

November 6, 2015

### Q3 Earnings Mostly Good

We are midway through Q3 earnings season and most of our stock picks are reporting earnings growth.

All of our REITs reported improved results. Dupont Fabros Technology, our data center REIT, raised its annual guidance. Brandywine Realty Trust, our office building REIT, also raised its annual guidance. Preferred Apartment Communities tightened its guidance range and raised its dividend. Select Income Realty reported increased occupancy and increased same-property net rental income.

Prospect Capital Corp. reported steady distributable income. The AP headline read "Results Top Street Expectations". It recorded a \$0.17 per share writedown on certain energy sector investments. The market shrugged off this one-time adjustment.

Kinder Morgan reported record distributable cash flow and raised its dividend by 16% versus the prior year. However the stock price fell after management lowered the 2016 dividend growth target from "10%" to "6% to 10%". Investors are concerned about Kinder Morgan's cost of capital as it seeks to fund its pipeline projects against the headwind of a depressed energy sector.

Penske Auto Group's earnings were up 16% year-over-year but down 8% sequentially from its unusually strong Q2. Management was optimistic as usual. With regard to the VW/Audi emissions scandal, CEO Roger Penske said "we as a company right now have not been impacted to any great extent". VW is only 2% of Penske's auto sale revenues, but Audi is 13%. The impact on future sales is hard to assess. Penske also sells BMW and Mercedes, so if consumers switch from Audi to BMW and Mercedes, it will be something of a wash for Penske.

The U.S. economy shows mixed signals. October job growth was at the fastest rate since 2009. However, manufacturing jobs showed no increase. U.S. manufacturing is suffering from the strong dollar and decreased industrial demand from China.