March 2020

Occasio Partners LLC

San Francisco, CA

Unprecedented Times:

"No one knows anything." – William Golden, legendary Hollywood screenwriter

We are going to take a different focus this month and zero in more on the current crisis and market swoon rather than talk about any individual stocks. The reason being we are in an environment unlike anyone has ever seen and facing a future no one could possibly have a firm grasp on.

Lots of people love to talk about and make wild predictions of Black Swan events that will wreak havoc with markets and catch the vast majority of the investing community flat-footed. Well, we finally got one – and it is a doozy. We aren't going to spend any time describing the current pandemic, everyone knows what is going on and is inundated with news 24/7 regarding the outbreak-like it or not.

But the reason we have seen such a vicious sell-off in equities is because the answers and outcomes of all this are complete unknowns. And Wall Street hates uncertainty.

Let's start this month by trying to explain how we managed to eke out a positive month in the midst of a sea of red across the globe. As we have hopefully expressed this past month with our "quick notes," we have been heavy in cash and have used the sudden spike in volatility to our advantage via intraday trading and short-term (3-5 days) swing trading relying almost exclusively on options. This strategy and environment have fared well for us and our partners and we believe it will continue to flourish in the sudden new atmosphere we all find ourselves in.

But as we need to repeat over and over, the sheer fact that volatility has jumped to at times unprecedented levels does not automatically equate to guaranteed profits. This new trading world we find ourselves facing daily is fraught with peril, uncertainty, and poor liquidity. Although the liquidity has vastly improved in the last week or so of the month, which is a good sign with regard to the markets properly functioning, it also helps set a bullish overall tone in the short run at least.

However, we have traded through some interesting markets in our lifetime including the Dot.com boom/bust of the late 1990's, 9/11 and its aftermath, the 2008 financial crisis, and now the 2020 pandemic. This experience we have amassed has certainly come in handy as we scan the current landscape. But we have to admit that we have never quite seen both a market and global backdrop like this before and would confidently assert that no else has either.

The obvious difference being that, unlike 2008, which was a defined financial crisis spurned on by grossly irresponsible mortgages, it was "solved" due to massive government and Fed intervention. Today we find ourselves fighting a virus that no one knows how long will last and how much damage, both physical and fiscal, it will leave in its wake. It is the great unknown and it is worldwide, you literally couldn't find a scenario markets are more uncomfortable with than that.

So, as we enter this new paradigm, one that no one has a road map for, we need to ask ourselves some difficult yet actually simple questions. The first one is, will the virus actually bring the economy to its knees, and if it does, how long will it last and how deep will it cut? The answer is no one knows, certainly not us. But we can try and gauge to what extreme the markets have reacted and possibly overacted?

After a 33% drop from peak to trough in the SP-500, which was the quickest drop in history, we can safely assume that stocks have quickly priced in a recession, if not a depressionary environment. That is likely an overreaction if for any other reason that investors, and more so traders, tend to shoot first and ask questions later, when it comes to de-risking or in many cases panicking.

Obviously, the questions surrounding the return of the economy concerning when and how sharply it actually rebounds are also up for some never-ending debate. And it's a debate we don't' wish to engage in because the answers are simply unquantifiable at this juncture. But there is one nagging phrase in the backs of our minds that has rung so true since 2008, that even now despite the unchartered waters we are in, and the potential for such a dire outcome if indeed the world were to shut down for multiple weeks, or even months.

And that phrase is "*Don't fight the Fed.*" Many are now asserting that the Fed has spent all its ammo and now has been rendered sterile. While we have been vocal critics of the Fed the past few years, and that criticism has been justified, as we now see the Fed scrambling to cut rates from already historic low levels. Rates, that in our opinion, that should have been rising the last 5-6 years as we all enjoyed steady GDP growth, historically low unemployment, and record high equity markets. But the Fed chose to sit on their hands and allow asset prices to reach historic levels, all while punishing the saving class and fixed-income citizens. So now they find themselves with a real-world crisis in front of them and a lot fewer options than they wish they had. We will cede that point for sure.

But that is neither here nor there right now. We are at war with a virus and have to all circle the wagons despite pass digressions or opinion of policy. Is "fight the Fed" dead? We beg to differ. If anyone caught the *60 Minutes* interview with Minnesota Fed Governor Neil Kashkari it is very clear that the Fed and every other Central Bank on the planet is prepared to do whatever necessary to help support and attempt to stimulate the economy during this crisis.

"We have unlimited resources" was the quote that stuck with us during the interview. And they have backed up that claim seeing that in the last two weeks of March, the Fed increased their balance sheet to a record 5 trillion dollars and essentially said they will backstop all asset classes – even eventually equity ETFs. They are now following the Japanese model and beginning to monetize *everything*.

You may not agree, you may think it's financial suicide, and you may feel that this all will end poorly eventually. And you are probably right to some extent. But that does not matter one iota right now because it is happening and is only going to get bigger. The Fed can literally print money and flood the world with it. It will eventually permeate all asset classes and the end game is open-ended **("*We have unlimited resources")***

Five trillion may sound like a lot, and it certainly is, but who is to say it can't jump to 7 trillion or 11 trillion or 25 trillion? What's the cap? Is there a cap? The central banks have proven that they were not worried about the future negative ramifications based on their actions the past years during the easy times. Do you really think they are going to start worrying about deficits or inflation issues now that we are trapped in a global pandemic? The answer is a resounding NO.

This brings up an interesting dilemma for market participants. Essentially, one needs to gauge the negative complications of the virus fallout versus the firepower of central banks. Just because the economy will weaken does not automatically equate to lower equity and commodity prices and higher bond prices. There is no reason the Dow Jones Average can't climb as the economy weakens. Perverse as that logic is, we all need to recognize that we don't live in an Economics 101 world anymore. The new normal is markets being supported by central bankers and that dynamic is about to go on steroids rather than diminish.

We recognize that it seems like the dynamic is broken when we all look at our 401ks and see the bloodletting from March. Everyone was taken by surprise by this swoon (us included) and the central bankers were as well. But they have adjusted and fired up the printing presses to the likes of nothing we have ever seen. Don't fight the fed may be a cliché now as some seem to think. But we have to ask. Is it really different this time?

Regardless of what the outcome is, one thing we do agree on is that the environment for precious metals is as favorable as we have ever seen. And we don't say that lightly; we have always resisted the gold bugs' gloom and doom arguments and have never found them profitable. But when circumstances change, we must change as well as the old John Maynard Keynes saying goes. The money printing we are about to witness by the global bankers makes metals, and hopefully Bitcoin, an almost must-own asset for the foreseeable future. We still reject the notion that gold has an advantageous edge for the end of the world refrains. That argument hasn't held up well over the years and also hasn't held up well since the pandemic became a global issue this month.

Part of the reason that gold isn't the sure-fire winner right now that it is also a source of liquidity when markets get volatile and margin calls become prevalent. The same can be said for Bitcoin, as we are unfortunately witnessing as well. When investors need to raise cash, they will sell whatever that can or have to, especially assets that provide ample liquidity, rather than illiquid assets such as corporate bonds or real estate.

But if we can accept the fact that gold will get hit when markets are in full swoon mode, we can also use that forced selling to our advantage and buy knowing that the longer-term fundamental story is set to remain in place for the immediate future and likely a lot longer than anyone believes. Does anyone expect that the Fed and its cohorts are going to immediately start to tighten when this pandemic wanes and things begin to hopefully get back to normal? If they didn't follow that game plan from 2010-2019, they sure as heck aren't going to start now when we have actually hit a huge speedbump which practically no one was prepared for.

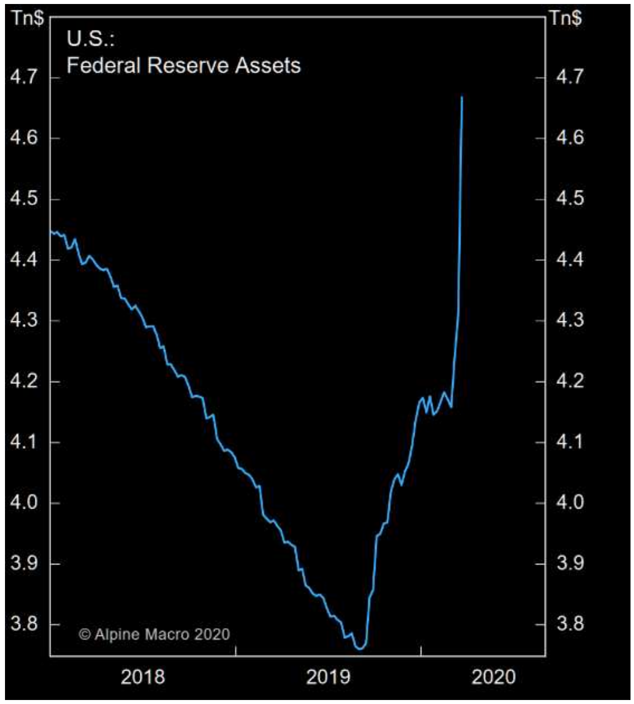
If you disagree with this line of thinking and feel it is erroneous, that is fine. But we would point to the physical gold market right now and note that at arena is seeing unprecedented demand, creating some of the bigger spreads we have seen between the physical and paper market. Translation: the physical market, which always trades at a premium, is as elevated as ever and the demand versus supply of physical gold is as imbalanced as we have seen.

We have purchased call options on the SPDR gold ETF to express our desire to own gold and will likely try and hedge those options with a short-term calendar spread (GLD options are offered on a weekly basis) to help mitigate the forced selling component of this trade as we detailed above. We like gold for the rest of 2020, but please don't call us gold bugs.

If a picture tells a thousand words, then this graph tells us trillions.

Pretty obvious that the Fed is in full print mode and has no plans of lightening up.

You can say the same about the ECB, BOJ, and just about any other central bank on the planet right now.



Today marks the beginning of the 2nd quarter of the year. We have a lot of time left to gauge the markets and the economy and hopefully we can all focus less on the virus.

But now that we find ourselves in such a topsy-turvy world we need to discuss where the best place is to be right now? And to be honest it's an extremely tough question to answer. Let's take a look at the various asset classes and dissect the pros and cons:

CASH – The safest place to be for sure. But it is literally paying you nothing. Savings accounts are a joke and 5-yr CD's are offering less than 2% – which won't keep up with inflation and hence return a negative real-rate of return. And if inflation were to pick up due to the flooding of money into the system, cash will become a liability.

FIXED-INCOME – T-bills and very short duration notes are currently returning a *negative* yield. Longer duration such as the 10-year note is yielding 0.66% and the 30-year bond is yielding a whopping 1.26%. The bond market has seen unprecedented volatility this month but has calmed down some in the last week. But there were days in March when holders of bonds lost 4 years of yield return in one day. Think about that for a second if you still think a 10-year note paying less than 1% and prone to massive capital drawdown is a safe investment. We would even go as far as to say that bonds are the single riskiest asset to own for the next few years.

STOCKS- This is a total wildcard. It's practically impossible to gauge where they are heading based on current inputs available. It's likely they will be higher than where they are a year from now, but who knows the level of pain one most endure to reach that. Easily the toughest asset on earth to try and quantify

COMMODITIES – If you are in the camp that the new monetary policy will spurn on inflation, then commodities may be a good buy here. Conversely, if you think we are in for a global recession and subsequently a deflationary environment, then you don't want to touch commodities. We have expressed our views on gold and will stand by that for the time being. But this is a historically volatile sector, and one we think is better suited for trading than investing.

CORPORATE BONDS– If we think stocks are a wildcard, then surely corporate bonds are as well? Yes, but not as wild as they may seem. In fact, this is an area that we really want to get more proficient in and feel that there will be some great discounts delivered from the effects of the coronavirus.

This recap may not seem that helpful when trying to steer capital in any direction right now. But, that's the point. We suddenly find ourselves in one of the most challenging environments ever. So, an easy answer would be disingenuous at this juncture. But we need to continually monitor these sectors and try and find the one with maximum profitability potential.

Looking Forward and other Market Opportunities: Normally, we would be excited about the upcoming earnings season in April. But these are not normal times. That being said, life does go on and so do corporate earnings releases. However, it won't do anyone much good to see how companies fared in Q1 of this year, that was for the most part pre-coronavirus, and obviously the world has changed since then. Also, we can be assured that practically every company from any industry will issue unsure guidance for Q2 and likely all of 2020. That is not only a given, but a reasonable response from any company trying to navigate themselves in this upside-down world.

According to FactSet, S&P 500 earnings for Q1 are now expected to post year over year growth of -5.2%, versus projections of roughly +4.4% as recently as January 1st. This quarter's earnings releases will almost be irrelevant, something we never thought we'd being saying. But that's a fair statement in our opinion.

The big banks will kick off the season in mid-April, followed by a slew of industrials and transportations all which will likely offer some horrific commentary. Later in the month we will get reports from such tech bellwethers as Apple, Amazon, Google, and Facebook. Two reports we are very interested in diving into are Amazon and Twitter. Everyone (including us) is expecting Amazon to post monster numbers seeing how the whole world is relying on them these days for delivery since so many stores are shut. But they have had warehouse issues dealing with the virus and Whole Foods employees threatening to strike unless working conditions are not improved.

Also, it will be interesting to see how quickly they were able to fill the 100,000 openings they were trying to fill as a result of virus demand.

Twitter has taken its lumps this month like practically every other listed stock, but we are beginning to wonder if it is totally justified? Sure, the advertising revenue world is and will continue to take a hit as the economy grinds to a short-term halt. But social media has never been as used as it is now and that trend is only going to continue as this virus drags on. When this lockdown is over and we are back to watching an influx of sports, new movies, and the election in the fall, we have to think Twitter and also Facebook will see a tremendous surge in traffic and hence better advertising considerations.

The report coming out in a few weeks won't cover any of this, and likely will look rather grim. But looking out six-to-nine months, assuming this pandemic ends, or at least softens, we have to wonder if Twitter will be one of the first names to snap back quickly.

The final days of April will surely be an interesting period. As mentioned there will be handful of heavyweight tech earnings the last week of April. Also, we will be nearing the end of the 30-day social gathering lock-down period that is theoretically over on the last day of the month. And also, we will hear from the world's largest three central banks. Starting with the Bank of Japan on the 28th, the Fed on the 29th, and the ECB on 30th – sort of a murderer's row if you will.

A couple quick equity thoughts to close out the update. One, for all the daily gloom and doom that is permeating our world right now, it should be pointed out that the SP-500 is only 20% off its all-time highs and is currently at late 2018 levels. Pretty impressive considering that we can't even go out to a restaurant, bar, ballgame, movie, or a mall right now.

Corporate insiders also must be feeling spry as well despite all the negativity. According to the Wall Street Journal, more than 2,800 executives and directors have purchased nearly $1.19 billion in company stock since the beginning of March. Either they are foolish or getting some great bargains. Only time will tell.

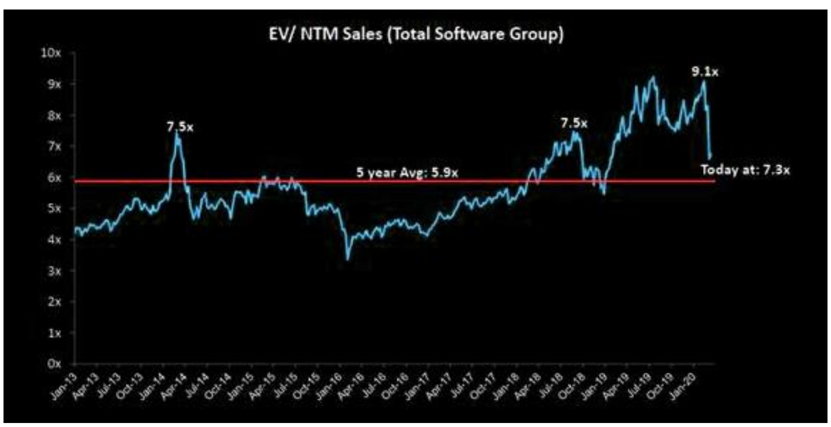
Keeping with some positive themes, late last month Abbot Labs announced they had a new testing system that can detect coronavirus in only 13 minutes. Johnson and Johnson announced they were expanding coronavirus vaccine capacity and signed a $1 billion dollar deal with the government. Genentech also announced new drugs that were fast-tracked to the market and have already made their way to New York to help aid in a faster recovery from the virus. Brooks Brothers, and a few sports apparel manufacturers have also begun to use their factories to produce protective masks.

Also, many non-medical companies such as GM, Tesla, and other smaller manufacturers have begun assembling and shipping ventilators to various hot spots. All this won't stop the spread overnight, but it's a step in the right direction and shows our country can still come together when we are faced with adversity. Much like 9/11.

Many have asked where a good sector would be to keep an eye on as we get through this mess of a market. Our best answer is the software sector. It's hard to imagine a future where the benefits of advanced software metrics, that now span across literally every sector in the world, would go away. Sure, the demand has been temporarily diminished and many companies will begin to balk at paying the fees associated with good software infrastructure as they deal with tightening their belts, but on the whole, it is still a growing industry and one that will both remain and become more important in the future.

So, one would logically wonder where the best companies are lying and which ones we should keep an eye on. For our money we would stick with the cloud names. Especially seeing how there once sky-high valuations have come down to a more reasonable level as the chart below highlights.

We have been closely following the IGV index as a proxy for the rebound in software and so far, it is 11% off its lows set on March 23rd. This is an ETF to watch to gauge just how quick customers are resuming their spending trends and how quickly the appetite for risk is returning to the market as well. The chart below shows how once lofty valuations have reversed back down near the 5-year average.



We aren't yet ready to declare the software sector "cheap" after this recent drawdown.

But, we are more comfortable owning growth names at these levels versus just six weeks ago.

This is a sector to keep eye on for the second quarter.

Finally, as everyone knows now working from home has become the new normal for millions of Americans suddenly (not us thankfully). Zoom, Slack, Skype, and Google Hangouts have become the new work platforms for the everyday worker. Which brings up an interesting question. When this is all over, will things return to normal at the workplace?

Let's say you are a high-end law firm in San Francisco with a tony zip code and offices with a view of the Bay Bridge. You are likely paying $200 per square foot for that privilege. But what if during the forced work from home period you discovered that productivity, billing hours, and worker engagement remained on par or close to par with a conventional working atmosphere.

All of sudden you realize that with new technology, working from home doesn't equate to laziness, long lunches, and frequent dog walks. The spread has been narrowed tremendously. So now all of a sudden you are staring at your huge office fixed cost rental payment per month and wondering if it's really worth it? Sure, maybe you want some kind of physical presence to host clients or hold-hands meetings. But do you really need an office for every employee who is just typing away on a laptop?

Think of the savings, increased profit margins, and less stress over finding space and dealing with seemingly ever-increasing rents. How happy would your clients be if you could reduce their fees by let's say 5% and still be more profitable as a firm? How much more business could that generate?

We aren't predicting this to become a sweeping phenom as soon as we get back to normal. But we would be nervous if we were in the commercial real estate business in New York, San Francisco/Bay Area, Los Angeles, London or a host of other cities that have exuberant rents

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