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Economy & Market Valuation

The S&P 500 Index was up by approx. 2.5% in the second quarter of 2017. Despite lack of success on any legislation in Washington DC, the economy keeps on growing at a slow and steady pace. The first reading on 2Q'2017 GDP growth rate came in at 2.6% which is an acceleration from previous quarters. The story behind all these news is that earnings for S&P 500 companies has shown some acceleration. Average estimate for 2Q'2017 is at 11% earnings growth for S&P 500 companies which is a very decent number. S&P 500 earnings are expected to grow for the rest of 2017. Tax reforms or tax cuts for US companies and individuals is still up in the air. If a tax cut happens, it will provide a boost to the US economy. Even in the absence of tax reforms/cut, the US economy is expected to keep on growing in 2017 absent any big external shock. There are tailwinds helping the US economy, such as, a marked improvement in the European economy and stabilization in commodity/oil prices.

Investment philosophy and Examples

You might have noticed our investments in some Liberty companies such as Liberty Sirius XM, Liberty Ventures and Formula One. The common thread behind these companies is John Malone. John Malone has a long history of providing outstanding returns for shareholders of his companies. John Malone's style is to invest in companies with a subscription model, high moat and consistent cashflow. He has consistently shown how cashflow can be used

for the benefit of shareholders. Liberty Sirius XM is one of his companies that we have invested in. Liberty Sirius XM is a tracking stock that tracks Liberty's ownership of Sirius XM stock. Liberty owns approximately 66% of Sirius XM shares. Liberty Sirius XM share can benefit in two different ways. If Sirius XM's share price goes up, it will have a positive impact on Liberty Sirius XM's share price. Liberty Sirius XM share trades at approx. 17% discount to its Net Asset Value (NAV). When the discount to NAV is narrowed, Liberty Sirius XM's share price should go up. Sirius XM company has been adding subscribers, increasing cash flow, and buying back shares every quarter, for the past many quarters. If you want to find out more about John Malone's investing style, we recommend the book 'Cable Cowboy' by Mark Robichaux. Mark details how John Malone built a fortune, and handsomely rewarded his shareholders, through a complex series of acquisitions, mergers and other deals in the cable industry.