



*Missing the target?*

"I entered Conduent (CNDT) as I trusted The Edge's conviction. I'd have been even more comfortable entering if I had the full analysis rather than the overview provided in the ESR Lite."

*- Private Value Investor, Singapore*

## THE INVESTOR'S EDGE

Biweekly Education Saving You Time & Money in Investing

### This is Why Your Portfolio Has to Include Spinoffs

Almost every investor is a winner in a rising market. Why? Well, primarily two reasons. The natural inclination for most investors is to buy stocks (rather than shorting) and, as you well know, a rising tide lifts all boats. Easy money if the market compounds at +19% per year. The ETFs and all your picks that just follow the market up will make you money. Guaranteed. Look at you, you are a stock picker! Great job, give yourself a pat on the back.

Hold on, what if the market doesn't compound at +19% like last year and it doesn't go higher at a gentle pace? What happens if it goes down or is volatile? How does your buy-and-hold strategy look then? I mentioned in the past and stick by our prediction this year that [Spinoffs and Special situations are the place to look](#). The market needs a breather and, in my experience, the correction is healthy. I believe you will see a shift back from passive investing after a few quarters back to active managing strategies. Let's see. This might result in a longer-term shift.

You could possibly be in an underperforming situation this year if you decide just to buy and hold stocks without any sort of catalyst to make them move higher (assuming you are investing from the long side). It's much the same on the short side.

Also in my experience (and I'm in danger of sounding old) is that a good correction is usually followed by a period of ongoing volatility. I think more than ever after this most recent pullback, which was completely equity and sentiment related, that equities will move sideways for a while, and you should think about switching to catalyst investing for this year at least. Start now and redefine your strategy early.



*Do more than just think about Spinoffs this year...*

As of this writing the DOW was down -1600 points at worst today. It's whipsawing all over the place and you should ask yourself, "What underlying protection do my stocks have? What sort of catalysts are underpinning the valuation? How much confidence have I really got in my names?"

Spinoffs have proven to generally outperform the market over the past decade. With over 35 major divestitures on the calendar this year, Spinoffs continue to gain pace, particularly in the US and more so in Europe recently with **GKN, Rolls-Royce, Continental, Altice and Autoliv** all announcing over there. If you are not looking at this space, you should be. With valuations fair if not high for a lot of names, refocus your aim. Stocks need a hard catalyst to propel them higher, and what is better than analysing a name that has hidden value?

**Analysis shows that since 2005, companies that have divested an asset worth >5% of their market cap have tended to outperform the broader market by +3.6% on a 12m horizon from the date that the divestment was announced.**

The Edge will be analysing each major Spinoff long before the time of the event to give you that head start. Most of these Spins will pass unnoticed to the wider mass market. The smart people will reap the gains this year. Call us to talk about how we can help you be one of those.

Jim Osman

CEO

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THE EDGE INVESTMENT IDEAS YOU CAN TRUST							
		SPINOFF REPORT		SPECIAL SITUATIONS		STRESSED CREDIT	
	2014 Q3 AEO	2014 Q4 AMZN	2015 Q1 INDV	2015 Q2 PYPL	2015 Q3 ADS	2015 Q4 HPE	
Ticker	AEO US Equity	AMZN US Equity	INDV US Equity	PYPL US Equity	ADS GT Equity	HPE US Equity	
Company Logo							
What Was the Situation?	The arrival of retail turnaround specialist Jay Schottenstein and an accumulation of 22.5% of insider buying gave confidence to a promising redirection of a significantly underperforming company.	The Edge saw hidden value in the potential Spinoff of Amazon Web Services (AWS) when the market was quiet. The segment continued to be the primary driver for consistent revenue growth.	A Spinoff from Teckint Bancor in Dec. 2014. The Edge urged investors to ignore the Parent and focus on INDV for its insider buying ahead of the Spin, strong management, new products, and likelihood of a takeover.	The Edge highlighted the benefits of eBay's move to Spinoff its digital payments arm PayPal in July 2015 to clean its portfolio of services and create a more focused marketplace business.	ADS reshuffled its management, introduced a new product line, performed a strategic review, and had activist investors backing a strong balance sheet in his multi catalyst turnaround story.	Following its Spinoff from HP, Inc. in Oct. 2015, HPE went on to perform two Reverse Merger Trust Splits of the Software (DXC) and Enterprise (IMGP) segments in 2017.	
Portfolio Return (%)	37%	93%	55%	36%	26%	48%	
Index Return (%)	-4%	-7%	-5%	-1%	-7%	25%	
	2016 Q1 RR	2016 Q2 BCO	2016 Q3 MET	2016 Q4 ARIC	2017 Q1 DATA	2017 Q2 SCAB	
Ticker	RR US Equity	BCO US Equity	MET US Equity	ARIC US Equity	DATA US Equity	SCAB US Equity	
Company Logo							
What Was the Situation?	A management restructuring coupled with activist involvement and potential Spinoffs, Rolls Royce already had negatives priced in and a strong position for a turnaround in the European automotive space.	A strong management, led by turnaround specialist and new (as of June 2016) CEO Doug Pertz, is focused on improving operational efficiencies and expanding its high value and technology driven services.	A Special Situation turned Spinoff. The Edge highlighted the potential benefits of separating its US retail unit in April 2016. The Spinoff of BrightHouse Financial was subsequently announced that following July.	The market struggled to follow the split, as Alcoa (Parent) transformed into Arconic while the Spinoff took the Parent's name and ticker. Heavy insider buying coupled with strong fundamentals produced a solid investment.	CEO Adam Selipsky (who grew ZOWIE from scratch) took over the undervalued tech company in Sep. 2016, and set to improving DATA's business model, cloud subscription system, and long-term takeover potential.	Europe's largest private forest owner is a strong takeover target due to its high margin profile, diverse timber product range, and wide geographic reach. The new management is led by Forest segment veteran Ulf Larsson.	
Portfolio Return (%)	22%	87%	41%	49%	68%	50%	
Index Return (%)	14%	13%	39%	10%	29%	3%	

"Being clients for over 5 years and given we've over \$25bn AUM and 20 analysts, [The Edge is] in an extremely rare position of being the only external advisor we trust."  
- Portfolio Manager, \$25bn NYC Investment Management Firm

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- Value Portfolio Manager, NJ Investment Fund

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