Published by SL Advisors, LLC

In Pursuit of Value

November, 2013

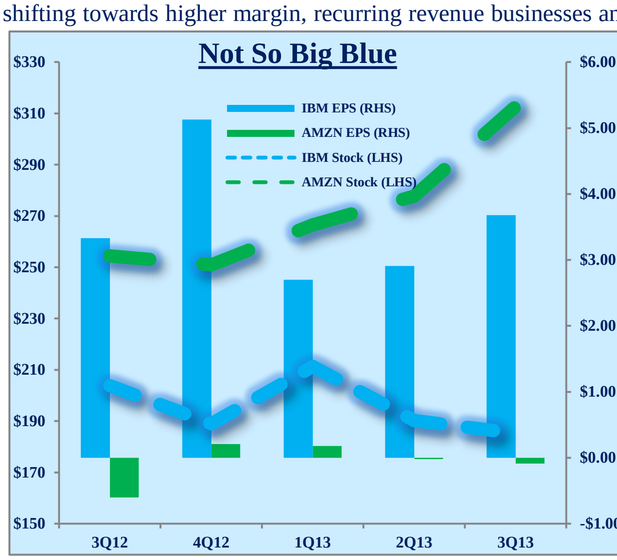
A Tale of Two Stocks

Here's a trivia question for you stock junkies who memorize every number like baseball statistics. Can you identify these two companies before reaching the third paragraph? Company A has for ten years experienced no growth in EPS or Free Cash Flow (FCF) per share, and has experienced declining operating margins over this time from 5.1% to 1.0%. It pays no dividend, yet it has grown revenues 30% annually. Its market cap is $166 billion and its stock is up 45% this year. The enterprise trades at 50x trailing EBITDA.

Company B has grown EPS at 14% for the last decade, per share FCF at 9% , has improved its gross margins from 37% to 50% and doubled its operating margins from 11% to 22%%. Its dividend has grown at 20% per annum. Yet, it's only grown revenues at 1% annually. Its market cap is $198 billion and its stock is down 4% this year. If you're the kind of picky investor that likes to invest in companies that can repay their owners out of profits, you'd own Company B. If you embrace the idea that the absence of profits can be made up with higher sales, you'd own Company A. This enterprise trades at 8.5x trailing EBITDA

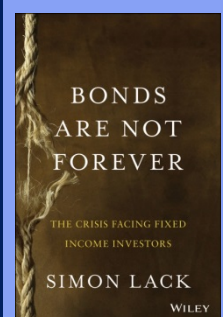
Company A, Amazon (AMZN), certainly knows how to grow sales. Despite growing revenues 14 fold from what they were 10 years ago, AMZN isn't making much money. And those of us that remember the internet bubble will recall that AMZN was not exactly a new company in 2003, having already gone through the dot.com bubble years of the late 90s. Back then many "old economy" investors who didn't get the revolutionary change unleashed by Tim Berners-Lee (or was it Al Gore?) questioned whether AMZN would ever make money as the company plowed cash into their business, adding physical distribution centers to support their virtual assets. Here we are in 2013 and the same question may be justifiably asked, but the skeptic is silenced by AMZN'S 45% YTD stock performance. Why quibble about profits when investors have already voted with their brokerage accounts?

Company B is IBM. Revenue growth has been flat for several years, about the only financial yardstick against which they compare poorly. Nonetheless, the measures of business performance noted above as well as others all reflect a company that it executing well, shifting towards higher margin, recurring revenue businesses and returning its profits to shareholders. However, IBM's investors have not been rewarded this year since the stock's return has been around -4% (including dividends), an underperformance relative to the S&P500 approximately equal to AMZN's outperformance.



AMZN's market cap of $166BN has risen to 80% of IBM's, although their FCF is only 2.5% as big. Just 9 days of existence at one company generates the same cash as a year of toil at the other. IBM's annual dividend would cover all of AMZN's *profits* since 2006. Do these companies really both exist at these prices at the same point in time, in the same market? Can a company experience two bubbles? One per corporate lifetime is surely enough. What does the future look like for a company that grows 30% annually, but never seems to be profitable? A more interesting

SL Advisors, LLC is a registered investment advisor offering separately managed accounts to individuals, family offices and institutions.



question may be what it means for an investor in a business that doesn't concern itself with making money.

The reader will by now have surmised that SL Advisors does not own AMZN and is invested in IBM. IBM's attractive earnings multiple, operating performance and consistent share buybacks work much better for us than a company where sales and profits have for several years been moving rapidly in opposite directions. Choosing IBM over AMZN hasn't made our clients or us richer, at least not yet. But we believe it will.

At this point many investor letters begin a lamentable monologue on the persistent irrationality of markets and the difficulty of outperforming the indices when mis-pricings such as AMZN's occur. No such apology will be found here though – we're happy with our overall results and you take the opportunities you find rather than wishing for those you'd prefer. We missed AMZN's rise as well as Netflix's, Facebook's, LinkedIn's and other high growth names. We've experienced IBM's stubborn underperformance (it has hardly fallen, it's just been highly sedentary) and we are comfortable in the math that a 10% earnings yield that's growing predictably at 10%+ annually = a very good return.

	IBM	AMZN
P/E (Next Years's Earnings)	10	166
Market Cap	$198BN	$166BN
2012 Per Share FCF	$13.42	$0.87
Enterprise Value/2012 EBITDA	8.5	49.5

SL Advisors, LLC focuses on identifying securities that are trading at a discount to intrinsic value.

A client/friend (happily in our business the two are often synonymous) asked the other day whether we might build up our exposure to the technology sector. Many of the names we didn't own mentioned above have that in common. Often, extremely high growth rates and valuations accompany a new business whose long term sustainability is unproven and whose competitive position is far from assured. Many IT companies benefit from monopoly positions and the prospect of high operating margins combined with rapid sales growth typically draws competitors (one example is the smartphone business that Apple pretty much invented and whose success has drawn deep-pocketed rivals).

Our fundamental value approach keeps us focused on investing in attractive securities and not speculating on highly unpredictable future profits. Shareholder-friendly managements running businesses with pricing power, high and growing gross margins and a track record of returning substantial portions of FCF to investors (like IBM) are where we focus. Companies that have a strong competitive position as demonstrated via high and expanding operating margins deserve a premium multiple. We are willing to pay more for predictable businesses that are profitable in all environments, and maintain low leverage. The less capital intensive the business the better, and we love businesses that generate incremental cash without incremental cash investments (the General Partners of many MLPs being a good example). Finally, we are price sensitive investors paying particular attention to the initial cash flow yield of a security. These qualities in companies appear throughout each of SL Advisors' strategies although the emphasis on each quality is strategy-dependent. Whereas predictability and stability of cash flows is particularly important to DivCap, discount to intrinsic value is emphasized in Deep Value.

In MLPs, superior governance rights and the ability of General Partners (GPs) to earn a return from the cashflows of Limited Partners (analogous to the position of hedge fund managers) are particularly attractive. The typical MLP is structured as a partnership whose appropriately named Limited Partners (LPs) have far more limited rights than with a conventional business. The GP retains all the power and preferential economics. You won't see an activist hedge fund buying up LP units in an MLP because invariably even if you owned 100% the Limited Partnership Agreement would protect the GP's right to continue running the business. GPs don't get fired. Perhaps most notably, when an MLP raises money through a secondary offering of equity, the LPs run the risk of dilution if the cash raised isn't invested to earn a return above the cost of equity, while the GP simply enjoys a share of the now bigger distributable cashflows. For years very few GPs were publicly traded, but that's begun to change and we've been using the opportunity to incorporate certain GPs into many of our strategies. If the GP's position with respect to an MLP is akin to that of a hedge fund manager with respect to his clients, the author of a book mildly critical of hedge funds might be expected to follow such an approach.

SL Advisors runs a variety of strategies focused on generating attractive risk-adjusted returns using public equities in long-only and long-short format. Contact us for more information, or go to our website: www.sl-advisors.com

Returns for each strategy shown at right are from a single continuously managed account. The Hedged Dividend Capture, Deep Value and MLP Strategies have all been independently verified and attested to by Marcum, LLP. Documentation available on request.

Hedged Dividend Capture Strategy (%)							Since Inception			17%	*Index*		*-3%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**0.4**	**0.2**	**3.5**	**4.2**
Index										*0.6*	*-0.2*	*0.2*	*0.6*
2012	**-3.5**	**-2.1**	**1.1**	**1.6**	**1.2**	**2.1**	**1.1**	**-1.3**	**0.4**	**0.8**	**0.5**	**-0.7**	**1.0**
Index	*0.4*	*-0.8*	*-1.2*	*-1.5*	*-0.4*	*-1.5*	*-0.1*	*-0.1*	*-0.3*	*0.2*	*0.5*	*0.1*	*-4.7*
2013	**2.8**	**3.4**	**4.1**	**0.9**	**-2.8**	**1.1**	**1.4**	**-3.2**	**-0.5**	**3.2**			**10.7**
Index	*0.4*	*0.2*	*0.0*	*0.5*	*0.2*	*-0.6*	*0.6*	*-1.6*	*-0.1*	*1.1*			*0.6*

The Index is the HFRX Equity Market Neutral Index. Returns are net of fees. Past performance is not indicative of future returns.

High Dividend Low Beta Strategy (%)							Since Inception			49%	*Index*		*63%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**5.9**	**0.1**	**4.0**	**10.3**
Index										*10.9*	*-0.2*	*1.0*	*11.8*
2012	**-1.3**	**0.1**	**2.8**	**1.3**	**-1.8**	**4.2**	**1.8**	**-0.2**	**1.7**	**-0.1**	**0.8**	**-0.2**	**9.1**
Index	*4.5*	*4.3*	*3.3*	*-0.6*	*-6.0*	*4.1*	*1.4*	*2.3*	*2.6*	*-1.8*	*0.6*	*0.9*	*16.0*
2013	**5.4**	**4.1**	**6.0**	**1.9**	**-1.6**	**-0.4**	**4.0**	**-4.6**	**1.1**	**5.5**			**23.8**
Index	*5.2*	*1.4*	*3.8*	*1.9*	*2.3*	*-1.3*	*5.1*	*-2.9*	*3.1*	*4.6*			*25.3*

The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns

Deep Value Strategy Monthly Returns (%)							Since Inception			145%	*Index*		*109%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2009							**8.5**	**1.0**	**11.3**	**0.4**	**3.5**	**9.8**	**39.3**
Index							*7.6*	*3.6*	*3.7*	*-1.9*	*6.0*	*1.9*	*22.6*
2010	**-1.1**	**3.8**	**6.6**	**3.5**	**-5.6**	**-4.5**	**5.2**	**7.0**	**7.8**	**1.2**	**1.0**	**2.7**	**30.2**
Index	*-3.6*	*3.1*	*6.0*	*1.6*	*-8.0*	*-5.2*	*7.0*	*-4.5*	*8.9*	*3.8*	*0.0*	*6.7*	*15.1*
2011	**0.2**	**2.2**	**1.9**	**2.5**	**-2.3**	**-2.9**	**0.6**	**-5.2**	**-9.2**	**12.3**	**-0.5**	**-0.6**	**-2.3**
Index	*2.4*	*3.4*	*0.0*	*3.0*	*-1.1*	*-1.7*	*-2.0*	*-5.4*	*-7.0*	*10.9*	*-0.2*	*1.0*	*2.1*
2012	**4.4**	**5.2**	**0.9**	**2.0**	**-8.8**	**3.8**	**0.7**	**3.6**	**3.3**	**-0.9**	**-2.6**	**1.0**	**12.4**
Index	*4.5*	*4.3*	*3.3*	*-0.6*	*-6.0*	*4.1*	*1.4*	*2.3*	*2.6*	*-1.8*	*0.6*	*0.9*	*16.0*
2013	**6.4**	**0.6**	**4.3**	**1.6**	**2.1**	**-1.6**	**4.3**	**-1.2**	**1.7**	**3.1**			**23.1**
Index	*5.2*	*1.4*	*3.8*	*1.9*	*2.3*	*-1.3*	*5.1*	*-2.9*	*3.1*	*4.6*			*25.3*

Returns do not include cash balances prior to November 2009. YTD returns are unannualized compounded returns. The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns.

MLP Strategy Monthly Returns (%)							Since Inception			140%	*Index*		*125%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2008	**-0.7**	**3.0**	**-0.8**	**1.9**	**4.2**	**-10.7**	**-2.0**	**0.6**	**-14.9**	**-1.1**	**-25.4**	**7.4**	**-36.1**
Index	*-0.6*	*-0.5*	*-6.3*	*7.3*	*1.0*	*-4.9*	*-1.7*	*1.7*	*-17.2*	*-0.1*	*-17.1*	*-3.7*	*-36.9*
2009	**15.4**	**-2.1**	**5.0**	**5.8**	**9.9**	**-1.1**	**10.1**	**0.1**	**1.0**	**2.3**	**6.2**	**5.0**	**73.3**
Index	*15.3*	*-4.2*	*0.7*	*11.0*	*9.3*	*-1.7*	*12.4*	*-3.2*	*4.8*	*2.9*	*6.4*	*6.6*	*76.4*
2010	**0.7**	**5.4**	**2.0**	**2.4**	**-0.5**	**5.1**	**5.8**	**-1.6**	**5.0**	**2.0**	**3.2**	**2.7**	**37.2**
Index	*0.6*	*4.6*	*2.9*	*3.4*	*-5.4*	*5.6*	*7.5*	*-2.5*	*6.1*	*5.4*	*1.9*	*1.7*	*35.9*
2011	**1.2**	**5.1**	**0.0**	**2.6**	**-4.3**	**1.8**	**-3.0**	**-0.3**	**-3.4**	**9.1**	**0.2**	**6.8**	**15.8**
Index	*3.0*	*3.5*	*-0.6*	*3.3*	*-5.0*	*1.1*	*-1.9*	*-1.1*	*-4.1*	*10.3*	*-0.2*	*5.8*	*13.9*
2012	**1.7**	**5.2**	**-3.7**	**0.9**	**-7.1**	**3.1**	**5.9**	**3.2**	**2.3**	**-0.7**	**0.4**	**-3.2**	**7.4**
Index	*1.9*	*4.2*	*-4.0*	*2.2*	*-7.5*	*3.3*	*5.1*	*1.6*	*2.0*	*0.5*	*-0.8*	*-3.1*	*4.8*
2013	**12.9**	**1.7**	**5.8**	**-0.5**	**-1.2**	**2.6**	**0.3**	**-0.4**	**1.2**	**2.4**			**27.0**
Index	*12.6*	*0.9*	*5.4*	*0.9*	*-2.0*	*3.1*	*-0.5*	*-2.5*	*2.3*	*2.7*			*24.4*

Returns do not include cash balances prior to May 2010. The Index is the Alerian MLP Index, AMZX. Returns are net of fees. Past performance is not indicative of future returns.

Low Beta Long-Short Monthly Returns (%)							Since Inception			108%	*Index*		*-2%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011			**-3.5**	**19.4**	**6.5**	**4.5**	**0.0**	**9.1**	**-1.1**	**6.7**	**1.9**	**1.5**	**52.6**
Index			*-0.9*	*0.5*	*-1.4*	*-1.6*	*-0.1*	*-3.5*	*-3.0*	*0.8*	*-0.9*	*-0.4*	*-10.0*
2012	**-5.1**	**-1.6**	**5.7**	**3.3**	**1.1**	**2.4**	**3.2**	**-2.2**	**2.1**	**0.7**	**0.2**	**-1.3**	**8.6**
Index	*1.7*	*1.4*	*0.0*	*0.1*	*-1.7*	*-0.3*	*0.5*	*0.5*	*0.4*	*-0.5*	*0.4*	*0.9*	*3.5*
2013	**7.9**	**6.2**	**6.5**	**3.2**	**-2.1**	**-0.7**	**4.0**	**-2.1**	**0.3**	**0.4**			**25.6**
Index	*2.0*	*0.4*	*0.7*	*0.6*	*0.7*	*-1.3*	*1.0*	*-0.9*	*1.0*	*1.2*			*5.5*

The Index is the HFRX Global Hedge Fund Index. Returns are net of fees. Past performance is not indicative of future returns.

SL Advisors offers separately managed accounts for individuals, family offices and institutions across various investment strategies. Client assets are held with Charles Schwab, the largest provider of custody services in the U.S. with client assets of $1.89 trillion (as of September 30, 2012). Client portfolios are completely transparent via Schwab's extensive website which provides real-time access to accounts and all supporting information. Detailed monthly statements are mailed directly to clients from Schwab.

SL Advisors Hedged Dividend Capture Strategy
An alternative to bonds, this strategy utilizes stocks of stable companies with high dividend yields to generate income with capital appreciation by investing in a diverse, unleveraged, hedged portfolio of U.S. equities. Companies are selected that possess a history of steady earnings growth, attractive dividend yields and are less volatile than the overall market. The long positions are hedged with a short S&P500 position with the objective of making the portfolio beta neutral while still maintaining a net long equity exposure. Historically this strategy has exhibited monthly swings comparable to corporate bonds, and given the relative attractiveness of equities compared with investment grade bonds it has a more attractive return outlook. This strategy may be considered as a substitute for a portion of an investor's fixed income allocation.

SL Advisors High Dividend Low Beta Strategy
This is the long-only version of our Hedged Dividend Capture Strategy (Long/Short), which has been actively managed and deployed since October 2011. Academic research has shown the Capital Asset Pricing Model (CAPM) fails to explain risk-adjusted returns. Over long periods of time, high beta stocks tend to under-perform and low beta stocks tend to out-perform, on a risk-adjusted basis, which is inconsistent with predicted performance by the CAPM. This strategy allows investors to take advantage of this persistent anomaly.

SL Advisors Deep Value Equity Strategy
A portfolio of undervalued stocks of high quality businesses that aims to outperform the S&P500. Investments are in listed U.S. equities trading significantly below the intrinsic value of the underlying enterprise. Potential investments are identified both qualitatively and quantitatively following which detailed research is performed to assess fundamental value. Desired characteristics of businesses include pricing power, low leverage, low costs of production, and attractive valuation. Valuation is defined to us foremost as the net present value of cash one can extract from proportional ownership of the business, then relatively using peer multiples and finally liquidation value. The portfolio is reassessed constantly and all holdings are rated for return potential and risk against their peer group to rebalance into the most attractive opportunities. This strategy is part of the equity allocation for balanced accounts for individuals, and is also appropriate as an alpha seeking equity strategy for institutional accounts.

SL Advisors MLP Strategy
This portfolio consists of 10-15 investments in Master Limited Partnerships (MLPs) to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests in energy infrastructure and related assets. They represent direct proportional ownership stakes in the underlying assets rather than securities in a corporation. Historically they have paid regular distributions which have grown with the U.S. economy, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure. The strategy engages in low turnover so as to minimize transaction costs and benefit from the income tax deferral features of the asset class. MLPs are appropriate for high net worth investors comfortable with receiving a K-1 for each investment rather than a 1099. SL Advisors does not provide tax advice.

SL Advisors Low Beta Long-Short Strategy
Low Beta Long-Short is more concentrated than Hedged Dividend Capture ("DivCap") with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from DivCap weighted according to conviction rather than diversified, equal weight allocations. It is managed to be beta neutral and returns are driven very largely by individual stock selection. Interactive Brokers is custodian for assets in this strategy only.

Contact info:

SL Advisors, LLC
210 Elmer Street
Westfield, NJ 07090-2128
908-232-0830
sl@sl-advisors.com
www.sl-advisors.com