January 2019

OCCASIO PARTNERS LLC

San Francisco, CA

Performance Summary:
January: +2.7%
YTD: +2.7%

Long Positions
- **Cloudera**
- **Twitter**
- **Square**
- **Silver ETF (calls)**

Short Positions

Performance Summary: We came into 2019, heavy in cash and cautious due to the violent downdraft we saw in December, and the fact that we were very unsure on how funds and investors were positioned entering this year. Well, that prudence proved foolish, as equites grinded higher in a seemingly straight-line all month.

So here we sit one month into 2019 and we have massively underperformed – so far. But let's all keep in mind that last year the Dow Jones soared in January as well, only to close down 6% on the year. As much as we loathe underperforming, we have to step back and realize that the year is long, and all that really matters is what the return is on January 1st, 2020.

All that being said, our biggest crime so far this year is not recognizing the complete shift in mentality from the central bankers after the downdraft in the final months of last year. A shift that makes our 2019 preview *"Change is Upon Us* "appear outdated only two months later.

But we have shown the ability to adapt to changing markets, and to some extent we did in January, keeping our bias to the long side with Cloudera (+20%), Square (+24.7%) and Twitter (+16.4%) and using silver (+3.8%) as hedge against the suddenly irresponsible global central bankers, and particularity our own Fed. We even managed to scalp a nice trade shorting our nemesis Tesla, a name which we have no position in as of this update.

The good news in regards to the rest of the year is that prices are elevated and the one-way action we saw in December and January will likely lead to some great trading opportunities for 2019. Also, we feel confident that commodities and currency trading will be fertile this year, and are off to a good start in that arena thus far in 2019.

None of that however masks how disappointed we are with the start of 2019. This is not the start we wanted, nor anticipated. But we are green on the year, and see some great set-ups for the immediate future.

Up and Away?: It has been an unusual start to the year, so much so that we think it will likely stay unusual for quite some time. For starters, just five weeks ago it felt as if the end of the world was upon us, at least for those involved in equities highlighted by the "Christmas Eve Massacre," as the media now likes to call it, when the S&P 500 fell nearly 2.5% in a holiday-shortened session.

Well, that marked the short-term bottom at least for now, and we have seen a healthy move off the lows. Why we have seen this move is perplexing, even to the most zealous bulls out there. The fundamental backdrop has not improved much, although it has hardly fallen apart either, especially when you look at the steady employment picture highlighted by the 155,000 jobs created in November and the current unemployment rate of 3.9%.

But we did see some news in January stemming from some of America's best-run companies that certainly can't be spun as a positive.

The following companies issued downside warnings in January:

Apple
Samsung
LG
Delta
Skyworks
Macy's
Kohl's
American Airlines
Constellation Brands (alcohol)
Goodyear Tire
Ford
Taiwan Semi
Intel
Nvdia
Whirlpool
Deckers Outdoor
Ford

The following companies issued upside warnings in January:

Lulu Lemon
General Motors
Bed, Bath and Beyond
Olli's Bargain Outlet
Shoe Carnival
Service Now
Facebook

One thing that is changing and it is a directly antithetical to the hypothesis we laid out in the fall of 2018, is the actions of the Fed. We were very adamant that Chairman Powell was a hard money type who was ignoring the market's whims and focusing more on economic stability and the enormous task of paring down the Fed's grossly bloated balance sheet. And for the most part of his still-young tenure this has been the case.

But the stock marker swoon of late 2018 has apparently changed his methodology. Because ever since the December 2018 FOMC meeting he has gone back and forth on his objectives.

When asked about the future rate of rate hikes in 2019, he replied that they were now "data dependent" and had a "wait and see" approach to future hikes. Well, the markets took that as a sudden dovish stance and the Fed Funds futures quickly went from pricing in 2-3 hikes in 2019 to ZERO hikes in 2019.

But, in early January at a Q&A session at the Economics Club of Washington he reiterated that the central bank's balance sheet would be "substantially" smaller when it finishes normalizing its size.

So that implies that the quantitative tightening plan, is now up to $50 billion per month, or $600 billion per year- which equates to over a 1% rate hike, is still alive and well. We have long argued that the tightening policy, which reduces overall liquidity, will be the main source of consternation for markets going forward.

Here is a quick summary of Chairman Powell's scattered comments in the past few months:

- June 18: "*What matters for the whole economy are material changes in a broad range of financial conditions that are sustained for a period of time. A little bit of volatility –speaking in the abstract –some volatility doesn't probably leave a mark on the economy.*"
- October 18: *"Rates are a long way from neutral"*
- November 18: *"We are just below a range of estimates"*
- December 18: *"The balance sheet runoff is on auto pilot"*
- January 19: *"Flexibility and patience in regards to future rate hikes"*
- January 19: *"Substantially smaller balance sheet"*

At the January 30th, FOMC meeting and press conference, Chairman Powell reiterated that he now does not see the need to cut rates, but is in a position to do so if needed. Which is a complete reversal of the tone that we heard in October. He did maintain his desire to taper the balance sheet, but was unclear about the pace and timing. This is a far cry from the hard-line stance he preached just a few months ago.

It seems that Mr. Powell now too is a slave to both White House and market tantrums.

We mentioned (detailed in our 2019 Preview sent out last November) that the ECB and to a much lesser extent BOJ were also in the process of tapering their equally bloated balance sheets and that their intent would lend a restrictive hand to the market's ability to function as it has in the previous eight years.

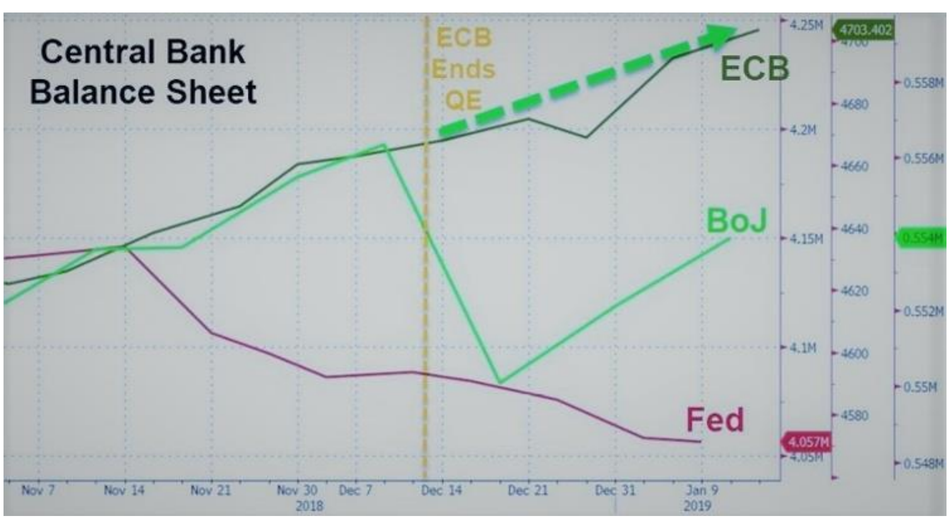
Well, that scenario also took a curious twist this month when ECB president Mario Draghi said that there was no room for complacency with regard to the economy and that the "significant" accommodation was not off the table.
"We have lots of instruments and we stand ready to adjust them or use them according to the contingency that is produced" - ECB President Mario Draghi, January 24th

Apparently, all it takes for the world's central banker to do a complete 180 is a quick 15% stock market swoon off its *all-time highs.* These recent central bank developments have led to one crystal-clear conclusion: We as an investing community have become and remain hooked on easy money policies from our central bankers, and any withdrawal or hint of taking it away leads to a tremendous amount of whining and financial tantrums.

This is obviously not a healthy position to be in. We, as a world, are completely hooked on debt and are irreverent towards its eventual extreme negative consequence. Current total worldwide debt is estimated to be $244 trillion dollars, or three times the size of the entire global economy. The current global debt-to-GDP-ratio stands at 318%. Yet, even with that dark statistic hanging over the world's collective head, there is immediate pushback on any expanded talk of balance sheet reduction.

We have to ask ourselves as a global economy are we going to become full-blown addicts that need the drugs (debt) just to function? And if so what is the ultimate outcome? At what point do the drugs overtake us and result in an irreversible tragedy. Are we afraid to even try and quit knowing that the short-term effects will be harsh (December sell-off)?

Or do we seek help and start the grueling process of weaning ourselves off the drugs, knowing the process/(quantitative tightening-rate hikes) will be extremely challenging, but will make us healthier in the long run?



So much for fiscal discipline and responsible monetary policy. After claiming they were in tightening mode late last year, the ECB has reverted back to its old ways and piled on more QE. The BOJ, not wanting to feel left out, went back to their easy money ways as well.

The trillion dollar plus question is will the Fed follow suit or march to their own drum?

Our old friend Ligand Pharmaceuticals had an interesting start to the year. The stock, which we sold our last piece of in November, has seen its share price plunge a stunning 59% since making all-time highs only four months ago.

On December 18th the company raised their 2019 guidance due to "higher material sales" and now sees their EPS to be $5.50 versus the previous estimate of $5.22

This fundamentally good news was met with a muted reaction to say the least. At the time of the new guidance the stock was trading at $134.76 and remained range bound ever since. That was until January 16th when noted short seller Citron Research put out a report that essentially called top executives at Ligand "liars" and claimed that the pipeline Ligand boasts about is purely a charade. They also slapped a $35 price target on the stock, which is ironically around the area where we first started buying the stock years ago.

That is an obviously aggressive stance and one that garnered instant rebuttals from management and biotech analysts. But the report was swift and ruthless for shareholders as the stock price swooned a quick 24% in a matter of minutes and even briefly broke under the $100 mark.

Whether or not the claims are true is up for (a big) debate. Whether or not Ligand will actually meet its 2019 goal of $5.50 EPS is also yet to be determined. But our ears have perked up again in this name after seeing the stock get cut in half, then raising guidance, and sill getting plowed under on a report that has some dubious claims.

Ligand reports on February 7th and there are sure to be some fireworks attached to that report and the price action after. We currently don't have a position in Ligand and haven't had one since October. But after serving us so well in the past, and our contacts remaining steadfastly bullish on the name, we are very interested to see what comes of the report on the 7th.

Netflix reported their quarter on January 17th; it was the first big tech report of the year and was highly scrutinized seeing as the company announced a fee hike of 13%-18% (the percentage depending on the level of service).

Netflix reported another Netflix type quarter. Meaning that they beat estimates, missed on revenues, and had mixed results regarding subscriber growth. Foreign subscribers were up, while domestic subscription rates missed already lowered estimates. The big negative, as always, comes down to their massive content spend and more negative free cash flow (FCF) which fell another 50% to a negative three billion.

This is a company that promised to be positive free-cash-flow in 2018 – and wasn't. Now they just told us that 2019 will also be another negative free-cash-flow year. One has to wonder how this will eventually affect their credit ratings going forward. Something they need to keep in good standing seeing how much debt they continue to issue to fund their content.

We briefly touched on Netflix as a possible short in the December Update and thankfully that was just a thought and not an actionable idea. The stock has had an impressive run to start 2019 -exactly why is up for debate, but it is impressive that 10% of television screen time in the US comes from Netflix.

Netflix is about to face a wave of competition, the likes of which it has not seen before: namely, from Disney as they are set to launch their own streaming with a vast arsenal of original content that will appeal to every adult with young kids. Also, they have purchased content from Fox that includes: Hulu, Searchlight Movies, Fox regional sports telecasts, rights to such popular shows as *Modern Family*, *This is Us*, and *The Simpsons*, The FX network, and access to European-based Sky Sports programming.

Not to mention that they are also competing with Amazon's Prime Video and Time Warner's HBO, and Apple's slow transition into the content arena. All three competitors with deep pockets and the willingness to aggressively go after the content market.

After looking at this quarter from Netflix and seeing how strong the price action is we have no intention of trying to short this name. You can look at their absurd valuation and their dangerous balance sheet, combined with the insane amount of money they need to spend on original content ($100 million for one season of *Friends* – up from $30 million) and wonder how this company can continue at this pace?

Netflix's market cap is now nearly level with Disney's at around $180 billion, but Disney has 10x the cash flow of Netflix and trades at a forward P/E of 15.4, versus Netflix at 50.8

As salient as the negative case looks, the fact remains that Netflix has a huge head start on its competition and is hell-bent on spending its way to lock in massive subscriber viewership loyalty. They run their business much like Amazon does. And we could envision a scenario 5-10 years out where Netflix is Hollywood; massively outbidding current studios for talent and content, all while using their over-loved stock as the currency to pay for it.

Birdbox, was likely just a warning shot to the Hollywood establishment. Live sports, talk shows, and live comedy specials are probably just around the corner.

Speaking of companies with bad balance sheets, Tesla came out in January with a profit warning and an announcement that they were laying off 7% of their workforce. Hardly the news one wants to hear when they are labeled a growth stock.

Here is what the company said:

"*In Q3 last year, we were able to make a 4% profit. While small by most standards, I would still consider this our first meaningful profit in the 15 years since we created Tesla. However, that was in part the result of preferentially selling higher priced Model 3 variants in North America. In Q4, preliminary, unaudited results indicate that we again made a GAAP profit, but less than Q3 (Q3 actual EPS $2.90; Q4 Capital IQ consensus $2.28). This quarter, as with Q3, shipment of higher priced Model 3 variants (this time to Europe and Asia) will hopefully allow us, with great difficulty, effort and some luck, to target a tiny profit. Sorry for all these numbers, but I want to make sure that you know all the facts and figures and* ***understand that the road ahead is very difficult."***

So after reporting a "record profitable" quarter on October 25th of 2018, Tesla now is cutting numbers and laying off 7% of workers before the very next quarter concludes?

Also, a day after announcing the layoffs another Tesla spokesperson conceded that production of the Model S and Model X production had been cut. No official numbers have been released yet.

RBC came out with a research note shortly after the warning was issued and said that Tesla had likely reached "peak profitability" in Q3 of 2018.

On January 28th, Saudi Arabia, who has a 4.9% stake in Tesla, announced that they are lowering their stake in the company and hedging some additional exposure due to "volatile market trading" in the name.

On January 30th, Tesla reported their fourth-quarter results. They missed estimates by nearly a dime, but slightly beat on revenues. They also promised 7,000 units per week by the end of 2019, which is interesting considering the lay-offs and slashed guidance.

In all, they are now projecting 360,000-400,000 vehicles to be delivered in 2019, which is 55% higher than 2018…we'll take the under bet on this one.

.The banks and brokers kicked off earning season in mid-January. Led by Citigroup and highlighted by Goldman Sachs stellar report just a few days later. Overall, the results were mixed, as they usually are when you are dealing with such complex balance sheets and various departments. JP Morgan's results were not as great as expected while Bank of America surprised analysts with a solid beat.

But it was Goldman Sachs that was the clear winner. They crushed estimates, beating the consensus by a whopping $1.26 while producing $500 million more in revenues than expected. Morgan Stanley, on the other hand, was the exact opposite as they missed estimates by $0.09 and came in short on the revenue side.

The US economy received some good news this month with regard to the durable goods sector. Bellwether Boeing reported a blow-out quarter on the 30th. Surpassing even the most bullish analyst's expectations. The company beat estimates by a stunning $0.93 and raised their 2019 guidance by over $1.50. The shares jumped nearly 7% on the news and are back near their all-time highs. Putting a large wrench in the China tariffs worries' arguments.

Domestic steelmakers Nucor and US Steel reported in late January. Nucor beat both topline and bottom-line estimates and boasted that 2019 will be one of their best years ever with regard to earnings. US Steel turned in less-than stellar quarter, but still saw revenues rise 17.8% year/year.

One thing that was clear despite the randomness of report outcomes was the dismal results the trading units of all the banks and brokers had in the last quarter of 2018. One would think with all the volatility we saw late last year that trading results would have been stellar, but were the exact opposite and helped drag down overall results at places like Citigroup and Morgan Stanley.

The overriding complaint on the conference calls with regard to poor trading results was that the volatility was one-way only (down) and the lack of two-way markets really hampered trading. Citigroup, in fact, confessed that they sold down $26 billion worth of risky assets as the year ended. Which makes us wonder how much of the intense selling we saw this past December was forced selling from banks clearing the books, and how much was really based on fundamental metrics.

The IMF and other macro thinkers met in Davos, Switzerland this month for their annual shrimp-fest where they all seemingly sit around and compare how poorly their predictions from one year ago were.

For the record: The IMF is now expecting global growth to be 3.5% and 3.6% in 2019 & 2020 respectively. That is down from their first revision in October to 3.7% for both 2019 and 2020. Christine Lagarde, chief of the IMF, added however, that "*The risk of a sharper decline in global growth has certainly increased.*"

It's hard to envision markets falling substantially this year if the global growth rate does indeed churn out a 3.5% growth rate. For that matter, it is also hard to have any faith in any estimates coming from the IMF or any government reports for that matter.

But here at home we noticed an interesting stat that came out early this month. In January of 2018 the SP-500 was trading with a 19x forward multiple. One year later, the SP-500 trades at 14x forward multiple – despite a 24% growth rate in earnings for 2018. Something that has never happened.

This all goes back to our earlier point that we are wondering more and more how much of the swoon we saw last year was fundamentally justified and how much was based on re-positioning of funds, margin problems, or old-fashioned seasonality.

The earnings so far this month from a broad swath of sectors have certainly been mixed, but hardly indicative of the type of broad, forced selling we were all privy to in late 2018.

The semiconductor stocks caught a lot of attention in January as they were the first of the tech stocks to report their earnings. They, like everything else this month, were a mixed bag.

There were some good reports from equipment manufacturers Lam Research, Teradyne, and ASML Holdings. Texas Instruments, Lattice Semiconductor, and Taiwan Semi also reported numbers that weren't spectacular, but also weren't as disappointing as some would have expected based on the way their stocks have traded since their last report. However, their guidance was lukewarm at best. Despite the guidance, the names all moved up double-digit percentages and closed on their highs.

But only a day later we saw chip bellwether Intel report a disappointing top-line number and even worse guidance. The stock dropped 7.5% following the report and registered its worst day in six months. The semis are closely watched as they are considered some of the most cyclical economic indicators and have in the past led big general market declines and advances. The reaction to Intel was company specific though because the tech sector rose almost 1% that day despite the Intel spillage.

Not to be outdone, Nvidia lowered the boom pre-market on January 28th when they pre-announced a substantial revenue miss due to disappointing game, crypto mining, and datacenter sales. The stock fell 14.5% on the news.

Tech stalwarts Apple, Microsoft, Facebook, and Amazon all reported their Q4 earnings within a 48-hour period. Apple beat the estimates that they had slashed just 29 days prior. But did see their iPhone sales lower than expected for the 2nd straight quarter. Microsoft turned in the worst quarter of the four, barely meeting estimates and missing on the revenue line. The stock fell a paltry 2% in response.

Amazon, which always reports one of the most confusing quarters, beat their estimates by $0.53 on in-line operating income. They reported a profit of $6.04 versus estimates of $5.51. The negative however was the Q1 guidance; Amazon now sees revenue of $56-$60 billion versus the estimates of $61.04 billion. And now see operating income of $2.3 - $3.3 billion which is a bit shy of the $3.0 billion estimate. The poor guidance was the catalyst for some selling and the stock fell over 4% on the day and is now almost 20% off its all-time highs.

But it was Facebook who really shocked the Street – blowing away estimates by $.20 and registering 1.52 billion active daily users which was a 9% increase year/year. Revenues grew at an impressive 30% clip, while expenses remained steady. The stock popped 12.4% on the news.

It's easy to assume that because Facebook had a good quarter, Twitter will as well. But that's a dangerous assumption. We are in the camp that Twitter is *taking* share from Facebook, so Facebook's stunningly good quarter may put a wrinkle in that thesis. Twitter reports their numbers on February 7th.

Looking Forward and other Market Commentary: There are still a number of key earnings reports to evaluate in the first two weeks of February. Some of the big names yet to report include: Square, Trade Desk, Twitter, Roku, Google, Salesforce, Ligand, many of the energy names, and the majority of the cannabis-based companies that have been on a tear thus far in 2018.

We will fortunately get a reprieve from the Central Bank pow-wows in February, but there will be much speculation building around the Fed's March 20th meeting where there is still a chance of rate hike, albeit a much lower chance than a few months ago. Get used to hearing a lot about our Fed this year. The amount of scrutiny the Fed and Chairman Powell will receive this year will be mind-numbingly large, and to an extent unnecessary.

On February 8th, the USDA will release a slew of crop reports that it has been unable to access due to the government shutdown. These will be the first reports released all year and are sure to cause some movement for traders.

February will also begin the countdown until March 1st. That is relevant because that is the date the White House has given China to comply with our trade demands or suffer another wave of higher tariffs on their goods.

The China-trade saga continues to weigh on markets and seemingly has a new wrinkle every day. Many are trying to claim that President Trump's failure to re-open the government without money for a wall is a real blow to his presidency and will now give the Chinese an upper-hand in negotiations. We would quickly counter however that the Chinese have a lot to lose in a failed agreement, and are currently mired in a debt-laden, slowing economy that needs to support 1.4 billion people or face intense civil unrest.

The US has its own problems however, our best and brightest in Washington DC (note the sarcasm) have until just the 15th of this month to come to an agreement on keeping the government open or else we go back to unpaid TSA workers and daily finger-pointing from both sides of the aisle. For the sake of everyone's sanity - please figure *something* out.

Finally, they say the opposite of love isn't hate – its apathy. Well, if that is indeed true then the crypto currency world is awash in hate. After surviving a year that saw 80%+ drawdowns in practically every coin in existence, the buzz surrounding the crypto world has become nonexistent.

Google searches for "Bitcoin" have plummeted over 95% from their highs. CNBC has stopped displaying their Bitcoin ticker in the lower left corner of the screen and have stopped having on the numerous past guests who were so sure that this was the new frontier for currencies and the digital replacement for precious metals.

Chip-maker Nvidia issued a revenue shortfall on January 28th and specifically cited the lower levels of Bitcoin mining as predominant reason for the shortfall.

Liqui, a cryptocurrency exchange that opened in 2016, announced last week that they were shuttering operations due to a lack of liquidity.

Twitter, which used to be a playground for Bitcoin enthusiasts, has turned into a virtual graveyard. Occasionally littered with horror stories of people sinking their life savings into alt coins 80% higher than where they are trading now.

The institutional world has been clamoring for years now that they want to get involved in the cryptocurrency world, but so far have had little success in making any meaningful progress. The SEC, who claims they are open-minded toward the new paradigm, has quickly rejected every ETF that has been put in front of them.

Things have gotten so bad that they are starting to seem good. Let's explain: Either this new frontier of currencies is just the modern version of the tulip bulb mania, or it is an opportunity to collect digital assets at much lower prices that will eventually change the world.

It's quite a variance, but to ignore the possibilities would be foolish. We plan on spending a lot of time this year getting more familiar with the technology behind Bitcoin and what the other coins have to offer, if anything.

The lazy way out is to say the whole entity is a sham and just ignore it as it tumbles into oblivion. But, because now everyone is so convinced that it can only go south from here, our contrarian indicators are on high alert and we feel like the off-hours spent to study further will well be worth our time.

For now, this is more a personal endeavor than anything to do regarding fund participation. But if a lot of boxes start to get checked, it will warrant further discussion.

Housekeeping Notes:

-You may have noticed the new logo on Page 1. It was time for a change.

-A new website is under construction which will enable partners to access old updates and prospectuses. The completion date was scheduled for today..but we are at the whims of a programmer. We will keep everyone posted.