November 2019

OCCASIO PARTNERS LLC

San Francisco, CA

Performance Summary: November turned out to be one of our better months recently; primarily driven by the 34.8% surge in Trade Desk (more below) after they reported earnings on November 8th. That combined with a 39.1% move in Antares Pharmaceuticals, a smaller position that has now grown to a medium-sized one, and one that we haven't commented on much, provided some hefty profits.

We also recorded one of our better trading months, despite the continued low-volatility environment, something we have some additional comments on page 8. Most of our gains came from the fixed-income and energy sector, with some limited success in the metals markets as well.

The anchor on our performance this month was the small position in Bitcoin, which fell 14.5% in November. We have not touched our position in Bitcoin since initiating it this spring. It is a very small, long-term investment. One in which we believe will pay-off tremendously at some point. But that doesn't mask a 14.5% drop this month. Also, Rubicon Project dropped nearly 3% this month, despite a good quarter – more below on that as well.

As we head into the final month of the year, it is our view that this month will be chock full of volatility: Mainly due to tax-selling strategies, FOMC/ECB/BOJ meetings, and the much ballyhooed tariff deadline on the 15th. Our strategy is to keep our positons small and define our risk with options, and look to exploit some hopefully good trading opportunities. There will be time for holiday cheer, but the first 3 weeks will be busy.

Last Gasp: Two of our favorite long ideas reported their earnings in early November, both Trade Desk and the Rubicon Project produced favorable results. Let's start with the smaller company Rubicon beat their estimates by $0.05 and saw a 26.6% year/year increase in revenues, although estimates did come in a bit light. They also issued in-line guidance for Q4 with revenue estimates scheduled to come in just shy of $48 million.

Rubicon continues to show steady growth and is becoming a bigger and bigger player in the ever-growing CTV advertising space. Unfortunately for them, but fine with us, is that they are competing against powerhouse Trade Desk, with which we have been mostly long of for quite some time now. There is surely room for both to prosper here. And the recent announcements of Disney +, Apple TV, HBO Go, Peacock, and other streaming apps only underline growth potential in the years ahead.

As for Trade Desk, their quarter on November and the results were impressive, as they have been for recent quarters. Trade Desk earned $0.75 per share, which was $.09 better than expected and rose 38.2% year/year and also slightly beat estimates of $163.8 million.

Mobile video spending grew at an impressive 50% clip, also, Mobile In-App spending surged 58%. We see that number growing due to the advent of the new streaming apps we detailed above. Furthermore, the company issued upside guidance in regards to fiscal year 2019 revenues, now expected to come in at over $658 million, versus previous estimates of just under $653 million.

"We believe Trade Desk is one of the best derivative plays off of one of the strongest trends in 'Net Land heading into 2020 -- OTT/Streaming. Beyond OTT/Streaming, we believe Trade Desk faces one of the largest TAMs in our Mid/Small-Cap Internet coverage group. We also see International, especially China, as a key long-term growth driver given only ~15% of Trade Desk's Gross Billings are currently outside the U.S. On a fundamental basis, they remain one of the strongest in Mid-Small Cap Internet. Trade Desk's Crucial Combo (Revenue growth + EBITDA margin) score of 70 for FY19E is one of the highest in 'Net Land." – Mark Mahaney, RBC

While Trade Desk certainly has a bright future, the stock has been a volatile one to try and buy and hold - most notably, the nearly 25% dip it took in August and September, despite reporting another quarter of growth. But this is what one signs up for when venturing into the growth stock momentum world. We have caught some nice moves in Trade Desk over the past few years and have also fortunately avoided, for the most part, some nasty downdrafts.

We did not have a position going into the earnings report, due to our policy of trying not to guess what the company will report so as, subsequently, we will not be exposed to gap risk. Fortunately, we did establish a position on the morning after the report when the stock dipped into the high $190's. That move has looked prescient, thus far at least, as the stock is now trading over $230 and looks like it wants to re-test some old highs in the $270 area. Likely though, it won't be quite that easy, especially if a general market sell-off ensues. However, the future trajectory for Trade Desk and to a much lesser extent Rubicon Project is upward. The ride won't be smooth, but they are both in an area of growth that still has a tremendous market share to garner for a space that is changing the way we view all media. But for the rest of 2019 Trade Desk is just a trading vehicle.

Another long name we are becoming interested in is Lyft. Yes, we are very aware that Uber has by far been the most disappointing IPO in recent years, if not ever, and we are also aware of the massive losses Uber continues to pile up and the non-stop insider selling by those wishing to salvage some of their original investment.

But Lyft isn't Uber. For starters, Lyft is simply a ride-share company. Not a ride-share company that wants to deliver food, or revolutionize the freight business. Also, Lyft has reported (relatively) good quarters since going public in April. Including the latest quarter that they reported on October 30th, in which they beat estimates by $0.32 and issued upside revenue guidance.

So what are some of things Lyft is doing to differentiate itself from Uber? First, the pricing environment continues to strengthen, allowing Lyft to cut back on incentives and promotions. The nature of the market, which consists of only two dominant players, is supportive to pricing.

Lyft's new services, such as "Shared Saver," are also generating better monetization and efficiencies. Furthermore, the company added Progressive and State Farm as new partners, which Lyft believes will reduce insurance costs and risk exposure.

In fact, it expects that insurance cost as a percentage of revenue will be lower in Q4 than in Q3. This is a major reason why Lyft now anticipates its Q4 margin expanding to 52% compared to its prior forecast of 49%.

Lastly, the company is leveraging its sales and marketing costs much more effectively. This quarter, sales and marketing represented 16% of total revenue compared to 41% a year ago.

Aside from the improving fundamentals, the technicals have lined up as well. After basing approximately 6-weeks, the stock broke out to the upside after an analyst day on November 21st. We are also in the camp that if it were not for the constant negative overhang which is Uber, this stock would be $10+ higher.

Our current long position is concentrated on call options that expire right before Christmas.

Some may have noticed we were long gold for a short period of time in November. It was a quick trade and didn't work well, but was also barely punitive. We are far from gold bugs, and frankly find them along with other doomsayers rather annoying. Waiting for the world to finally end so your justification for owning gold finally makes sense is no way to go through life, at least in our opinion.

But that doesn't mean we should automatically dismiss it either. If one still believes that gold is a hedge for inflation or a built-in put for obscene central bank behavior, then the trade does still carry some merit. Many gold skeptics were emboldened when gold failed to make a new all-time high despite the enormous rounds of quantitative easing produced by the world's central banks over the past years. Some saw it as the ultimate sign that gold was done as an indicative tool for predicting inflation. And there is certainly a case to be made to support this. In fact, it's one we did not have a problem relaying to our gold bug friends who were so cocksure in their beliefs.

But instead of sticking to our guns, maybe it's time to conjure up a different scenario? And it goes something like this. Gold has not reacted to quantitative easing as many assumed it would. But what if that was because everyone assumed QE 1, 2, 3 or 4 would eventually end and gold would suffer the ramifications of this policy change.

And what if now, as evidenced by the complete 180-turn in Chairman Powell's polices, we begin to concede that maybe there is no end to QE? Maybe now it is like a drug that a patient needs to keep taking in order to just stay alive? If that is the case, and it is a very, very big "if", then maybe gold and the other metals do make sense for a longer term bull case.

When the markets do finally realize that there is no turning back on QE policy and a reduction or that outright abandonment will lead to sharp bouts of market chaos, like we witnessed in the Q4 of 2018, then the price of gold will suddenly look very cheap at these levels.

When and if this does occur are the obvious questions that will remain unanswered. And it likely won't be a specific catalyst, but more so a general shift in psychology, making it even harder to time.

Open mindedness and the ability to shift gears are paramount in this business. Tunnel vision and un-yielding opinions do you no good. Our recent foray into gold didn't turn out well, but that doesn't mean it won't work, and possibly work quite well, in 2020 and the years after. At some point the world will reject the irresponsibility of quantitative easing and the backlash will be swift and violent, the likes of which we may not have ever seen. Precious metals, and hopefully more so crypto currencies, will be the area where investors rush into to voice their displeasure.

November was a big month for retail earnings. Most of the reports came from the big-box stores such as Walmart, Target, Kohl's, Home Depot, Lowe's, TJ Max, and such smaller names as Urban Outfitters, Gap Stores, and Nordstrom.

As is always the case when it comes to the fickle American consumer, the results were mixed, but for the most part good. It also reiterated the famous, yet almost always accurate, phrase "*never bet against the American consumer."*

The highlight of the retail set was no doubt Target. The multi-purpose store beat estimates by $0.18 and more importantly significantly raised guidance for FY 2020 to $6.25-$6.45 versus the prior guidance of $5.90-$6.20. They also set comparable sales growth at 3-4%, which was slightly better than expected.

The stock rose 8% on the news and traded to a new all-time high. Which is a pretty good arrow in the quiver for those battling the recession is near.

Home Depot missed numbers for the first time in eight quarters and slightly lowered their FY 2020 guidance. The stock dropped nearly 8% on the news, but still remains well off their lows. Maybe the reason Home Depot missed is because folks are now shopping at Lowe's instead? This quarter's results at least pointed us in that direction.

Lowe's beat estimates by $0.06 and slightly beat on revenues as well. Their 2020 guidance was hardly Target-like, but it was good enough for a 4.5% pop in the stock, setting a new 52-week high.

Some of the smaller, lesser-followed retailers also reported their results in late November. The most talked about name was Macy's, which has become a serial disappointer, and continues to hover around 9-year lows. They reported yet another poor quarter and lowered guidance. The stock now yields over 11%, but seems like a classic value trap play in our minds.

Gap Stores and Nordstrom, two other names that appear to be in long-time downtrends, actually posted some solid numbers and guidance that surprised many. It's hard to fathom these stocks making any big upward moves anytime soon, but they don't seem as left for dead as they did months ago.

Ross Stores and Shoe Carnival also posted impressive results, but saw disappointing reactions to their stock price. We can honestly say we have never even seen a Shoe Carnival, but the stock is up a whopping 51% off the August lows. Maybe we should pay better attention when out.

Two retail names we are anxious to hear from in December are Five Below and Restoration Hardware. Both these names are heavily reliant on China (although Restoration is slowly moving manufacturing out of China) and it will be interesting to see their comments regarding the tariffs and their take on the current trade dispute.

So it's clear that the American consumer is spending, and will likely make the current holiday season a jolly one for retailers and more likely credit-card companies. Which brings up another point. Yes, the consumers are obviously spending, but can they afford it? According to *Credit Donkey*, American revolving credit-card debt hit $1.05 trillion this month, with the average card carrying $5,331 of debt on it.

Americans over-spending and buying too much "stuff" is hardly a new phenomenon. It's essentially a way of life for us. Which makes analyzing retail results and trying to correlate it to the state of the economy, a bit of a grey area – to say the least.

We have chronicled this year the absolute decimation that the marijuana stocks have been subject to (the end of the October report shows the current supply/demand disaster) and it only got worse in November. At least to our eyes, the putrid price action in November across the space was either a sign of complete capitulation, or end-of-year tax loss selling. The reality is that it is probably a combination of both.

On November 20th the House Judiciary Committee approved a bill that legalizes marijuana on the federal level, removing it from Schedule 1 of the Controlled Substances Act. As official as that sounds, it essentially just means the Federal government won't interfere with states' choice to legalize or not. Regardless, that day we saw many cannabis stocks and the Alternative Harvest ETF trade to new all-time lows, then reverse and close the day as positive (also known as bullish reversal pattern). This development got us involved on the long side and resulted in a fruitful short-term trading gain as the ETF rallied 8+% over the next two days - which ended up being our best trade of the month.

This doesn't make us all of sudden bullish on the cannabis space, they still have way too much supply and many regulations to overcome. But it does reinforce that there are plenty of opportunities out there if you keep your eyes peeled and mind open.

This is a graphical example of trades we like to look for: After slightly trading a new low in mid-November, we saw a sudden reversal to go positive on the day, and then a nice follow-through trade of almost 10% in just 3-days.

Looking Forward and other Market Commentary: There are three major events to look out for before we turn our attention to Santa Claus and all the other festivities associated with the holiday season.

First up is the last Fed meeting of the year, slated for December 11. This will be the last chance for Chairman Powell to cut rates in 2019 – which would be his fourth cut. The current Fed Funds futures odds don't think it's going to happen however, currently pricing only a 15% chance. As always, the language surrounding the announcement will be highly (overly) scrutinized as investors try and get a leg-up on what we have in store for us with regard to monetary policy for 2020.

Next up will be the ECB meeting the day after on the 12th. Again, likely a non-event, but these days every word from a central banker is parsed and re-parsed, so we need to at least keep our ears open for any change in language that could send the markets into orbit or into a tizzy.

Finally, December 15th looms as the day when the next round of tariffs will be imposed on China. Despite the fact that a trade deal is "close" or "any day now" or "a short stroke away", the bottom line is nothing has been done for almost a year now. This could all come to a head on the 15th if the next rounds of tariffs are indeed enacted.

It's may be hard for the markets to believe a deal is just a pen stroke away if the US layers another round of tariffs on China. Subsequently, if President Trump decides to delay the tariffs then by many accounts he will look weak in the eyes of the Chinese and bolster their resolve to wait out the 2020 election.

That being said, the Chinese are making a grave error if they think a Warren candidacy will allow them to continue to walk all over the US in trade constancy. That will hardly be the case as Ms. Warren has explicitly laid out in her campaign objectives (we realize Warren is no shoe-in to get the nominee, but as of this writing she is still considered the front-runner by most).

Even though we are just days away from Christmas, there are still a few earnings reports to track as we wrap up 2019. Slack, Salesforce, Workday, Z-Scaler, Guidewire Software, Smartsheet, Synopsys, Mongo DB, AutoZone, Coupa Software, Lululemon, Ulta Beauty, Pager Duty, Crowd Strike, Children's Place, Stich Fix, Toll Brothers, Costco, Oracle, and Adobe are all names to watch.

If there is one area of concern that keeps popping up it is the link that so many funds and structured products being offered have links to both the government bond and corporate bond market. The term risk-parity is often associated with this type of trading. When you factor in the record number of VIX short positioning we currently are witnessing (chart below) this trade is bound to blow up at some point, and once again cause some massive pain, like we witnessed in February of 2018. When and what causes this event to play out is anyone's guess, and we certainly aren't predicting any sort of eminent doom. But history does have a way of repeating itself.

In this algo driven, interconnected, ETF driven world, it doesn't take much of a spark to incinerate an entire swath of traders; which again is literally what happened in February 2018 when the ETF VXX collapsed in a matter of minutes and decimated those shorting volatility to the likes we hadn't seen in years.

There is also growing concern for the corporate debt market, specifically the BBB and higher-yield area. In fact, it is gaining so much attention that FOMC board member Bill Dudley decided to pen an op-ed this month on Bloomberg.com titled "*Two Risks to Stability Build Amid Short-Term Calm"*

But again, before we all run for the caves, let's keep in mind that there has been consternation over the corporate debt markets for a while now, and there are almost zero signs of any stress currently being exhibited. All people have to do is look at a chart of HYG or LQD and their minds should be at ease – for now at least.

There is nothing wrong with keeping your eyes and ears on potential landmines that are out there. But obsessing and trying to predict the catalysts that spark them is a habitual waste of time. All that being said, 2020 is ripe for some potential scenarios that will likely add, rather than subtract, volatility to the trading landscape.

Also, this month we will have to continue to endure the non-stop reporting on the impeachment hearings, and the Democrats willingness to continue with the proceedings. They have said the final decision will be reached by Christmas. Whether you think the President should be impeached or not is a personal choice, but all we will say regarding the matter is that the markets absolutely do not think it is going to happen.

Here we see the massive spike in VIX short positioning. The moves lower on the right side of the chart represents more traders getting short.

So far it has worked. But they are picking up dimes in front of a bulldozer.

Finally, investment "guru" Ron Baron made headlines last month when he proclaimed that the Dow Jones Average would be at 650,000 in 50 years. Barron, who will be a spry 126 years-old if this milestone is indeed hit, did not use much evidence to back his claim but did say he believes the average will return 6.5% annually - until 2069.

Maybe he will be right, but talk about a convenient guess to get some attention. Why not 750,000 over 75 years, or 5 million over 200,000 years? It's easy to predict whatever you want knowing that you won't be around to see it come to fruition – or not.

But what's the point aside from getting some attention? The same goes for those who constantly predict doom around the corner and likely declare Dow Jones 5,000 in 50 years.

The whole prediction game is silly; the vast majority is wrong and predicting leads to stubbornness and closed-minded thinking. But it can make one look intelligent in the short run and almost always foolish in the long run.

Maybe we should re-visit a classic quote from British philosopher Bertrand Russell, who in 1952 uttered this gem:

"The rational man would not be too sure that he's right. We ought always to entertain our opinions to some measure of doubt. I shouldn't wish people dogmatically to believe any philosophy – not even mine."

Occasio Partners, LLC San Francisco, CA