Occasio Partners LLC

San Francisco, CA

Performance Summary: Despite August being peak summer vacation time, it once again proved to be one of the most volatile months of 2019. Much of that was due to the on-going trade skirmish and wild moves in the rate universe. Both topics we expound on further below.

As for our month, it was the opposite of last month ironically. Our trading, aided by a surge in volatility, was some of the best of the year. So that's a positive, and one we expect to continue to trend in this direction for the remainder of 2019.

But in August, we saw Trade Desk drop 7.1% (more below), Snap fell 5.1%, and our Bitcoin trust play shed 16.3%. Our sole winner on the long side was The Rubicon Project, which we discuss on the next page. Tesla fell 3.5% in August, which helped a bit. Also, the GSTI Software Index (cloud play) fell 2.6%, which also was a small beneficiary. We eliminated Slack from the portfolio and took a moderate loss.

It's certainly frustrating to have two trading strategies seemingly push and pull on each other every month. And it has led to smaller monthly gains than we obviously would like. But, it also has mitigated any big drawdowns and kept the equity curve on a steady uptrend.

Overall, we are comfortable with our positons and companies we own. We also remain believers in Bitcoin and its future. But we have pared down exposure and re-defined our risk due to the increased uncertainty right now across the globe, and the subsequent volatility that has come with it. The next four months and beyond will provide plenty of opportunities in our opinion. And that is a good thing as they say.

Summer Bummer: We need to start this month's update by first cleaning up some news that broke the end of July and the first day of August.

On the first day of August, right after we sent out the July Update, our newest long position, The Rubicon Project reported their Q2 earnings. Rubicon lost ($0.06) per share, which was $0.08 better than expected and also saw a 32.5% increase in revenue year-over-year. Desktop revenues grew 21% year-over-year and the CEO credited the rise with strong gains in the audio and video fields along with the additions of some new customers (always helpful).

Overall, the report re-affirmed a strong upward trend in improved earnings and revenue and helped solidify that Rubicon is well on its way to becoming an impressive turnaround from the depths it saw less than a year ago.

We were drawn to Rubicon as an ancillary play from Trade Desk, which has been a monster in the digital and streaming advertising content space. Rubicon admittedly has a long way to go to catch-up to the success Trade Desk has had, but this is an enormous growth area when you consider just how big the need for digital ads and streaming content will be in the coming years. We talked last month about all the new deep-pocketed players that are bringing their streaming content online soon: Disney, Comcast, Time Warner, Apple, AT&T, and Hulu is looking to expand their offerings as well.

Rubicon has the potential to go after a lot of that business. We feel like we are getting in at the early stage and would obviously love to see it track the success Trade Desk has had, although that may be a bit of wishful thinking. But considering that the stock soared almost 30% the day after results were posted, maybe it's not as crazy as it sounds?

Due to time constraints and the fact the Fed meeting was on the last day of July, we didn't mention much about the fact that Chairman Powell decided to cut rates by 0.25% basis points and immediately halt quantitative tightening, as opposed to the end of September as originally planned.

The move didn't really surprise many seeing that the Fed Funds futures were already pricing in an 86% chance of a cut. But what did upset investors was the press conference that followed. Mr. Powell seemed timid while trying to talk tough to assuage the hard-money hawks, but he also wanted, with an overall looser tone, to come off as ready to aid the markets with more cuts on the horizon. It was a confusing 45-minutes and one that sent stocks down over 1.2%.

Maybe it was best summed up by Fed Governor Sarah Raskin, who said:

"One possibility is that the white house interference is scrambling his ability to communicate clearly. There's a noise level and pitch of aggression and potential intimidation that is hard to ignore."

But if there is any doubt as to where the trend for global rates are headed all we need to do is look at what transpired on August 7th. That day alone we saw the Bank of Thailand cut 25bps, the Bank of India 35bps, and the Royal Bank of New Zealand 50bps.

Now we recognize that these three banks don't exactly represent the drivers of the global economy, but the point is that the race to debase is on and *everyone* is playing.

All this in addition to seeing the global total debt tick over $250 trillion in August, with over $15 trillion of that yielding *negative* rates.

In the past we have discussed GW Pharmaceuticals. We have even had a few long positions in the name in the past couple years. Recently though we have just been observers as the stocks has been stuck in a $50 trading range for a good portion of this year.

GW is the by all counts the most advanced company in the cannabis medicine field. They are by far the medical leaders in this burgeoning area. The biopharmaceutical company is solely focused on discovering, developing, and commercializing novel therapeutics from its proprietary cannabinoid product platform in a broad range of diseases.

On August 7th, GW reported a fabulous quarter and saw its stock rise 12% in response. They beat estimates by a whopping $0.18 cents and almost doubled the revenue number that analysts were looking for. More importantly, they confirmed that the CBD treatment for epilepsy has seen a strong launch with over 12,000 patients currently receiving Epidiolex prescriptions.

GW also announced that the Phase 3 trial for Tuberous Sclerosis Complex is close to receiving a positive opinion from CHMP in Europe and hopes to roll out in the European market by the end of 2019.

Overall, it was a great quarter for GW, both fiscally and news wise.

GW currently has 48 trials registered with the Cannabinoid Clinical Trials registered with the FDA - the most of any pharma company. Sanofi is second with 38 and everyone else has fewer than 10.

We have long been wary about investing in the marijuana space, especially the producers. The reason being is it just a commodity based business, one with low barriers to entry, high legal costs, no banking affiliation (yet), and healthy illicit market competition (an item we discussed in the July Update.)

But GW is a different animal. Their sole mission is to cure debilitating diseases with alternative medicine, namely cannabis. To use some modern lingo, they are “disrupters” in the pharma world; a huge task for sure, but one with mind-boggling potential growth and opportunity. That is a risk we think is worth getting involved with at some point. It’s fair to say that the drug manufacturers could use some alternative competition.
Trade Desk, a stock we like more and more, reported another stellar quarter on August 8th. The digital advertising company blew out estimates reporting a $0.95 gain for the quarter against estimates of $0.68 and saw their revenues jump 42.4% year-over-year. For Q3 they slightly raised their revenue estimates by approximately $5 million. Some saw this guidance as a bit lackluster, but it’s hard to argue with their overall growth rate and complete blowout in EPS estimates.

On the conference call, CEO Jeffery Green reiterated that their company’s growth is currently 4x times the industry average and that they signed up 55 new clients in Q2 alone. He also commented that live sporting events are the drivers for new demand.

The stock's response to this seemingly great news was tepid – rising just over $2. But let's keep in mind that Trade Desk is up 107% YTD and did briefly touch a 52-week high on the 9th, despite a rocky market environment.

We are happy with our position in Trade Desk; it has served us well for most of 2019. But this is a volatile growth/momentum stock that is prone to big swings. In a strong tape, this stock can easily surge over $300 and continue to print new all-time highs. But we have to be cognizant that in a weak market this stock will get hit hard. With that, we will be looking to hedge some risk until we see clearer skies and a clear path to $300+.

In the July update we had this to say about the current trade war between the US and China: *"One thing we can probably count on for the remainder of 2019 is the fact that there will not be a USA/China trade war truce."*

Well, it's pretty clear now that a new deal is nowhere near, and likely will be in limbo until the 2020 election next fall; this aided by the fact that in August President Trump plans on imposing the 10% jump on $300 billion in tariffs scheduled for September 1st to December 15th and the Chinese retaliating with $75 million of tariffs on US imports set for the same date.

It's pretty apparent that a defined trade agreement is as far apart now as it has been in months, if not a year. There are many fingers to point for these conundrums we now find ourselves in, on both sides of the table. But that is neither here nor now, what we need to really focus on is the currency crisis that it has spawned.

To retaliate against the tariffs imposed and being further imposed, China has begun to weaken the Yuan against the dollar, in hopes of helping its producers and hopefully causing some dislocation in the US markets. Something that they have successfully accomplished.

We thought it was interesting to hear from someone outside the world of politics in regards to the trade war and came across this quote from Shark Tank investor Kevin O' Leary (who we readily admit is a bit of a blowhard) Nonetheless, he had this to say:

"I like Trump's 'new ideas' on China. I like what this administration is doing by... trying new ideas. Because to me it's starting to work." O'Leary also said, "I'm really tired of the last 15 years. Finally an administration that's batting for the guy that puts his capital up there and gets screwed over and over again."

Regardless of your views on President Trump (or O'Leary), it does seem like an important observation from the "real world."

Stocks have rallied strongly for the most part this year on two dominant features: 1) an about-face in Fed policy and 2) the hope that a trade deal will be concluded between China and the US.

So, as we enter the fall season, we would be remiss if we didn't point out two glaring, obvious points. The first is that the Fed has cut rates 25% on July 31st – and SP-500 has fallen 2.7% in the aftermath. There is a better than 70% chance of a another ¼ point cut in just 15 days from now and a 23% chance of a ½ point cut. Maybe that will change the narrative into year-end, but for now at least, it hasn't helped. *"Don't fight the Fed"* is a mantra not to be taken lightly, but we have to wonder, what with the current insane low-levels of rates, the $16 trillion of negative government debt swirling the globe, and the fact that every central banker is now in a race to get their respective currencies worth zero as soon as humanly possible. We have to dare and ask is it finally "different this time?"

As we pointed out in the pages above, the hope for a trade deal anytime soon is well gone. But this apparently won't stop the current administration from continuing to lob out press reports and Tweets promising of upcoming communications and constantly changing tariff penalties. None of which seem to come to fruition.

There was some real significant, yet underreported, news this month regarding cryptocurrencies and their continued push to become more of a mainstream asset class. Bakkt, which is a spin-off parent company Intercontinental Exchange, or ICE, as it is known, plans to launch custody and physically-delivered daily and monthly bitcoin futures contracts in partnership with ICE Futures U.S.

That may not seem like a big deal, but they will be the first futures contract that will offer physically delivered futures and a qualified custodian facet.

From the press release on August 16th:

The Bakkt Warehouse will custody bitcoin for physically delivered futures. This offers customers unprecedented regulatory clarity and security alongside a regulated, globally accessible exchange in a market underserved by institutional-grade infrastructure.

Bakkt has partnered with such financial heavyweights as Alan Howard, Pantera Capital, Fortress Investment Group, Eagle Seven, Galaxy Digital, Protocol Ventures, Susquehanna International Group, and Horizons Ventures.

The futures are scheduled to launch on September 23rd and their, adaption, volume, and transparency will be watched very closely to determine whether or not this is the beginning of mainstream, and more importantly institutional acceptance for cryptocurrencies.

This is a *really big deal in our eyes*, yet Bitcoin has dropped 11% since the August 16th announcement; something we find puzzling. We will update the progress of this new venture in the September update.

Looking Forward and other Market Commentary: There are two very important dates to focus in in September, and unfortunately, they both involve more central bankers. The ECB will host one of their last meetings until new President Christine Laggard takes over on November 1st. There is strong talk that Germany will begin a new stimulus program soon (50 billion Euros is the rumor) in hopes of boosting their lagging economy. The details of this will likely be unveiled on the 12th.

On the 18th, the Fed will meet again and there is great likelihood that they will cut another 25 basis points and even a small chance (currently under 25%) that a 50-point cut is coming.

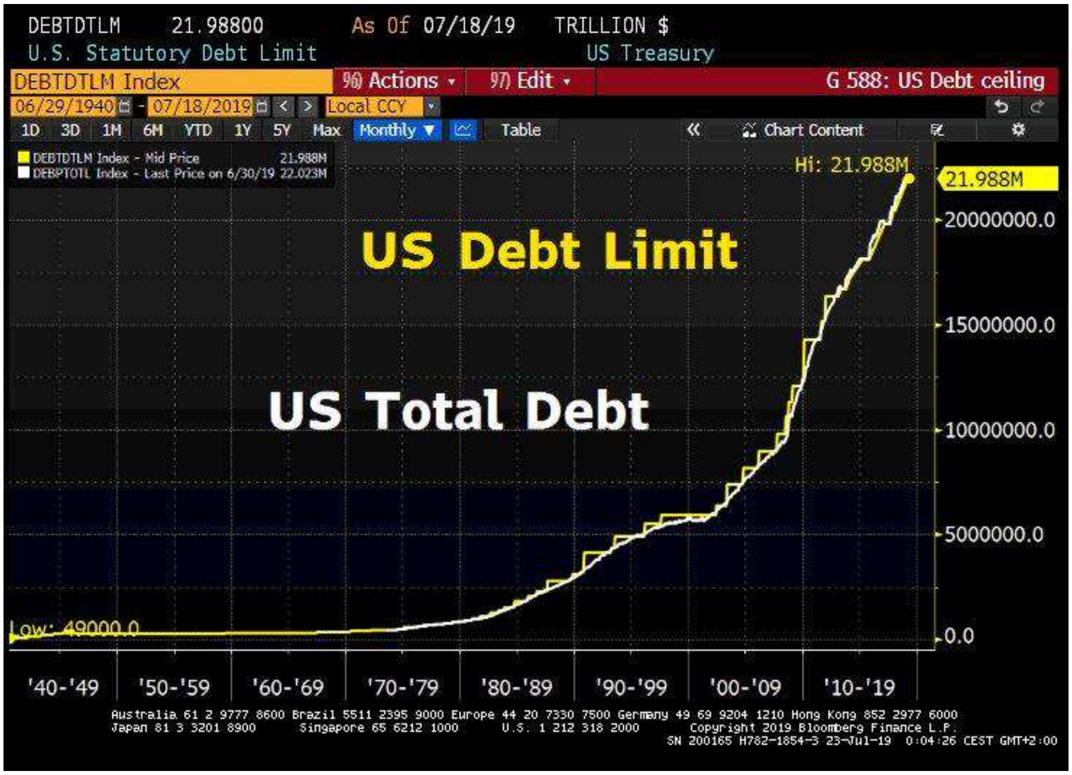
In case anyone wasn't quite sure where the current administration stands on the Fed and their policies…there was a rather blunt Tweet from the President on August 19th:

Our Economy is very strong, despite the horrendous lack of vision by Jay Powell and the Fed, but the Democrats are trying to "will" the Economy to be bad for purposes of the 2020 Election. Very Selfish! Our dollar is so strong that it is sadly hurting other parts of the world...

The Fed Rate, over a fairly short period of time, should be reduced by at least 100 basis points, with perhaps some quantitative easing as well. If that happened, our Economy would be even better, and the World Economy would be greatly and quickly enhanced-good for everyone!

Two quick takes on that Tweet: 1) President Trump fired uber-dove Janet Yellen and replaced her with an admittedly (then) hawkish Jerome Powell. Powell is his guy. 2) A 100-point cut and more QE makes the case for Bitcoin and metals better than ever. It also is an extraordinarily irresponsible idea that will wreak havoc in coming years – but he is trying to win an election in 14 months, so we can understand the rational.

But as the chart below clearly shows, this ultra-low rate environment has led to a sickening surge in debt. This problem will have to be dealt with at some point, despite the "kick-the-can" mentality that the current and past two administrations have displayed.



Just in case anyone forgot how much debt we have created since the 90's. Here is a scary reminder.

Cutting rates and ending QT, or restarting QE, has consequences that it seems the whole world has forgotten.

Maybe Modern Monetary Theory (MMT) is already underway and not just a theoretical discussion for later?

It seems like Brexit has been in the headlines for twenty years now with no real change or clarity. To be honest, we have basically ignored any news regarding the exit as it has had little to no meaningful effect on markets. But this month the UK elected Boris Johnson as its new Prime Minister, who people view as a in the Donald Trump style politician.

A Bloomberg research note had this to say about Brexit:

"First, there is the Brexit situation that looks more likely a 'hard Brexit' is coming this October. The EU has shown no interest in negotiating and Boris Johnson as PM will be a much tougher negotiator than the previous politicians."

The current Brexit deadline is October 31st, 2019. The UK could leave before this date if the withdrawal agreement is ratified by both sides before then. It's not the most important story in the world right now, but it does appear that the end of this saga is soon.

Much of the earnings focus in August centered on the retail sector. This month we heard from Walmart, Target, Home Depot, Kohl's, Lowe's, Children's Place, Urban Outfitter's, Estee Lauder, Target, and Below Five

For the most part, the results were good, particularly from Home Depot, Walmart, and Target.

It's ironic in a month that saw the worst drawdown for stocks in 2019, and more threats of tariffs on the way on September 1st, that it was once again the American consumer that shed the positive light in an otherwise dark month.

It also goes to show us that the entire fate of the economy isn't solely predicated by inverted yield curves and Fed Fund Futures probabilities. While those factors shouldn't be ignored, they also have been clouded thanks to unprecedented central bank policies.

But before we just assume that the American consumer will automatically save the day we need to recognize that there is some real fear building regarding tariffs. Let's look at a couple of quotes from Home Depot CFO Carol Tome on their conference call from August 20th.

"While global economic pessimism has increased due to geopolitics, currently the U.S. consumer remains healthy. Consumer confidence is near record high levels and wages are up over 3% from last year."

That's good.

"The U.S. consumer is facing the impact of tariffs. While trade discussions are fluid, consumer demand could be impacted".

That's not.

The velocity of money is an economic textbook term that loosely refers to the amount of money being spent throughout the economy. But much of that is reliant on confidence and sentiment. So far, it hasn't been a negative, but the more folks are afraid of tariffs, trade wars, and negative yielding bonds, the less confidence they exude and hence the rate of velocity drops, a classic self-fulfilling cycle.

We are at a point in time when if you stare at the inverting yield curves and negative global rates it feels like recession or worse is imminent. But, if you look at the absolute blow-out sales data from a large swath of retailers (Target, not exactly a store for the uber rich – traded to an *all-time high* in August), you would have to believe we are in the midst of a boom.
So who is right? We would rather side with the retail data over yield curves. The reason being it has been our principle that the world's central bankers have completely distorted the fixed-income markets with their perverse policies for years now. One only has to look at the madness in Germany and their negative yields for proof of concept.

We will take the word of the American consumer over a band of completely arrogant, irresponsible, ivory tower bankers. Don't make us look foolish, get out there and shop!

So earnings "season" is effectively over for now, but will resume in mid-October. Overall, it was a good, not great, set of results. But it was certainly better than many doomsayers had been predicating. Especially when you consider the strong finale we see in the retailers in August. That was a specific sector many assumed would be troublesome – but they were proven completely wrong.

But now we have to begin to worry about the Q3 results. And according to FactSet, we have reason to worry. Analysts have cut their third-quarter estimates in recent weeks and the full year earnings growth for the S&P 500 has fallen from 6% to just 1.5%. So once again we will have to spend the coming weeks fretting about the American corporate health; but, likely we will be pleasantly surprised once again with the results – despite the analyst's objections.

The good news is, 74% of the companies have beat their earnings estimates, right in-line with the 3-year average; 58% have beat their sales estimates, which is slightly below the 65% 3-year average.

The Tesla soap opera, after taking a short summer respite, returned in August with a few juicy new plot lines. First up was the ugly lawsuit that Walmart slapped on Tesla's solar division, Solar City, which they acquired in 2016 in a very controversial transaction (which is the only way Tesla does business it seems) the reason? Walmart claims that Tesla's solar panels caused 7 of its stores to catch fire.

Walmart alleges the incidents were linked and that they were all a result of "widespread negligence" on behalf of Tesla and its employees, who installed the systems on more than 200 stores, which are now all lying idle. The stock dropped 4% on the news.

Only a few days later, a German publication published an article, void of much detail, that Volkswagen and BMW were looking at Tesla as a possible acquisition target. There wasn't much substance behind the article and no price targets or dates were leaked. The stock initially popped 1% on the news, but quickly retreated and closed the day flat.

Also this month, financial sleuth Bethany Maclean, who helped unearth the fraud at Enron years ago, set her sights on Solar City, which again is the solar division of Tesla. The expose, which appeared in *Vanity Fair*, was quite critical of the merger details, the need for additional upcoming funding for both entities, and left a lot of questions about whether or not the "solar roof" from Solar City will ever be a viable product.

Could VW or BMW, buy Tesla? Sure, why not. Anything can happen in this business. But to think they would pay north of $30 billion for a perennial money-losing company is a stretch for sure. That's a lot to pay to acquire some cool technology and a handful of patents. But this type of story highlights just how tough it can be to short stocks. It also reinforces our mantra to use options only when engaging in shorting Tesla (defined risk).

We remain short Tesla via put options. It's a small position, and will likely remain small unless a real catalyst emerges, which will most likely the Q3 earnings report on October 23rd. Stay tuned…

If anyone thinks that that the current environment surrounding fixed-income is normal; take a look at this stat: Since US Treasury data began in 1990, there have only been 11 days where the shortest and longest maturity treasuries were #1 and #2 in terms of highest yield. All 11 of those days have occurred in 2019 and 9 of them in August alone.

Finally, we continue to try and convince ourselves that we have seen peak insanity in regards to our Fed and the merry band of Governors and ex-Governors who seemingly can't resist an open microphone. But on the morning of August 27th our wildest dreams were exceeded when ex-Federal Reserve Bank of New York President penned this beauty on Bloomberg.com

There's even an argument that the election itself falls within the Fed's purview. After all, Trump's reelection arguably presents a threat to the U.S. and global economy, to the Fed's independence and its ability to achieve its employment and inflation objectives. If the goal of monetary policy is to achieve the best long-term economic outcome, then Fed officials should consider how their decisions will affect the political outcome in 2020.

For those who don't feel like trying to interpret what exactly he is saying…let us take a shot at it for you: President Trump, by trying to level the playing field with China, has become a risk to global growth and therefore the Fed should alter its policy (and go against its Congressional approved mandate) and enact steps that may affect the Presidential election.

As if that wasn't stunning enough, Mr. Dudley summed up his op-ed with this final nail-driver in the coffin of regular Fed policy.

Yet the Fed could go much further. Officials could state explicitly that the central bank won't bail out an administration that keeps making bad choices on trade policy, making it abundantly clear that Trump will own the consequences of his actions.

So that's it, we have hit complete insanity with the Fed, some are now advocating policy change to influence elections and influence others to vote for who they believe is best to run the country.

It may not seem like a big deal and we can surely understand the frustration the Fed feels (evidenced by the Tweet on page 6) while constantly being attacked on Twitter by the President. Moreover, the anti-Trump camp surely loves this type of dialogue as some are openly rooting for a recession as means of one-term Trump presidency.

But that is not the point. The point is the arrogance of the Fed and its policies apparently knows no bounds. They consistently display an egotistical behavior which shows their blatant disregard for its effects on everyday people.

Just wait until the Modern Monetary Theory discussion begins -and it will. God help us all.

Ex- Fed chair Paul Volcker must be losing his mind these days. It's a shame he's too advanced in age to take over again.

Because a Trump versus Volcker Twitter war would have been one for the ages.

Occasio Partners, LLC San Francisco, CA