Investors Alley

July 2015 Vol. 1 Issue 13

The Turnaround Stock Report

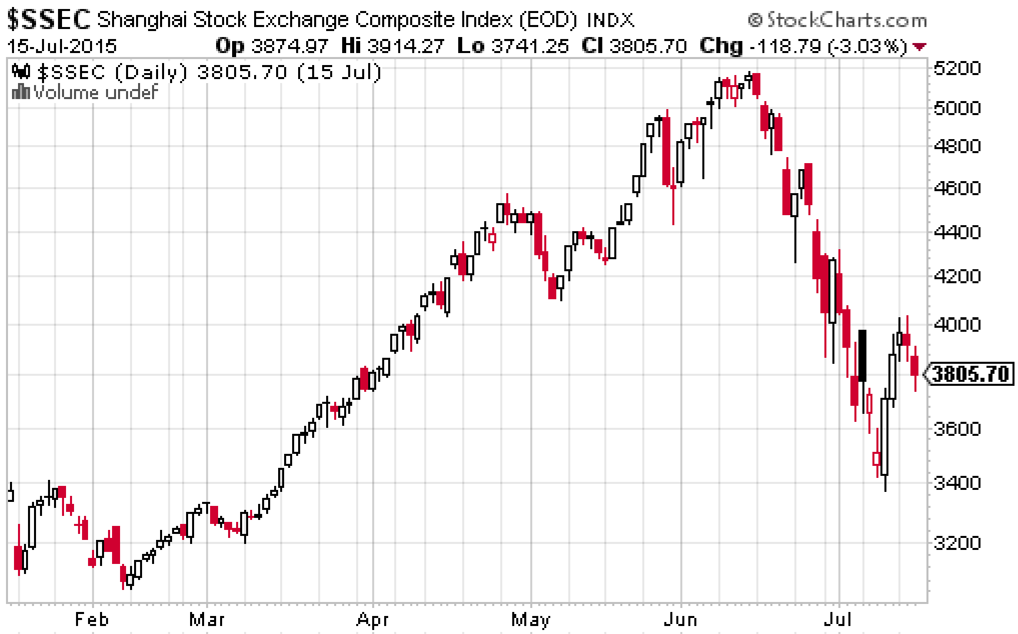
Greece Fades as China Becomes More of a Concern: Expect Volatility to Increase

Fellow Investor,

Greece pushed to the edge of the long feared “Grexit” before agreeing to concessions insisted on by the European Union for a new bailout package. The terms were tougher than what voters in Greece voted against via referendum just 10 days before the Greek parliament passed the measures. This most likely mean escalating tension and violence in Greece in the near term and in all probability a new government in that country by the end of the year.

In This Issue

A bigger worry is China, where a stock plunge wiped out over $3 trillion in market value in three weeks before authorities came in with extraordinary measures to reverse the decline. This is unlikely to be the last time we hear from the Middle Kingdom given an increasingly number of analysts and noted investors that are noting the Chinese market reminds them of the NASDAQ in late 1999/2000.



Obviously a market crash in the second largest economy and equity market in the world would have global implications and impact markets worldwide. The Chinese recently reported quarterly GDP growth of 7% and continue to post "official" growth in line with government projections albeit at the slowest rate since 1990. Even those figures have to be taken with a huge grain of salt.

Copper is at six year lows and iron ore prices are down some 80% from their peak in 2011. I do not think either commodity would be at these levels if China was really growing at the levels they are reporting. In addition, the debt issue there cannot be ignored. Outstanding loans for companies and households stood at a record 207% of GDP at the end of June, up from 125% in 2008, data compiled by Bloomberg recently showed. Auto sales have slowed dramatically recently as well. This is my number one watch out for our markets right now and I am keeping a close eye on events there.

A nuclear deal with Iran was recently reached. Although the merits of the agreement will be hotly debated, and for good reasons: this will eventually bring more Iranian crude onto the global markets. This is another headwind the domestic energy sector could do without but should be good for the consumer discretionary and transportation sectors.

It is getting harder and harder to find good bargains in this market especially among the better known large cap names. However, we are seeing some interesting plays in the small and mid-cap sectors of the market. The first half of the year has seen equities trading in mostly narrow trading range. The second half of the year will be interesting with possibly the first interest rate hike by the Federal Reserve since 2006. I have given up trying to predict the short term direction of the market but I do believe we will see higher volatility in the last half of 2015 than we did in the first six months of the year.

I'm always here for you. If you have any questions about the strategy or the stocks in the portfolio please feel free to email me at bret.jensen@investorsalley.com.

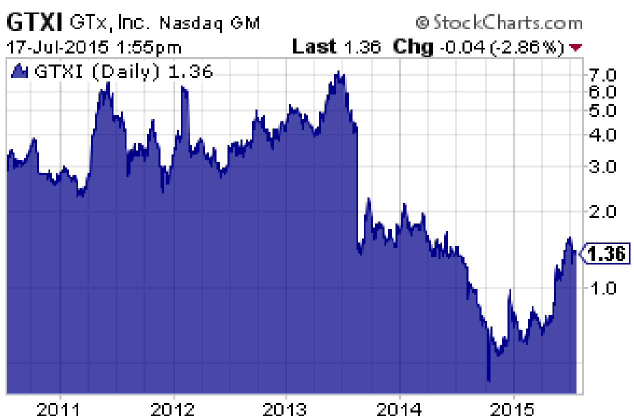
Bret Jensen
Editor
The Turnaround Stock Report

P.S. I've been informed by my publisher, Investors Alley, that my new *Biotech Gems* service will go public very soon. And they've told me that the deeply discounted beta pre-launch rate will go away. In mid-May we beta published our first issue and took on a few subscribers. There have been a few requests to open up the service to *Turnaround Stock Report* subcribers before going fully public with it. If you're interested in being a beta tester and getting the deep discount before the rate goes up **just click here for a short description of the service and a link to sign up**.

GTX: Beaten down and back on the rise

Our portfolio addition to the July Turnaround Stock Report for this is a small pharma play that has seen better days as far as market performance is concerned. However, the company has some upcoming milestones and has drawn the interest from a couple of noted investors who have taken significant stakes in the promising but speculative small cap concern.

The name of this turnaround play is **GTx Inc. (GTXI).** The company is a biopharmaceutical company with a market capitalization of just $200 million. As mentioned in the opening paragraph the stock has seen better days and sold north of $6.00 a share approximately two years ago and now goes for less than $1.50 a share.



Shareholders sold the stock off hard after an unsuccessful Phase III clinical trial in 2013. As I have noted many times in these pages, developing a new drug is a very complicated process and most new compounds fail in trials. This makes this area of the market very volatile but also very lucrative when a company does achieve success. This is also why I always look for firms in this industry that have multiple "shots on goal", knowing full well some of these will fail but a winner can produce outstanding results. It is just is the nature of the beast.

This firm is poised to move forward with a couple of Phase II trials providing possible positive catalysts and good timing to get a very low entry point in front of these upcoming milestones. Hopefully the company can hit the mark in at least one of these critical clinical trials.

Major Stakeholder:

Two noted investors took large stakes in GTx through a private placement after the pullback in the shares after the failed Phase III trial. This placement occurred in early March of 2014. The names of these investors are J.R. "Pitt" Hyde and Mason Hawkins. J.R. Hyde is the founder of AutoZone and chairman of GTx. His last purchase brings his individual stake in the firm to over 35% and represents his largest investment since 1996. Mr. Hyde is very involved in making strategic and personnel decisions at the company. He has intimate knowledge of GTx and it is encouraging that he has stepped up his stake in the firm even as the stock has fallen on hard times. New investors are getting a lower entry point than the founder of a major S&P 500 company which seems to be prudent in this promising but speculative concern. Mr. Hyde was a cofounder of GTx alongside the current CEO, and they should be able to continue to work in tandem moving forward.

Mason Hawkins is the founder and chairman of South Eastern asset management, which manages approximately $32 billion and has generated positive returns to its investors for the past 36 years. His purchase, when including the option to exercise a private placement warrant and purchase additional shares, represents about 14% of shares outstanding. Hawkins has been known for decades as a long term value investor who has successfully ferreted out firms selling at a significant discount to their true value throughout his investment career.

On average, Hawkins and Hyde purchased shares at a premium of approximately 25% above the current price of GTXI. That two major players in the industry are willing to put their capital on the line for this turnaround company is a substantial positive. Obviously they believe the company's pipeline has promise and are willing to put their money where their beliefs are.

Shots on Goal:

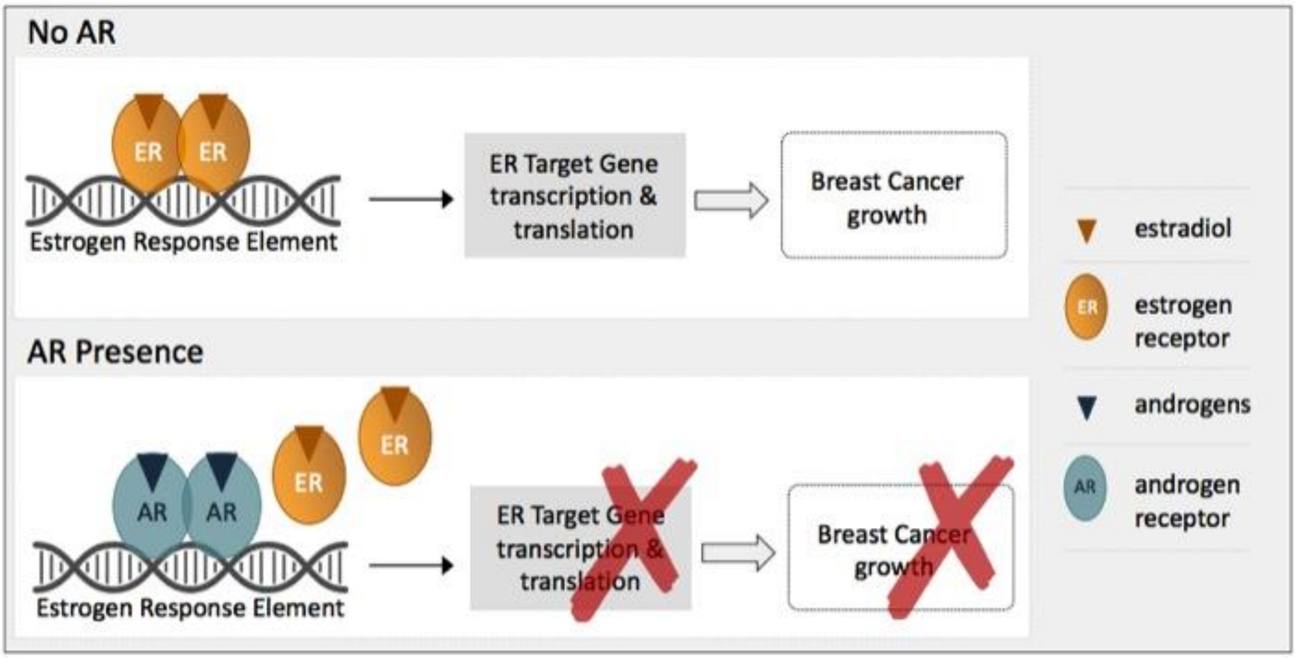
GTx primarily focuses on treating cancer with its products focusing on Selective Androgen Receptor Modulators (SARMs) that they are targeting in the treatment of metastatic breast cancer, though the company is exploring its role in building muscle in muscle related diseases.

The most important candidate GTx is currently developing is called EnoboSARM. The drug is being developed for estrogen receptor positive (ER+) and androgen receptor positive (AR+) breast cancer, as well as AR+ triple negative breast cancer. The company is enrolling 55 patients for a Phase II trial aimed at treating triple negative breast cancer this quarter and lasting 16 weeks. In the third quarter, GTx will enroll approximately 120 patients for a study of EnoboSARM's effect on ER+/AR+ advanced breast cancer. EnoboSARM should help inhibit the spread of estrogen based breast tumors as shown in vitro and in animal studies.

Preliminary data from the two Phase II trials are expected at the end of 2016. The commercial market opportunity for EnoboSARM consists of three million women in the U.S. living with a history of breast cancer, and over 200,000 new cases diagnosed each year. 30% of women diagnosed with breast cancer will experience a relapse or recurrence and require further treatment.

Source: Corporate Presentation

SARMs Provide a New Hormonal Approach to Treating Breast Cancer Through Selective Modulation of the Androgen Receptors



Source: Corporate Presentation

If this drug candidate produces promising results and moves on to the next stage of the clinical process, it obviously will be a hugely positive catalyst for the stock and the company.

GTx is also developing a Selective Androgen Receptor Degrader (SARD) called GTx-758 that would allow for the potential to treat men with prostate cancer that are not responsive or develop resistance to current therapies. The company completed enrollment of its Phase II study for this treatment, and both dosage levels have demonstrated a reduction in prostate specific antigen. The firm is interested in partnering with a third party to develop this therapy, which could yield milestone payments throughout the development process depending on the partner. It could also provide welcomed development funding.

Finally, the company recently announced a license deal with the University of Tennessee Research Foundation for SARD compounds that may be capable of degrading multiple forms of AR. It intends to initially target development for those patients with progressive castration-resistant prostate cancer who do not respond or are resistant to currently approved therapies. The first preclinical work will begin later this year.

Summary:

At the end of the last reported quarter, GTx had some $44.6 million in cash and cash equivalents on the books. This represents more than 20% of the company's current market capitalization. This should be sufficient to carry the company through calendar year 2016 and allow GTx to see, at a minimum, preliminary results from each of the Phase II breast cancer studies that they will soon will be initiating.

GTXI is a very high risk/high reward play and should only be played by aggressive growth investors. The company recently hired a chief medical offer who has had stints at Novartis and Johnson & Johnson and should assist in getting these trials to their end points efficiently. This is a binary play. If at least one of these trials is successful, the company should easily be able to draw partners or raise additional funds for Phase III trials. A positive outcome would buoy the stock price obviously and might even initiate a buyout offer by a larger firm that would be interested and willing to bet it can get successfully through Phase III trials.

Recommendation: Buy GTXI up to $1.50 a share.

Position: Long APPS

Portfolio Update

July has been a volatile month but we have seen some strength in the market over the past week as a new bailout package for Greece in on the cusp of being done and as the Chinese authorities have arrested the big decline in their stock market, at least temporarily. Earnings, as usual are coming in slightly better than expected after projections have been taken down by analysts over the past two months. Better than expected earnings from the well-known names like **Google (NASDAQ: GOOGL)**, **General Electric (NYSE: GE)** and **JP Morgan Chase (NYSE: JPM)** have also been helpful as equities grind up to the top end of the relatively narrow trading range they have been in throughout most of 2015.

The Turnaround Stock Report portfolio was somewhat of a mixed bag this month. The recent challenges in China put a damper on a couple of holdings. **General Motors (NYSE: GM)** is being impacted by rapidly slowing vehicle growth in the Middle Kingdom where it sells over 250,000 units a month through joint ventures. I believe this weakness will be temporary. **Yahoo (NYSE: YHOO)** has also been impacted due to the headwinds on Chinese equities given its holdings in **Alibaba (NASDAQ: BABA)** which represents most of its market value.

Then there's nuclear deal with Iran that has pushed crude oil prices to three month lows and has been a negative for our one energy holding, **Chesapeake Energy (NYSE: CHK)**. Crude's decline has also impacted our positions in **Chicago Bridge & Iron (NYSE: CBI)** and **Greenbrier Companies (NYSE: GBX)** even as both have little short term impact to the businesses based on the pullback in oil prices. I added some shares to my stake in Greenbrier recently as it has a huge order backlog and is dirt cheap at these levels.

Ending out portfolio update on a high note, the drop in energy prices will create a nice continuing tailwind for our **Delta Airlines (NYSE: DAL)** holdings and should help on the margin with consumer discretionary play **Sequential Brands Group (NASDAQ: SQBG).**

Even better, our biotech positions are mostly killing it right now. **Halozyme Therapeutics (NASDAQ: HALO)** continues to be the superstar of the portfolio and is approaching a 200% gain since being placed in the portfolio. **Dynavax Technologies (NASDAQ: DVAX)** and **Zogenix (NASDAQ: ZGNX)** both made big moves up this month with latter being given a recent $28.00 a share price target over at Brean Capital. **Aratana (NASDAQ: PETX)** also had a very solid month after positive trial results in one on its primary drug candidates.

Sticking with the hot hand, we've added another busted biotech company that has some upcoming milestones and promise that could make it our next winner in this space.

Current Portfolio

Company	Entry Date	Entry Price	Recent Price	Buy Up To	Target Price	Returns
GTx (GTXI)	07/17/15	$1.37	$1.37	$1.50		N/A
Aratana (PETX)	06/22/15	$14.71	$18.35	$16.00		24.7%
Digital Turbine (APPS)	06/22/15	$3.36	$2.69	$3.50	$7.00	-19.9%
Yahoo! (YHOO)	05/22/15	$43.49	$39.68	$47.00	$60.00	-8.8%
Delta Airlines (DAL)	05/22/15	$43.18	$44.94	$47.00	$60.00	4.1%
United Rentals (URI)	04/22/15	$97.90	$81.26	$105.00		-17.0%
HD Supply (HDS)	04/22/15	$33.14	$36.12	$34.00		9.0%
Michael Kors (KORS)	03/26/15	$66.97	$40.52	$75.00	$100.00	-39.5%
American Cap. Realty (ARCP)	03/26/15	$9.90	$8.68	$10.75	$14.00	-12.3%
FelCor Lodging Trust (FCH)	02/20/15	$10.78	$10.68	$11.50		-0.9%
Cytori Therapeutics (CYTX)	02/20/15	$0.55	$0.51	$0.75		-7.3%
Sequential Brands (SQBG)	01/21/15	$11.09	$18.02	$12.00	$17.00	62.5%
Chicago Bridge & Iron (CBI)	01/21/15	$40.31	$48.49	$45.00	$60.00	20.3%
Greenbrier Cos. (GBX)	12/17/14	$46.51	$44.62	$50.00	$80.00	-4.1%
Halozyme Thera. (HALO)	12/17/14	$8.65	$24.66	$10.00	$18.00	185.1%
Zogenix (ZGNX)	11/18/14	$1.24	$21.13			113.0%
General Motors (GM)	11/18/14	$32.27	$30.65	$34.00	$47.50	-5.0%
Dynavax Technologies (DVAX)*	10/15/14	$14.30	$28.78	$17.50	$30.00	101.3%
Chesapeake Energy (CHK)	09/15/14	$25.05	$10.94	$27.00	$33.00	-56.3%
AEGON N. V. (AEG)	08/14/14	$7.74	$7.72	$9.00	$15.00	-0.3%

Closed Positions

Company	Entry Date	Entry Price	Close Price	Close Date	Returns
Warren Resources (WRES)	10/15/14	$3.40	$0.52	06/22/15	-84.7%
Hercules Offshore (HERO)	07/18/14	$4.01	$0.45	03/26/15	-88.6%
Emerald Oil (EOX)	07/18/14	$7.56	$0.86	03/26/15	-84.8%

Notes:

Entry price is determined by the last "Close" price at the closing of the market on the day before publication.

Recent price is determined by the last "Close" price at the closing of the market on the day before publication; most recent update: 07/17/15. Returns data represents share price appreciation or depreciation between entry price and recent price.

* Dynavax did a 1/10 split on 11/05/14 thus the original entry price of $1.43 has been adjusted to $14.30 to reflect current pricing level comparisons.
** Zogenix did a 1/8 split on 06/01/15 thus the old buy up to and target prices have been removed.

This is not real-time data and should not be interpreted as such.