] will move an allocated tonnage of [redacted] million metric tonnes of [redacted] per year, which represents 60-70% of [redacted] annual production.

Moreover, [redacted] production comes from a simple blast and quarry open-pit mining operation, which minimizes both capital expenses and technical difficulty.

[redacted] strategy is simple: seek out advantageous contractual relationships and deliver on its promises. As a result, in a short time, [redacted] has quickly become the favorite customer of the South African government's rail network, despite not owning one rail car.

A genius business model that mints money for its shareholders

[redacted] has a unique advantage over BHP Billiton, Rio Tinto or the other enormous metal and mining corporations.

The big operators tend to own all the capital-intensive commodity equipment and infrastructure such as railway lines, trains, and ports used to get raw materials to market. It ties up enormous amounts of shareholder capital. And it costs lots of money to maintain and eventually replace.

What's more, during a sustained resources market downturn, BHP and Rio Tinto still must make principal and interest payments on any debt outstanding against these assets, reducing their already dwindling margins.

But [redacted] is an efficient, capital-light business with none of these major sustaining capital costs.

At the mine, [redacted] pays a contract miner to dig up the [redacted]. They pay rail contractors to move the [redacted] to port. And at the port, they pay a shipping company and the port authority to move [illegible] beyond South Africa to China, India or elsewhere around the world.

What [illegible] is left with is a very simple, highly cash flow generative business model, with ZERO debt.

They own [illegible] of the mineral rights at the [illegible] mine and pay their well-established supply chain to turn [illegible] into cash. In the process, they've turned into a cash machine, minting money for shareholders.

As [illegible] CEO said in their February 2019 investor's call, they aim to [illegible].

It should be no surprise that [illegible] is nowhere near the marginal [illegible] producer. **In early 2016, when [illegible] briefly dropped below [illegible] per dry metric tonne (dmtu) – or only about 27% of the current price, on a cash basis, the company still never lost any money.**

[illegible] simple business model, long mine life with resources and reserves already defined, and efficient operations which don't require huge amounts of capital means that the company can return 90%+ of its earnings to shareholders in the form of dividends. At its current share price, based on the [illegible] per share in dividends for the financial year just ended, [illegible] annual dividend yield at the current share price of [illegible] is 21%. It's quite extraordinary.

When you see a yield like that, it's usually because there's some one-off special dividend payment that's not sustainable, or there's an error with the data. But this dividend is both very real and sustainable. However…

Before you're captivated by the dividend yield, acknowledge the risks

[redacted] has aligned its business for success, but it's certainly not risk-free.

The first is the obvious sovereign risk of South Africa.

Massive corruption plagues South Africa's government. The ruling African National Congress (ANC) has also introduced a bill in parliament to amend the country's constitution to allow for the expropriation of land without compensation.

So unsurprisingly, some people will immediately recoil at a potential investment in South Africa. The country votes to elect a National Assembly and new provincial legislatures on 8 May, and some of these political overhangs may work themselves out.

But regardless of the direction that the new National Assembly takes on private land ownership, my best guess is that companies such as [redacted], that are properly following the law and sharing profits with BEE partners, and paying lots of income taxes and royalties to the government already, will remain unaffected. It's worth nothing [redacted] just paid over 1.15 billion South African rand, or about US$79 million to the authorities last month.

The second risk for [redacted] is its minority stake in the [redacted] mine. With a 50.1% majority, [redacted] BEE partner can theoretically call the shots.

But [redacted] has the expertise, and it is doing everything by the book. Again, South Africa's law mandates 26% BEE ownership, but [redacted] BEE partner has garnered nearly double the baseline ownership. [redacted] CEO also recently stressed that there's an excellent working relationship with their BEE partner, and there's no reason to believe this relationship will change.

The final risk is that steel, and thus [redacted] are highly cyclical businesses, so the price that [redacted] can sell its [redacted] at will fluctuate through the years. However, due to its favorable position on the cost curve, the high quality of its product (37% [redacted] ore), and super-efficient supply chain logistics, [redacted] makes at least some profit all through the cycle.

[redacted] perceived risks are greater than its actual risks

As my colleague Simon Black says, when an investment's perceived risks are greater than its actual risks, this creates an opportunity.

For example, Sovereign Man's *Total Access* subscribers discovered this principle with Pharmacielo, the Canadian-based medicinal-grade cannabis oil producer with growing operations in Colombia that went public earlier this year. Despite the progress towards peace with FARC (the Revolutionary Armed Forces of Colombia), Colombia is still perceived by many as far too dangerous.

But for those rational enough to recognize the difference in perceived and actual risks (like our *Total Access* subscribers and others who invested in Pharmacielo pre-IPO), again, there's a tremendous profit opportunity.

With [illegible], I think the same is true. The perceived risks are greater than the actual risks and we have an amazing opportunity on our hands.

First, in the market's view, [illegible] is a one mine, one commodity company. But that's not accurate. [illegible] has advanced iron ore deposits in [illegible] that they just announced they are now going to make a concerted effort to monetize.

Second, investor concerns about China's slowing economy and the possibility of a resulting [illegible] bear market may be overblown. Yes, China is by far the world's largest consumer of [illegible] for steel manufacturing, and yes, by nearly all metrics, China's economy is slowing. But, even if China's economy is slowing, the world will demand steel.

In just 25 years, the number of people around the world living in extreme poverty (defined as less than US$1.90 per day) fell by 1.1 billion, from 1.85 billion in 1990 to 736 million in 2015. And as this trend continues and likely accelerates, that's a massive demand for all sorts of commodities, including steel.

Moreover, as in other commodities, such as iron ore and coal, China's domestic supplies of [illegible] are of much lower grade and much dirtier to extract and work with than the high-grade product [illegible] can supply. As such, replacement demand as China shuts many of its own underperforming low-grade mines, will see [illegible] slice of the Chinese market pie grow, even if the pie doesn't grow as much in future as it did during China's period of break-neck economic growth.

Overall, [illegible] is an amazing investment opportunity – an exceptional [illegible] mine with a freakish return on capital for investors… nearly all of which is going to be paid out as dividends. Again, on the operations front, [illegible] has skilled and proven management, a [illegible] mine with a projected 100+ plus year life, a simple business strategy that, unlike many mining companies, avoids owning and maintaining capital-intensive mining and refining equipment, coupled with a robust supply chain of trains, ports and ships that other companies are paying for.

Plus, that generous 21% current annual dividend yield. Even if [illegible] prices fall somewhat at some point in the future, as the cycle weakens, and the [illegible] dividend needs to be temporarily cut, you won't find many stocks around the world with sustainable dividends in the low teens.

Still. A word of caution… in this world of zero or negative interest rates, **don't let [illegible] high annual dividend yield tempt you to overreach and bet the farm on this single investment.** Though I believe the perceived risks are greater than the actual risks for [illegible], creating a compelling opportunity for you, there are still risks, as I've mentioned earlier.

One final note about risk and how to buy [illegible] shares

While I'm optimistic on [illegible] and welcome this income stream into our portfolio, intelligent investors always consider the downside risks first, and this investment should be no different.

[illegible] should be a part of your **well-balanced**, *4th Pillar* portfolio. If you place it in a more diversified portfolio along with other high yielding stocks, you mitigate your risk. That's Investing 101.

With that said, I wouldn't blame you for allocating more than you do to the typical *4th Pillar* investment. I know I have. But, again, just don't go overboard.

To buy [illegible] shares, you can use any broker that can execute orders on the [illegible] Exchange. For example, Interactive Brokers, Monex Boom Securities or Fidelity Investment International, to name a few.

Or, you can use a full-service [illegible]. If you go this route, be prepared for slightly higher commissions. But we've found that *4th Pillar* subscribers find a full-service broker worth the money, as they can often get the best prices. Their commission is more than offset if you're buying a large volume of shares and you save a bit on good execution.

Furthermore, for what I hope to be a long-term buy and hold recommendation like this, the asset-protection advantages of directly holding your shares via [illegible] system for registering share ownership is worth it, in my opinion, for the extra peace of mind.

You can reference the **[Welcome Kit]** if you need a recommended [redacted]

RECOMMENDATION: BUY shares in [redacted] up to a limit of [redacted]

DISCLOSURE: Tim Staermose owns or controls 935,107 shares of [redacted] purchased at an average price of [redacted]

Including the recent dividend, you're up an incredible 32.4% or more on Xenith in under a month, and the bidding war is just getting started; HOLD

Xenith IP **(XIP on the Australian Securities Exchange)** is Australia's third-largest publicly-listed intellectual property (IP) services firms.

QANTM **(QIP on the Australian Securities Exchange)** is Australia's second-largest, publicly-traded IP firm, both in terms of market capitalisation and market share.

The two firms have proposed a "merger of equals." This is a scrip-based takeover where the acquiring company pays target company shareholders using its own shares.

In this case, XIP shareholders will be issued 1.22 shares in the new merged XIP/QIP entity for each XIP share they currently own.

Based on the two companies' share prices and XIP holder's larger share of the new combined business, I calculated this deal offered us a 21.5% annualised gain. Accordingly, I featured this deal in the March 2019 issue.

One of the risks I flagged was the antitrust clearance required. But, as I expected, the Australian Competition & Consumer Commission (ACCC) will NOT oppose the merger between XIP and QIP. So, the merger of the two firms remains on track. But if you recall, there was another development, which I featured in your **mid-March update**.

XIP is now the target of a bidding war.

IPH Limited **(IPH on the Australian Securities Exchange)**, the largest, publicly-traded Australian IP firm by both market capitalisation and market share, had already bought 19.99% of XIP for A$1.85 per share, to block the proposed XIP-QIP merger.

As I expected, IPH subsequently made a full takeover offer to XIP shareholders. IPH's is offering A$1.28 per share in cash and 0.1056 of its own shares for each XIP share. With IPH trading at A$7.04 per share as I'm writing this, the IPH bid is valued at A$2.02.

And late last week, we got **another development from the ACCC**…

The ACCC has also cleared IPH's takeover bid for XIP. With IPH's cash consideration that comprises more than 60% of the proposed deal and the overall higher value (A$2.02 versus the QIP deal's implied value of $1.72), this is great news for current XIP shareholders.

My initial, projected 21.5% annualised gain is now far understated.

Whether you were fortunate to buy shares at the initial A$1.46 limit I set at the beginning of March or, more likely, the revised A$1.83 limit in mid-March, you're up at least 32.4% in real terms, which includes the recently paid A$0.0325 per share dividend from XIP.

I think there is even more money to be made going forward. The XIP board is still resisting IPH's offer. They seem to prefer to merge with QIP. But, the IPH deal clearly looks superior. If they can convince QIP to pay up, and trump the IPH bid, we're looking at more likely gains. If that happens IPH may even up the ante some more.

In a situation like this, you just need to patiently hold your shares.

The QIP/XIP merger vote, which was initially scheduled for 3 April before the subsequent IPH takeover bid came through, **is postponed**. But unless they sweeten the deal so that it is superior to the IPH one, I suggest you vote AGAINST it, should the meeting be rescheduled.

(To ensure that you have the latest information, should Xenith and QANTM agree to another merger meeting, my advice is to register for an **account with the Australian Securities Exchange**. There, you can set up a company watchlist.)

RECOMMENDATION: HOLD shares in Xenith **(XIP on the ASX)**.

DISCLOSURE: Tim Staermose currently owns or controls 60,000 shares in XIP bought at an average price of A$1.552.

You already have up to 24.9% gains in [redacted] but it's STILL a BUY

[redacted] is the publicly-traded vehicle that mirrors famed fund manager [redacted]. It currently holds 10 liquid, US blue-chip stocks like [redacted].

For [redacted] to manage your money in his hedge fund, you must clear the 7-figure minimum bar – a high mark, no doubt, for most investors. But with [redacted], which holds the exact same stocks as [redacted] private hedge fund for wealthy investors, anyone with a brokerage account and $20 can buy a share.

And right now, you can get *a lot* of value by buying [redacted] shares.

If you recall, I released a [redacted] in late February, and immediately followed up my [redacted] coverage in the March issue of *The 4th Pillar*.

Some longer-term subscribers have been in the stock since December 2017 and are already up by as much as 24.9%. But that doesn't mean it's too late for you to get involved if you aren't on board yet.

On the contrary, just when I think our opportunity to buy shares at such a steep discount to NAV cannot get better, the discount – and our margin of safety – widens further.

As of the March 26 NAV release and the March 29 share price, the discount to NAV stands at 25.2% – fairly steady compared to the 26% mark I reported last month.

That wide discount won't last forever. On [redacted], the company announced it would start paying a quarterly dividend of [redacted] per share. This represented a yield of 2.5% (against the S&P 500's yield of about 2%) at the time of the announcement.

By paying a dividend, [redacted] expects to attract investors who require dividends as part of their investment strategy or mandate. [redacted] will also offer an optional Dividend Reinvestment Program (DRIP), which will automatically swap [redacted] shareholders dividends for new shares at the market price and create steady demand to help further push up the share price.

In the company's February 2019 presentation to the Annual General Meeting, they indicated that 2018 was a year of organisational transition, complete with a new advisory board.

And just last week, [redacted] released its **2018 Annual Report**, in which [redacted] emphasized he will not seek to raise capital for his private hedge fund, but rather, he and the investment team will devote nearly all their time and attention to identifying, monitoring and overseeing [redacted] portfolio companies.

Also, [redacted] has stripped things back to the basic principles he founded his investment strategy on – going forward, [redacted] will have a laser-like focus on investing in businesses that fit very specific criteria. They must have $1 billion+ per annum in free cash flow. They must have significant barriers to entry keeping competitors out. They must offer a compelling value proposition. And they must be highly liquid mid or large capitalisation stocks.

The fund's four new investments in 2018 – [redacted] – check off all these boxes. And they are performing very well.

At the time of [redacted] investor presentation, the fund was up 24.7% in 2019, compared to the S&P 500's 9.7% return. Now those numbers are 13.1% for the S&P 500 versus an incredible 32.9% quarterly gain for [redacted] – its best start to the year in its 15-year history.

Despite [redacted] outperformance against the greater market, the share price is still lagging far behind the NAV. But again, I simply view that as an opportunity to buy a great portfolio of leading US businesses at a huge discount to what it would cost you to buy them one by one yourself. It's absurd, frankly.

RECOMMENDATION: HOLD/BUY shares in [redacted] up to a limit of US$17.51 (Euronext share price).

DISCLOSURE: Tim Staermose and/or his clients own 12,300 [redacted] purchased for an average of [redacted]. They will not sell until the discount to NAV has narrowed into the single digits. Currently that would be at a price above [illegible] per share.

Your Healthscope shares are up as much as 11.5% in 3 months; take profits NOW

Healthscope Limited **(HSO on the Australian Securities Exchange)** operates 43 private hospitals and pathology centers across New Zealand and Australia, making it Australia's second-largest, listed healthcare facilities owner and operator.

In early 2018, AustralianSuper Consortium, which is comprised of Australian and Canadian pension funds and already owns 20% of HSO, expressed interest to buy the remainder of HSO's shares. A month later, the Canadian infrastructure investment fund, Brookfield, made HSO a non-binding takeover offer as well.

Ultimately, the HSO board rejected both AustralianSuper and Brookfield's initial proposals. But Brookfield persisted. And after being allowed to conduct detailed due diligence, as I predicted, Brookfield's takeover deal with HSO was made binding on February 1.

Under the terms of the implementation deed, Brookfield will acquire 100% of HSO for A$2.50 per share via Scheme of Arrangement, or should the scheme vote fail, at A$2.40 via an off-market takeover bid. Just this week, **Australia's Foreign Investment Review Board approved the HSO takeover**, which gives the deal the green light.

AustralianSuper has now indicated that it's pulling out of the running, meaning Brookfield's bid is the only one capable of acceptance.

It's not yet clear whether AustralianSuper intends to accept the Brookfield offer at A$2.50, via scheme of arrangement.

If it does, then the deal at A$2.50 should succeed, as Brookfield stands every chance of getting the required backing, of 75% of the votes and 50% of the shareholders by number, who vote at the scheme meeting.

Should Australian Super vote against the deal, then Brookfield's alternative offer – an off-market takeover bid at A$2.40 – which has a lower, 50% minimum acceptance condition – should still prevail.

With HSO trading around halfway between the two possible bid outcomes, and no certainty that the $2.50 bid will succeed, I think the best course of action is to take your 11.54% profit now. There are trades with better risk/reward characteristics among my other *4th Pillar* recommendations that you can redeploy your capital in.

RECOMMENDATION: TAKE PROFITS on your Healthscope **(HSO on the ASX)** shares now. Sell at a limit of A$2.44.

DISCLOSURE: Tim Staermose no longer owns or controls any shares in HSO.

[redacted] reports earnings of HK$0.0175 per share, and declares a dividend; we're nearly back at breakeven… HOLD for further gains

I recommended Hong Kong [redacted] retailer [redacted] back in the November 2017 issue of *The 4th Pillar* because the company was selling at a gaping discount to the combined value of its net cash and watch inventory.

Since then, retail sales in Hong Kong picked up for a time, driven by a thaw in China's anti-corruption crackdown on conspicuous consumption and a strengthening of the Chinese yuan versus the Hong Kong dollar. A stronger yuan makes Hong Kong shopping trips more affordable for mainland Chinse consumers.

This is now showing up in [redacted] numbers. The company just reported earnings of [redacted] or the equivalent of [redacted] per share for 2018. The company also declared a dividend of [redacted] or [redacted] per share. Respectively, those numbers put the stock on a P/E ratio of 22.3x and a yield of 3.6%.

While it's nice that the company has returned to profitability and declared a dividend, the discount to net cash has not gone away. Based on the accounts just filed for the year ending 31 December, 2018, [redacted] has [redacted] in net cash per share, and liquid [redacted] inventories of [redacted] per share. (That's after subtracting ALL liabilities).

That compares to a share price of just [redacted] even after a recent rebound. Clearly the stock remains in "deep value" territory, and I suggest you keep holding it, or even add to your position.

RECOMMENDATION: HOLD/BUY shares in [redacted] up to a limit of [redacted]

DISCLOSURE: Tim Staermose owns or controls 2,441,000 shares in [redacted], purchased for an average of [redacted]

Your MXUPA gains climb to 27%; HOLD for potential redemption at face value later this year and hence more gains

I recommended the Multiplex "SITES" Floating Rate Notes **(MXUPA on the Australian Stock Exchange)** for their low-risk, and relatively high yield.

The notes offer a floating rate of interest, equal to the Australian 3-month interbank rate plus a margin of 3.9% p.a. The rate is determined on the first business day of each quarter. On January 2, 2019, the Trust announced to the ASX that the distribution rate for the period from January 1 to March 31 is 5.9825% per annum. (Based on the $100 face value per note). So, based on the current $94.70 market value, the running yield is 6.32%, which is nothing to sneeze at.

When I first recommended you buy MXUPA however, at just A$78.05, in the May 2018 issue, however, the yield was MUCH higher.

In addition to the yield, I was attracted to MXUPA because I thought at some point, Brookfield, which acquired the Australian-based Multiplex business over a decade ago, would retire these notes. To do so, Brookfield would have to pay the face value of A$100 per note.

In mid-February Brookfield indicated they will indeed likely redeem the notes in mid-2019. This announcement saw MXUPA rally 8.7% in one trading day. The notes have dipped in price slightly afterwards but are still trading above that dramatic one-day spike in price.

Clearly, more investors are recognizing the value in holding MXUPA – to collect a solid income, while awaiting the Brookfield redemption.

Brookfield CEO Bruce Flatt recently paid a high-profile visit to Australia. But there has been no specific news regarding MXUPA this past month.

You're already up 27.0% on MXUPA and I believe there are more gains ahead. I look forward to reporting the date that Brookfield will redeem these Notes.

RECOMMENDATION: HOLD your Multiplex "SITES" Floating Rate Notes **(MXUPA on the ASX)**.

DISCLOSURE: Tim Staermose owns or controls 3,642 MXUPA purchased at an average of A$83.97.

[redacted] net cash position has improved by 20%, but its shares continue to get hammered; HOLD through this downturn

[redacted] has several business lines, including ownership of [redacted]

Due to its relative obscurity, with corporate headquarters in Hong Kong, factories in China, and being, listed on the second board of the Korean stock exchange, less eyes were on the stock, and this created an opportunity.

That, and at the time I recommended [redacted] in the February 2018 issue of *The 4th Pillar*, the company presented a compelling value proposition. It was a cash flow positive business but traded at an attractive 24.6% discount to net cash.

Despite some obvious headwinds to [redacted]s motor cycle division, as Chinese people trade up to cars, it seemed that the company's declining automotive gears division would reverse course, pushing the company's overall sales and profit higher. And that deep discount to net cash gave me confidence that 100% gains in [redacted] were within reason.

But so far, I've been wrong.

The market has yet to recognize the company's value, and [redacted]'s stock price has plummeted

47.4% since my February 2018 recommendation.

And this may leave you wondering what course to take, just as subscriber John recently inquired. John wrote in and asked, “Has anything changed in terms of fundamentals and the company’s cash? Or is it a good opportunity to add to my current position?”

As to the first question, for the quarter ended 20 September 2018, [redacted] balance sheet shows that it has [redacted] in net cash (cash and cash equivalents, plus short-term financial investments, minus ALL liabilities). That’s a 20% INCREASE in net cash of [redacted] from the time of my initial recommendation. Sales and profits have declined. But not as much as [redacted] share price.

The company remains profitable and trades on approximately 4x historical earnings. To get a fuller picture, I’ll anxiously await the December 31 and 2018 full-year financials, which should be released shortly. Of course, I’ll analyze the financials and provide an update.

And as to the second question, I’ll reiterate that I’m not a believer in trying to “catch a falling knife.” A stock’s sustained downtrend can be brutal for an investor’s psyche, even the most disciplined of us, and unsure of what’s ahead for [redacted], I recommend holding your shares at this time.

RECOMMENDATION: HOLD shares in [redacted]

DISCLOSURE: Tim Staermose does not control any shares in [redacted] Corporation.

[redacted] has ascended 30% from its December lows, and I see more gains ahead; HOLD

[redacted] is an Australian oil and gas company, with offshore projects in Australia and Brazil and an onshore field in Peru.

After booking profits of 24.3% and 89.3% before on two prior trades in [redacted] shares, I last recommended [redacted] in the September 2017 issue. At the time, the company had A$1.53 in net cash per share and was trading at a 25% discount to net cash backing… a quintessential 4th Pillar "deep value" opportunity.

But the discount continued to widen, and we've had a rough go of it this time around. [redacted] share price fell throughout most of 2018, bottoming in December.

One major reason behind the share price decline was due to [redacted] This fund manager is shutting down its Australian business and sold its large block of [redacted] shares in a special crossing. With the market recognizing that no more [redacted] shares will be dumped by [redacted], and the "overhang" gone, there was an immediate reversal of the share price.

Right about the time that [redacted] share price bottomed in December, the company announced the appointment of a new independent Chairman, [redacted], a 43-year veteran of the energy industry, including previous positions as CEO, Chairman and Non-executive Director of various global firms.

In mid-March, [redacted] announced the results of a strategic review, which intends to maximize shareholder value through [redacted] core operations. The company's first priority is to make a significant production acquisition and keep an exploration [redacted]. Further down the pecking order are the possibility of accretive share buy backs, mergers, and potential asset sales. Encouragingly, the company is also committed to a 20% reduction in corporate overheads, for example, by moving to a cheaper office space.

The acquisition of a long-life production asset and development of the company's existing properties in the [redacted] , which seems the target, would still leave [redacted] with capital to deploy into its [redacted], with drilling to commence in early 2020. [redacted] leadership believes success in this project will be transformative for the company and deliver big gains to you.

Encouragingly, [redacted] has a very good track record of finding oil and gas in the past. The company's strike rate of 62% is way better than industry averages which are closer to 30%.

And another encouraging sign for [redacted] is the attention it's getting from investors. Australian listed investment company [redacted] Capital disclosed that in February, they bought a large line of [redacted] stock at an average of A$0.88 per share (from [redacted]). This was [redacted] single largest investment to date.

[redacted] pointed out if [redacted] can acquire a producing asset the market may get excited again. And while [redacted] recognized the risks of developing the [redacted], buying [redacted] at a significant discount to net cash provided them a margin of safety and the expectation of strong returns from this investment.

I greatly respect the guys at [redacted]. And I also own shares in their company. They have delivered gains in the high 20% for each of the past two years on [redacted] investments.

RECOMMENDATION: HOLD your shares in [redacted]

DISCLOSURE: Tim Staermose currently owns or controls 360,357 shares in [redacted] bought at an average of [redacted]

[redacted] releases its 2018 annual results and declares a 9c dividend, payable in late June; HOLD for your 4.9% dividend yield

[redacted] provides ship-broking, insurance, spare parts and maintenance services, and fuel supplies to shipping companies, with a geographical focus on Greater China.

The company's 24% discount to net cash, diversified business divisions, and dividend yield of 4.4% at the time led me to recommend buying shares back in June 2017. We had a brief price spike in early 2018, and since Q4 2018, it's traded in a range of [redacted]

Although [redacted] recently declared a 9c dividend, which combined with the interim dividend of 5c, is good for a 4.9% dividend yield at the current share price, there was mixed news coming from the company's 2018 annual report.

Year-over-year, revenue increased from HK$8.8 billion (US$1.1 billion) to HK$9.5 billion (US$1.2 billion) – an 8% increase. But gross profit decreased by 10% from 2017 to 2018. Earnings per share also dropped from 23.3c to 18.7c.

But its balance sheet remains incredibly strong. In 2018, [redacted] maintained a net cash position of

HK$6.3 billion, which is nearly on par with its 2017 net cash of HK$6.5 billion.

Admittedly, being 4.7% in the red isn't what I had in mind 22 months ago. But continue to hold shares, as, again, you'll reap that 9c final dividend in late June. And at some point, I remain confident the market will mark the company's shares back up to at least the net cash backing, which is currently [redacted] – or a potential gain of 22% from current levels.

RECOMMENDATION: HOLD/BUY shares of [redacted] up to a limit of [redacted]
DISCLOSURE: Tim Staermose owns or controls 744,000 [redacted] shares, purchased at an average of [redacted].

Carnarvon Petroleum gains rocket to 483%; HOLD for even more

Carnarvon Petroleum **(CVN on the Australian Securities Exchange)** is an oil exploration company focused on offshore projects in the northwest of Australia.

If you bought shares in CVN when I first recommended the company in March 2016, when it was selling below cash backing, your patience over two years paid off. In mid-2018, Carnarvon discovered the Dorado field, and shares immediately rocketed up, giving us a 281% gain, which was sufficient for me to recommend selling two-thirds of your holdings.

I recommended you let the remaining one-third of your shares ride, and you have some more incredible gains if you've held over the past nine months.

Over the past couple of months, I've reported on news of CVN's further development of the Dorado field and its other projects, which has boosted the company's share price further.

Now with a sufficient market capitalisation, CVN is one of 10 companies recently added to the ASX 300 index. This means that larger institutional investors limited to purchasing only ASX 300 companies can now buy CVN shares.

Don't you just love index funds? When stuff gets so expensive that we have nearly 500%+ gains, they can finally dip a toe in the water. Crazy.

RECOMMENDATION: HOLD your remaining shares in Carnarvon Petroleum **(CVN on the ASX)**.

DISCLOSURE: Tim Staermose no longer owns or controls any CVN shares.

Recently Closed Out Positions

COMPANY	TICKER	DATE PURCHASED	DATE SOLD	LIMIT PRICE	SELLING PRICE	DIVIDENDS	% GAIN/LOSS
Nippon Antenna	6930.JP	02/03/2017	04/02/2019	598	907	42	58.7%
Mitula	MUA.AX	02/07/2018	08/01/2019	$0.740	$0.800	$-	8.1%
Kitagawa Industries	6896.JP	03/07/2017	03/12/2018	1,120	3,915	$-	249.6%
Spookfish	SFI.AX	02/08/2018	10/12/2018	$0.076	$0.090	$-	18.4%
Carnarvon Petroleum	CVN	01/03/2016	19/07/2018	$0.072	$0.2900	$-	302.8%
Primary Gold	PGO	03/04/2018	03/05/2018	$0.054	$0.0575	$-	6.5%
Metgasco	MEL	02/06/2016	04/12/2017	$0.059	$0.055	$0.025	35.6%
New Century Resources (half position)	NCZ	02/07/2017	14/09/2017	$0.50	$1.000	$-	100.0%
Nam Tai Properties (US$) (half position)	NTP	02/12/2014	17/07/2017	$4.510	$10.000	$0.370	129.9%
Cokal	CKA	02/07/2015	13/06/2017	$0.100	$0.037	$-	-63.0%
Pulse Health Group	PHG	02/01/2017	02/03/2017	$0.455	$0.470	$-	3.3%
Rural Funds Group (half position)	RFF	02/07/2014	03/04/2017	$0.925	$1.855	$0.248	127.3%
Mount Gibson	MGX	02/09/2016	14/02/2017	$0.295	$0.465	$-	57.6%
Yorkey Optical (HK$)	2788.HK	02/06/2013	02/02/2017	$0.780	$1.100	$0.383	90.1%
[illegible]	[illegible]	02/04/2016	03/01/2017	$1.220	$1.790	$-	46.7%
[illegible]	[illegible]	02/05/2016	03/01/2017	$1.440	$1.790	$-	24.3%
Le Saunda	738.HK	02/03/2016	03/01/2017	$1.660	$1.540	$0.157	2.2%