



Closing Danger Zone Pick: Celadon Group (CGI)

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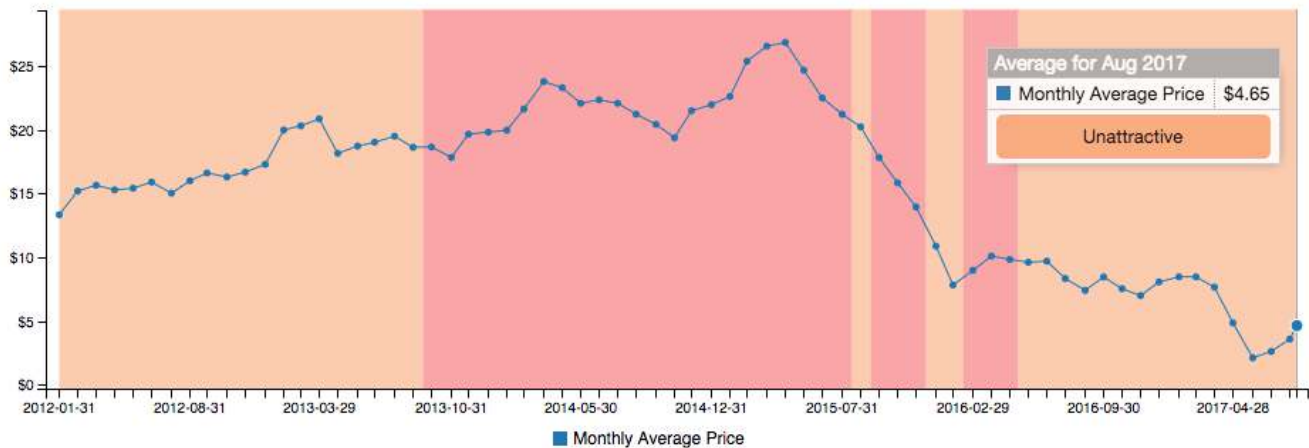
Celadon Group (CGI: \$5/share) – Closing Short Position – Down 68% vs. S&P +19%

Celadon Group was selected as a [Danger Zone pick on 11/9/15](#). At the time of the report, the stock received a Very Unattractive rating. Our investment thesis highlighted: 1) a negative divergence between GAAP and [economic earnings](#); 2) acquisitions destroying shareholder value; 3) low profitability relative to competitors; and 4) the company's overvalued stock and unlikely buyout due to its high debt load.

During the subsequent 639 day holding period, CGI outperformed as a short position, falling 68% compared to an 18% gain for the S&P 500. The tipping point occurred in early May 2017, when CGI disclosed that its financial statements for the fiscal year ended June 30, 2016 and quarters ended September 30 and December 31, 2016 could no longer be relied upon. Since May, CGI has amended its primary credit facility and chosen a replacement for the retiring CEO, alleviating two key unknowns.

Figure 1: CGI Stock Price and Risk/Reward Rating History

Normalized Rating History - Monthly Average*



Sources: New Constructs, LLC and company filings

Since our original Danger Zone report, CGI has been upgraded in our system to Unattractive from Very Unattractive according to our [Stock Rating Methodology](#). The significant reduction in stock price and embedded market expectations diminishes the downside risk and we are closing the position. We hope investors avoided this portfolio blowup or participated in the 68% short return.

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Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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