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OCCASIO PARTNERS LLC

San Francisco, CA

E-DAY: The moment of truth is here. Or at least that is what we have been led to believe. Tomorrow we will at least attempt to hold an election that will decide which party is in control for the next four years. We aren't going to spend much time on the election and certainly aren't foolish enough to try and predict who will win. It's safe to say that we as a country should all be rooting for a swift outcome and peaceful polling. It does seem however, at least according to most pundits, that it will take some time before a clear-cut winner is declared.

It goes without saying that the markets do not and won't like indecision and uncertainty. Which makes the current period we are in unique and as undeterminable as we have ever witnessed. The markets, for the most part, have stayed relatively strong during these odd times, mainly because they are counting on the much-needed stimulus to finally get passed after weeks of "negotiations" that have gone nowhere.

If one were to believe the current polls, and we all know how that worked out in 2016, then a Biden win and a subsequent Democratic sweep would result in a massive ($2-$3 trillion) stimulus bill coming in early 2021. Which would give asset prices a quick sugar injection for sure but would also likely be a good selling opportunity given the possible tax increases and regulations (especially on Wall Street) that might be coming down the pipe. There are those on Wall Street who expect the S&P 500 to face a tough 10% to 15% reduction in potential annual earnings due to increased taxation and regulation should the election result in this way

Morgan Stanley, however, believes that a Trump victory would result in a 14% upside move in the SP-500. They project a greater, swifter stimulus along with continued low-tax rates and a continued light regulatory environment.

But we will deal with that in 2021. For now, as we hope we have properly expressed in recent weeks, we are playing it very close to the vest. What does that mean exactly? High cash levels, short-term time frames, tight stops on both winners and losers, and a nearly 100% option-based positioning to keep risk defined. We are in the moving business for the rest of the year, not the storage business.

Everyone is laser focused on equities and how the election will affect this market. But we are in the camp that the bond market is the one to watch for the rest of 2020. We have witnessed a "spike" in rates in recent weeks. Spike is an aggressive term in the modern rate era, but rates on the benchmark 10-year did go from 0.65% to 0.85% in October.

Much of the jump in rates can be attributed to the coming stimulus that will increase borrowing and possibly be inflationary.

Others will point to the improving economy citing better unemployment claims, durable goods, and consumer confidence polls to summarize that the worst is behind us and 2021 will prove to be the year of the rebound.

Goldman Sachs is particularly bullish on the rebound and hence higher rates. In a note this month they professed that their case for the rebound was well underway:

"Commercial bankruptcy filings are below the pre-pandemic level, business closures have proved temporary, and unemployment has fallen sharply, which bode well for medium-term recovery prospects. A vaccine, combined with further fiscal support next year, is expected to limit long-term damage and keep the economy on track for a recovery that could be "much more rapid than usual.

The unemployment rate, which stood at just 3.5% in February, is now 7.9%; there are 10.7 million fewer jobs today than there were six months ago; a quarter of the workforce is working from home. You might expect such dismal economic conditions to be accompanied by a spike in bankruptcies. But so far this year, bankruptcy filings are down by -27%."

Goldman is also bullish on commodities for 2021 and thinks that inflationary forces will drive prices higher, again fueled by large amounts of stimulus. Another bearish case for bonds.

But the bearish case for bonds going forward is hardly a secret. In fact, there is currently a record amount of short interest in the bond market, mostly focused on the long end.

There is however a bullish case for bonds. And unfortunately, it goes to a rather dark place. If the ongoing rise in Covid cases across the globe continues unbated, and more draconian lockdown measures are instituted, they would obviously retard the V-shaped recovery Goldman Sachs is promulgating and likely cause a wave of bankruptcies, evictions, and bond defaults. Combine that with an election stalemate and/or a prolonged delay of any more stimulus and we could see rates race back to under 0.50%.

It's pretty obvious that the entire infrastructure of the bond market has changed. It is now central bank dominated and will continue to be for the foreseeable future. Thus far, they have done a remarkable job of keeping rates low and volatility even lower. Which is essential when you are piling debt upon debt upon debt. But what if the placid waters suddenly started to ripple and then turned choppy before becoming outright unnavigable.

That has been the bond bears cry for years now, and they have proven to be nothing but premature alarmists thus far. But this month, we came across an interesting note by Peter Bockvar. In it he said the following:

"One of the things that's larger than central banks is the market itself. The Fed wants to let inflation run because they want unemployment to go down. They're sincere about that, but when the bond market decides that inflation is a problem, the Fed is going to be forced to react. Think about it this way: The Fed is like a post, and the market is a horse tied to that post.

If you tie a horse to a post, it just sits there, and it doesn't do anything for a while. But a horse is a 1,500-pound animal, and if inflation spooks the horse, it will tear the post right out of the ground and run away. So, yes, the central banks can control the bond market for some time. But when you spook it, it will rip that post right out of the ground and go, no matter what the central banks try to do to tamp down rates. My bet is that's what's going to happen in the second half of 2021."

That is an aggressive take, and one that would cause some serious dislocation amongst *all* markets. To be clear, we are not agreeing or disagreeing with his take. Just simply trying to convey other opinions and provide fuel for deeper thought.

We demonstrated some moderate success in recent weeks being short the long end of the treasury curve via our TLT puts. That trade however has become extremely crowded as record shorts buoyed by the polls are starting to show a possible "blue wave" that could be coming on election day. The thinking behind that is that the Democrats with complete control will immediately unveil a massive stimulus package in late January and that will be bad for inflation and subsequently bonds. The US dollar currently has record shorts as well, also based on the fact that a Biden-led government will be massively expansionary and negative for the currency.

We have been long gold for months now, and it has been a frustrating ride to say the least. Partners know we are hardly gold bugs and find the safe-haven argument rather ridiculous. That has never been as evident as in the past month when, in spite of continued massive money printing, surging Covid cases, election jitters, and bouts of civil unrest, the price of gold dropped 1.2 %

Contrast that with Bitcoin, which has surged 42% in the same period. The bottom line is gold and other precious metals, in times of distress, are sources of funds – not safe havens. Despite the current macro backdrop, which one would have thought was conducive for gold trading well over $3,000, it has instead led to a lot of head-scratching and second-guessing as gold remains rangebound and under $2,000.

We intend to hold our gold position into year-end; it is an option-based position, so risk is defined. Maybe the election and eventual stimulus announcement will be the spark that finally get the fire roaring, but we doubt it. The good news for us is that one could make the case that Bitcoin is becoming the new store of value. And if that is the case, then we will be well-positioned to prosper.

Bitcoin update: It was quite a month for Bitcoin and the cryptocurrency space. Both in terms of price appreciation and news. For the month the Bitcoin Trust rose 42% and now sits at a new 2020 high. On the year, it is up over 79%, making it one of the best performing assets of 2020.

Much, if not all the excitement over Bitcoin this month came out of Pay Pal, who said they would begin supporting cryptocurrencies for the first time, allowing any PayPal account holder to store, buy, and sell popular virtual currencies starting later this year. The announcement makes PayPal arguably the most significant company in the financial tech sector to adopt support for virtual currencies, but likely not the last.

Pay Pal, who also owns the popular Venmo, will now provide access to its 346 million users to enable cryptocurrency transactions easily, the most bullish news for Bitcoin in 2020. It also comes at a time when central banks are studying the role of cryptocurrencies in their future during this unprecedented period of monetary recklessness.

Which lends itself to a new store of value instruments such as Bitcoin now more than ever in modern history. It is our assertion that we are in the very early stages of crypto adoption by mainstream finance and society as a whole. We have repeatedly said it's going to be a long bumpy ride with some sickening drops and irrational rallies. Both of which have proven to be spot-on thus far. But we are in the long game with Bitcoin and see it as a game-changing investment, a generational opportunity that many dream of. That is why we are investors in the space, not traders; we are doing our best to show an unprecedented amount of patience, a trait that we admittedly don't practice too well.

The Pay Pal news is great, but so are the numerous other, albeit smaller, examples of mainstream and institutional interest and support for this space that we have highlighted all year. We can't see a better risk/reward ratio than Bitcoin right now when we scan the entire financial asset world – it's not even close really.

Also, a note out by JP Morgan last month discussed how Bitcoin, and more specifically the Bitcoin Trust we hold in our fund, is becoming more and more popular with the millennial crowd. Some may ask why that matters? We are not saying it does significantly. But, if a whole generation, one with tremendous earning power in front of it, begins to adapt Bitcoin as their new safety asset or dollar alternative, then you could see substantial money flowing into the space and creating significant asset appreciation. So, in reality it does matter.

Morgan also had some interesting figures in their note which frankly, took us by surprise: The current total market capitalization for Bitcoin is $240 billion - remember that the total supply allowed is a pre-fixed number of 21 million coins (current outstanding supply is 18.5 million) and that will be completely mined by 2040. Gold, on the other hand, has an estimated supply of 42,600 tons or $2.6 trillion worth. So, Bitcoin would have to rise 10x from here to match the total private sector in gold using bars, coins, and ETF's.

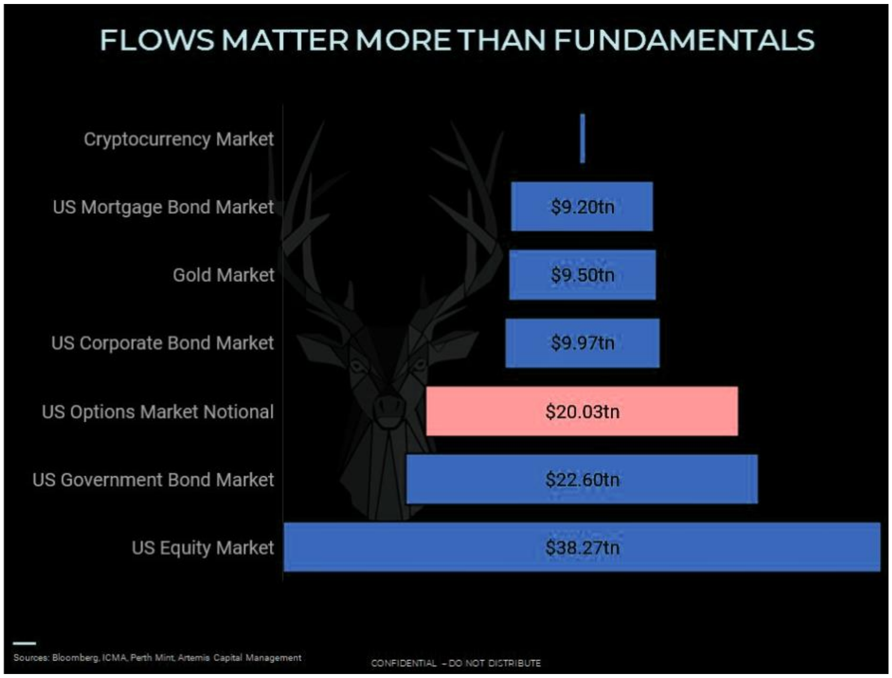
"The potential long-term upside for bitcoin is considerable as it competes more intensely with gold as an "alternative" currency we believe, given that Millennials would become over time a more important component of investors' universe." – JP Morgan note

Also interesting was the fact that open interest in CME Bitcoin futures averaged a record 10,500 contracts per day in Q3, up 32% from Q2 and up over 127% from one year ago. This is a growing sign that institutional interest continues to mount for Bitcoin.

Grayscale Investments Bitcoin Trust (GBTC) currently holds 450,000 Bitcoins in reserves and that represents over 2.5% of the outstanding supply. As scarcity or concerned shorts increases the demand for this trust could become very noteworthy.

We will end our segment with a quote and a chart that really summarize the untapped potential Bitcoin has:

"It's no longer a debate if crypto is a thing, if Bitcoin is an asset, if the blockchain is going to be part of the financial infrastructure. It's not if, it's when, and so every single company has to have a plan now." – Mike Novagratz, Digital Galaxy CEO



Bitcoin has been around for nearly 13 years now, but it appears to almost be a new issue when looking at the current market caps. We aren't saying that it will ever match the bond or option markets. But could see it becoming much more in-line with the precious metals.

Looking Forward and other Market Commentary: The first week of November will be as news-filled and intense a period as maybe we have ever witnessed. Let's go through the calendar:

Tues 11/4: Election Day
Wed 11/5: FOMC meeting
Fri 11/7: October Jobs Report
Earnings out that week: Pay Pal, Arista Networks, GW Pharma, Expedia, MercadoLibre, Pan Am Silver, Qualcom, Qorvo, Royal Gold, Zynga, Alibaba, and Vonage – to name a few.
Not a great week for a vacation, or sleep. If we all survive the first week of this month, and afterwards we get a read on just how poorly or smoothly the election went, then we can focus on the remaining earnings and try and gauge the positioning for year-end.

We have been focused on the social media stocks since the summer. If there was ever a year for the popularity and usage of social media outlets, it has to be 2020. And the results in October by the "Big Four" certainly proved that. The highlight was Snap, a stock we have owned on and off for a good portion of 2020. It has been one of the best performing stocks in the year and we were reluctant to hold it into earnings given the 58% run-up into the report.

Big mistake. Snap absolutely blew away their estimates on all metrics, coming in $0.06 better than estimated and revenues were $678 million, far better than the $551 estimate. But the real surprise came in the daily active users (DAU), which increased by 39 million or 18% year-over-year. Those metrics combined with a large short float caused the stock to absolutely erupt to the tune of nearly 25%. We were able to effectively trade the name post-earnings, but certainly missed the meat of the move. In retrospect, a call spread was the correct strategy, but again we were concerned with just how much of the report was already priced in.

Pinterest reported their quarter on the 28th, and it was much in the same fashion as Snap in both the report and the reaction to it. Pinterest beat their estimates by a $0.10, earning a whopping $0.13 per share. Revenues soared 58.2% year-over-year to $442.6 million. Global Monthly Active Users (MAU) grew 37% to 442 million. The company also projected Q4 revenue to grow at over 60%. The stock soared 28%

Facebook reported another monster quarter on the 29th. The social media giant beat estimates by $0.80 and saw their revenues rise 21.6% year-over-year. Daily Active Users (DAU) were up 12% year-over-year, as were Monthly Active Users (MAU).

Facebook guided Q4 revenue higher as well and commented that expenses for 2021 will rise a bit more than expected in a quest to add product development and technical talent. The stock reacted well, given that it had run-up 12% into the report and now stands only 10% from its all-time high.

We were very concerned about staying long Twitter before their report on the 29th. Our two biggest concerns were 1) the 12% run-up into the report on the backs of Snap and Pinterest reports and 2) The history the company has of underwhelming investors and seeing large drawdowns after they report. Well that was the case again when that stock fell nearly 20% even though they beat estimates by $0.14 and saw their revenue rise 13% year-over-year and handily beat estimates.

Advertising revenue totaled $808 million, a 15% increase from last year and Monthly Daily Active Users "only" rose by 1 million to 187 million from the previous quarter. So after all those good numbers, investors sold the stock off 14% on a slight increase in MAU.

Which is precisely why we were worried being unhedged long into the report and switched to a call spread versus owning the common stock. A 14% increase in only 10 days warranted that. We still think Twitter has room to $100 over time. Our call spread expired worthless on the 30th and we took the loss, it was a sour end to a nice run in the stock. We enter November with no position for the first time in a while. But we will keep our eyes on the name. This social media platform, thorns and all, still is a powerful medium that has further upside.

It was a tough month for tech stocks, and we can point to two catalysts that spurned the selling. First was the revenue warning from software maker Fastly which was trading at a lofty 48x sales. The stock plunged nearly 28% on the slight warning. Also, on the 26th, German software power SAP reported their worst quarter in 12 years and saw their stock plunge over 23%.

Software has been the safe haven of tech in 2020, despite the towering valuations. So to see two software companies report poor numbers sent shivers through the very quick-triggered tech investment community.

Overall, earnings have come in well across the board. Beating expectations and for the most part raising guidance. But it should be noted that due to Covid, the bar has been lowered tremendously and the amounts of "beats" we are seeing should all be tempered a bit due to the bar being as low as it has been in a while.

When we look forward for the next two months, the road map and uncertainty are as high as we can ever remember. Trying to piece together various scenarios, and more importantly the reaction to them seems like a fruitless endeavor in our opinion. And with a respectable year on the books there is no need for excessive risk-taking or foolish guesses about the immediate future. That doesn't mean, however, that we plan on siting on the sidelines trying to run out the clock out on 2020.

The volatility levels have obviously picked up and show no signs of abating given the current climate - post election or not. But we need to reiterate that heightened levels of volatility do not equate to automatic profits. If only that were true. But it does provide increased levels of opportunity. And since that is the foundation and namesake of our fund, we obviously embrace the challenge that lies ahead.

Finally, no matter what happens on Tuesday in the election, no matter what side declares victory, let's all keep in mind that the current state of politics is completely broken. It has devolved into a blood sport with the only objective being making sure the other side of the aisle doesn't get their way - no matter what.

If we ever needed proof of that all we have to do is watch this pathetic display of attempted bipartisanship politics that we had to endure the past 6 weeks regarding the stimulus bill. Both sides publicly declared how much they were in favor of passing something to help the American people - during a pandemic no less. Both sides had their ideal number in mind, somewhere between $1.6 and $2.3 trillion in bailouts. But neither side would budge an inch - no doubt due to the fact that the election was just weeks away and giving in would show weakness before the big vote.

So instead they will allow those in dire straits, through no fault of their own, to wither away into uncertainty. The eviction moratorium is set to end in January, and the countless numbers of restaurants and small businesses, who desperately need another shot of PPP immediately will likely also be handing over their keys soon too. Which will lead to more unemployment for the blue-collar class, who likely aren't flush with savings.

As awful as 2020 is, 2021 is not shaping up to have a very positive start - unfortunately.

The Democrats and Republicans hate each other so much right now that that someone has to pay for it.

That someone is us.

** We are planning on sending out a quick note later this week after the election and Fed meeting. Hopefully, it can provide some insight and clarity.

Occasio Partners, LLC