July 2019

OCCASIO PARTNERS LLC

San Francisco, CA

Performance Summary: We were very fortunate to have our positions perform well in July, because in all candor, our trading performance this month left a lot to be desired and cut into our overall performance. We could blame that on the fact that there hasn't been a +/- 1% move in the SP-500 for nearly two months now. Or we could look at the fact that the VIX fear index has been trapped in a range between 11-15 for over six weeks now. All that is true, but in reality it just has been a rough trading patch, one we expect will end very shortly, if it already hasn't.

For the month, Twitter reported another great quarter and surged 17.3% to a new 52-week high. Twitter is currently our largest position. Trade Desk jumped 12.6% on a deal with Amazon and also touched a new 52-week high. Snap leapt 17.1% and likewise briefly touched a 52-week high. Our Bitcoin Trust rose 7%. We will have more to say below on all three names and Bitcoin below.

Our losers included Slack, which dipped 8.5% and Tesla which rose 6.3% despite another awful quarter (also more below). We also took a loss on our semiconductor ETF puts. That position was closed out in July.

In the macro space, we had success trading the energy sector and to a lesser extent the grain sector, but continued to struggle in fixed-income, albeit we treaded very light in that arena (thankfully)

Looking ahead, August tends to be a sneaky volatile month, it is the second biggest month for VIX spikes (October is the first). That coupled with the fact the Fed has finally gone through with their rate cut and unwelcome dollar strength should shake things up some. Hopefully, that and a coming end to an unprecedented cold streak will help us finish the latter part of 2019 on a high note and continue to trade in the green.

Macro Madness: This month we saw a return to volatility in the crypto currency space in a big way - most of it ironically spurned on by the continuing spotlight on Facebook's Libra project – which as we have tried to stress is a payment facilitator and not a store of value like the crypto currency community claims it is.

Facebook executives were dragged in front of congress this month to be grilled by politicians who likely are unable to log in to Facebook and certainly would be incapable of explaining what the goal of Libra is and how it could in reality benefit many disadvantaged people in underdeveloped nations that have seen their local currencies ravaged by inflation and irresponsible governing - the two obvious examples being Zimbabwe and more recently Venezuela.

Nonetheless, this didn't stop our finest in Washington, the ones with a current 11% approval rating, to grandstand in front of the cameras and try their best to humiliate the Facebook executives who were simply there trying to defend their new project.

To be fair, Facebook has hardly done itself any favors lately. They recently just paid a $5 billion fine to the FTC for user-privacy violations and have had more than their share of bad press when it comes to privacy breaches and foreign government meddling allegations.

But that wasn't supposed to be the point of the hearings, instead of explaining their new venture they were forced to defend crypto currencies. It didn't help matters that days before President Trump had declared his dislike for crypto currencies and treasury secretary Mnuchin held a press conference on July 15th and stating that:

"With respect to Facebook's Libra and other developments in cryptocurrencies, our overriding goal is to maintain the integrity of our financial system and protect it from abuse."

That's a fair point. But just in case one thinks that abuse only takes place in the crypto world, let's take a look at this tasty little fact. Here are the total fines issued so far for the following financial institutions for *money laundering* violations:

Deutsche Bank $670M, Bank of Australia $700M, ING $900M, Citigroup $237M, Standard Charter $967M, HSBC $1.9B, and JP Morgan $2.05B

So let's at least agree that there are bad actors everywhere, even in the places where many of you likely have deposits. Not just crypto.

The point here is that the crypto world came under intense scrutiny this month, and did not react well, at least in regards to pricing. But let's keep in mind that the price of Bitcoin is up over 250% this year and while a 15% pullback is never fun, it is somewhat normal for a space that is new and obviously very volatile.

What we should really take away from this month is the fact that Bitcoin and other cryptos are really starting to gain mainstream attention, some good and some bad.

One very positive development for cryptos was on July 18^{th} when Japan announced they were leading a global push to establish an international network for cryptocurrency payments similar to the current SWIFT system that is used internationally by all banks.

This goes along well with the news out of China last month that the People's Bank of China has officially declared they are ready to jumpstart a national digital currency.

The details were light, but the fact that developed nations are beginning to embrace this alternate currency as a potential way to conduct international transactions is a significant development. This was also a key point brought up in the book *Digital Currencies and the Death of the Dollar*, which we read earlier this year.

Both that news and the on-going Libra controversy should at least convince the boldest skeptics that the world is looking for new ways to conduct payment transactions. That theme is not going away anytime soon.

The money center banks reported another round of "good"; we used quotation marks because the results were fine, but hardly spectacular; as has been the case lately with the banking sector. Much of the consternation felt in the banking community centers around the fact that the yield curve has hardly been favorable to their net-interest margin spreads.

Despite that, JP Morgan, Citibank, both came in with better results and provided guidance that the gave the Street some relief, especially when you incorporate the macro view on the US economy. Bank of America and Wells Fargo also reported good quarters but missed a bit on the top-line and showed some poor results in the mortgage origination department.

Wells Fargo continues to be the worst-in-breed of the big banks and seemingly can't string together two good quarters, they also are still reeling from the various scandals they have endured over the past few years, and still don't have a CEO. Despite all that, Warren Buffet remains a staunch supporter and major shareholder, which is interesting.

Broker-dealers were a bit mixed. Goldman Sachs reported a great quarter and showed improved metrics in practically every category, even fixed-income trading, which has been an anchor lately. Morgan Stanley, on the other hand, showed a 14% drop in revenues from equity sales and trading this quarter. But they still managed a $.07 EPS beat on slightly lower revenues.

The financial sector has badly lagged behind the overall indices for a while now. This month it made a 2% push higher and is threatening to break out finally and join the party.

Shares of Netflix have been stalled out for 6 months now, trading in a range between $330 and $390 since January. Well, all that changed very quickly on July 17th when the streaming giant posted a disastrous second quarter subscription update to go along with a revenue miss and slight EPS gain.

But it was the subscriber miss that freaked out investors and caused the shares to plunge nearly 11% in after-hours trading.   The service brought on 2.83 million new customers vs. the 4.8 million that the analyst community was looking for. They also admitted that 126,000 customers quit the service, which was a recent high-water mark for outright cancellations.

Netflix recently installed another price hike and now charges between $15-$17 per month for access to all their content. There has been rampant speculation that other content providers are finally ready to take on this behemoth. Disney, Apple, Comcast, AT&T,

and Amazon have finally upped their commitments and are all unleashing new services to try and capture the streaming market. Disney in particular is ready to launch a new service in November that analysts are predicting it will be a must-have for any parent and will also be \$6-\$7 cheaper than Netflix.

The biggest problem many have with Netflix is their negative free cash-flow and insanely high expenses they incur yearly to create their own programming, some of which is very good. Netflix spent \$3 billion on programming in the second quarter. It spent an additional \$600 million just marketing these shows. The firm spent \$594 million more than it generated last quarter.

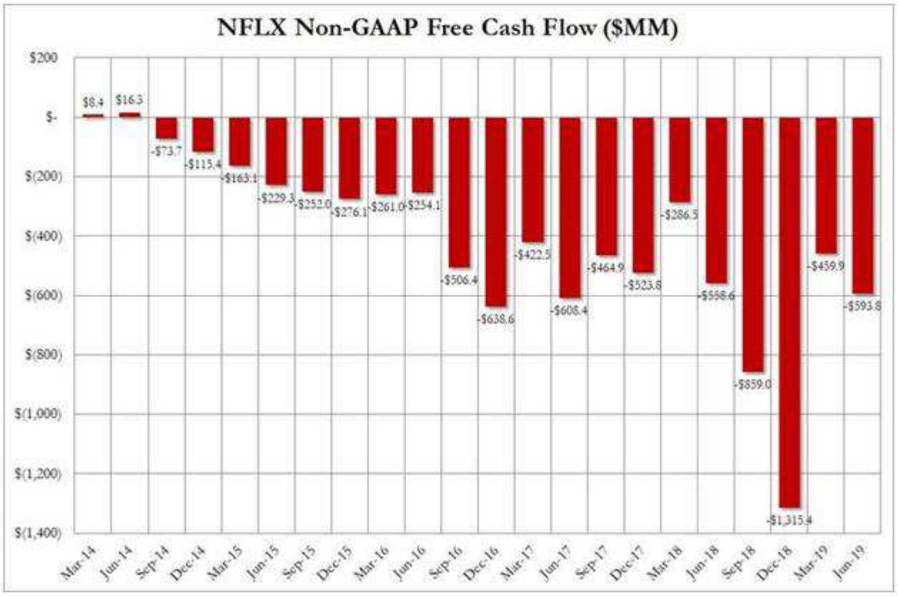
If this model sounds familiar, it is very similar to how Tesla operates. In fact, both companies have sexy products that trail blazed their respective industries. But both also operate amongst a tremendously negative balance sheet, laden with debt, and have deep-pocketed competitors gunning for them.

Netflix recently lost the shows *Friends* and *The Office* as their contracts expired and their rightful owners claimed their content back. That is a trend that will continue as various providers launch their own streaming apps. Netflix will be forced to rely more and more on their own content to satiate viewers, an avenue that has proved to be very expensive.

There have been bouts of subscriber losses for Netflix along their path from DVD mail rentals to content streaming kings. And every time the stock has bounced back from the hiccup to regain its momentum. Is this time different? Time will obviously tell.

But one difference for sure is the increase in legitimate competition and their legal right to their own content, something that Netflix has relied on for years. Disney launches its service in November and is ramping up its content in Hulu. They are now the biggest threat Netflix has stared down since its inception. They also have a much better balance sheet and plenty of firepower to go after this still young and growing market. Let’s also see if Apple really is able to push into this market as they have said they will. The \$155 billion in cash on their books sure will be sufficient to pay for some A-list actors and directors looking to work with them.

The best news from all of this is that the consumer is the one who will benefit the most. Better and better content along with a savage pricing war may keep the average American on the couch more than ever.



At 131x forward earnings and consistent negative free cash flow it's hard to see why Netflix is so revered as a growth stock.

If content is indeed king, then this chart is going to look worse and worse every quarter.

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. That was all but cemented this month when President Trump tweeted that he and Premier Xi were "not as close" as they had been. Which is gentle way of saying that they had stopped communicating and any progress in the talks were now dead.

This despite the administration's continual hints that a deal was "close" or that talks were "going well." Something they have been saying for months now. But it's fair to say that now there won't be a deal in 2019. The Huawei issue remains a touchy one, and the imminent purchase of farm goods by the Chinese has yet to occur according to the US farming community.

It was pretty apparent the jaw-boning was a blatant attempt to keep the markets appeased and ready for a significant announcement; that we have a real problem with.

But we do applaud the administration for finally going after China and their unfair trade tactics that have damaged American companies for some time now. It's refreshing to see an administration finally put America first and realize the economic power we wield. This is something the Clinton, Bush Jr., and Obama regimes completely failed to address.

It's likely the Chinese will now wait out the talks until we get closer to the 2020 election and try and determine how well President Trump will fare. We also have to believe that more tariffs are coming for China and likely some harsher rhetoric from the White House. The markets have stayed stable somewhat in part to the constant threat of a deal being announced and a subsequent equity surge that one didn't want to miss and certainly did not want to be short for.

So we will see how much, if any, premium gets taken out of the markets as the stark reality of no trade deal anytime soon really begins to set in.

"I think that China will probably say 'let's wait,' he said. 'Let's see if one of these people who gives the United States away, let's see if one of them could get elected.'"

President Trump when asked about a deal with China on 7/26.

Looking Forward and other Market Commentary: August is typically a slower month for the markets as many try to squeeze in one more trip to the beach before the kids head back to school. But before we focus on waves and BBQs, we need to deal with some news and focus on some events.

First up is the fact that we still have a plethora of earnings left to digest. Granted, the bulk of the larger-cap companies have already reported, but there are still some important names we are anxious to hear from. Some of these names include: Zscalrer, Shake Shack, Ring Central, Match.com, Cyber Ark, Splunk, Netease, Mercado Libre, Yelp (potential short), Zillow, Overstock, GW Pharmaceuticals, Trade Desk (position), Booking Holdings, Guardant Health, Uber, Lyft, and Slack (position).

Also, we still have to hear from the retailers, most of who will report around the middle of the month. They are always a good read on the American consumer and subsequently a good take on the overall health of the economy. Target, Home Depot, Walmart, and Kohl's all report this month. We are also interested to hear from Below Five, which reports near the end of the month. It will also be interesting if the tariffs are hurting.

For the first time in a while we are paying special attention to the miners and their upcoming earnings reports. Gold and silver have been on quite a run this summer but it will be curious to see their fundamentals can really support the suddenly higher prices and valuations they now suddenly possess.

On the macro side, there are essentially no central bank meetings that will have any significance (did you really think they would be working in August?) But we will have to keep our ears perked up for the annual Jackson Hole Economic Policy symposium that takes place on August 22-24. Even though it is not an official event, history has shown that some market-moving commentary can emanate from this symposium.

And it will likely hold even more weight this year due to the fact that the Fed just cut rates on the last day of the month and is talking about further rate cuts this year. No doubt somewhat spurred on by the fact that President Trump is constantly criticizing the Fed on Twitter for not lowering rates more aggressively and re-starting a quantitative easing program to help weaken the dollar and make the US more competitive (in his mind) in the global landscape.

We will have much more commentary on the Fed and their recent actions in the August Update.

There is a new company we have been researching and are becoming increasingly excited about as we look toward its future. The company is The Rubicon Project (strange name for sure).

Rubicon provides technology solutions to automate the purchase and sale of digital advertising inventory for buyers and sellers. Essentially, they help facilitate advertisers looking to buy space on various non-traditional avenues, namely streaming video.

If this sounds familiar it's because they are in the same space as Trade Desk. Trade Desk is the current leader in this area as their stock price and recent performance will attest. But this is a growing industry that has room for more than one player. Also, there are different specifications that apply to different companies, Rubicon being one of them along with Telaria.

Rubicon has had its issues for sure in the past. The stock price fell from the $20 to under $2 in just two years' time from 2016-2018. But since bottoming in late 2018, the stock has moved back to the high-single digits and is attempting to break out and trade new highs for 2019.

The resurgence in shares has been led by a fundamental turnaround in their metrics. In February, the company reported a positive gain of $0.03 versus an expected $(0.05) loss and increased their revenues to nearly $42 million against expectations of only $37.2 million. Revenue from video more than doubled and the firm reiterated their commitment to become more dominant in this area - directly challenging Trade Desk.

Rubicon is "cheap" compared to Trade Desk as well. They have $88 million in cash with no debt and have a market cap of only $380 million. They trade at 2.7x sales, 3.4x book value and 1.2 x enterprise value. Being cheap on a relative basis certainly doesn't guarantee any higher stock prices, but it does present an interesting value/turnaround play in a very aggressive growth area. Something you don't see often. They report on August 1st.

Our newest addition to the portfolio Snap reported their earnings on July 23rd, and the results were much better than expected. The controversial social media company posted a loss of ($0.06), which was $0.04 better than expected and they also handily beat revenue estimates, coming in with $388.02 million against expectations of $358.3 million. Shares surged nearly 16% on the news.

More important, at least in this current environment, was the fact that their Daily Average Users (DAU) surged to 203 million – 11 million more than analysts had expected. Also, Snap raised their revenue and EBITDA earnings estimates for Q3.

Shares of Snap have been left for dead pretty much since they came public in early 2017. They have made a series of bumbling errors in respect to management, product roll-outs, and a general hubris that turned off many analysts and potential investors. But since the beginning of 2019, they have seemingly righted the ship, have steadily improved operations and become much more user-friendly for their mostly under-30 base.

Snap shares are now up a mind-bending 195% YTD. It's hard to get super aggressive at these levels, but that does not mean it's time to sell either. We are becoming more and more bullish on social media plays that aren't named Facebook. The reason being we think Facebook continues to create distrust between the public. With that, we feel more and more will flock to alternate avenues to share their lives and express their opinions.

After reviewing the reports of Facebook, Snap, and Twitter, we have begun to think that maybe a short Facebook/Long Snap, Twitter trade isn't lining up nicely. We aren't big fans of pair trades per se, but this one has us interested.

Trade Desk will report their quarter on August 8th. On July 26th the company announced a partnership with Amazon that resulted in a 14% jump in shares. We have noticed that a lot of research lately has been cautious on the name, something we find interesting with a report due in days (we also noticed a lot of bullish commentary around Snap before their report and shares surged 16%), so with all that, we reduced our position some and hedged out some risk via options on the 26th. This stock can be quite volatile after earnings releases and we feel very lofty valuations can lead to some downside risk no matter what the report discloses.

Anyone like to guess who *didn't* have a better than expected quarter? That would be Tesla, who also let's keep in mind, reported a disastrous first quarter just three short months ago. Tesla lost ($1.21) per share last quarter, a huge loss considering the estimate was only for a ($0.36) loss. They also were light on revenues, and their gross margins came in at 18.8%, even though the projection was for "at least" 20%.

Also, their capex was only $250 million this quarter instead of the $584 million projected. And they reduced their 2019 capex to $1.5-$2.0 billion against a previous commitment of $2.5 billion (but they are a growth company?) All this comes after boasting record deliveries just a few weeks ago.

Their chief technology officer, who has been there 15 years, also announced he is leaving.

The good news? Tesla now has $5 billion in cash on their balance sheet after raising money earlier this year. That is the highest level they have ever had. But the company has proven that they can't produce a profitable car - which is a big deal when you are considered a growth company and have that type of multiple attached to your stock price.

Shares fell nearly 14% on the news, but have had a massive rally off the $177 lows from the first day of June. For the month, shares finished up over 6%.

After enjoying some success being short Tesla for the first five months of the year, the last two months have not been as fruitful. Fortunately, we exercised some good prudence and hedged our option position well, lowering our overall cost. But make no mistake; it hasn't been a fun experience lately. As a reminder, we only use options to trade Tesla, mainly due to the wild swings and expensive borrowing cost attached to the common stock.

Going forward, we will remain short Tesla and continue to tweak our option position as the price action dictates. These past two disastrous quarters, combined with a high cash-burn and lofty valuation make it impossible not to have some exposure.

But we will close with this reminder: We are only short Tesla due to the weakening financials, lack of profitability, high fixed costs, and poor/constantly departing management. The product itself is great – yet again unprofitable.

There are two macro points we are closely focusing on are the US dollar and the US debt markets. First the dollar, despite all the calls for a dollar crash by all the deficit hawks, our currency has held up quite well this year. Currently, the dollar-weighted index (DXY) is approaching 98. A break over 98.50 would be a new high on the year, and cause some dislocation in foreign banks assets, and likely draw the ire of the President, considering there were rumors this month of the US intervening and trying to weaken the dollar. Interesting times for sure.

Second, despite hovering at their highs for close to three months now, the recent round of auctions for 2-year, 5-year, 7-year, and 30-year paper has not gone well. Demand has waned and prices paid have not met expectations. This is hardly a reason to panic, but it is a bit of a head-scratcher when looking at how violently bonds rallied even in the face of mostly solid domestic economic data.

This is a chart of the Dollar Index (DXY) as you can see it has traded in a tight band for months now.

A clean break over 98 will likely turn some heads and lead to a risk-off environment – at least in the short term.

Our second social media holding, Twitter, reported their results on July 26th. Twitter reported their 7th-straight profitable quarter and beat estimates in both EPS and revenue. More importantly, average monetizable daily active usage came in at 139 million, 2 million more than expected, and 12 million more users in the same period of the previous year.

Advertising revenue totaled $727 million, a 21% increase from year ago. Total ad engagements rose 20% year-over-year as well. The only real hiccup in the report was the 21% increase in expenses, but much of that was in response to improving ad platforms and video enhancement.

Overall, a very solid report from our favorite long position; slow and steady consistent growth from the greatest communication platform on earth is a nice place to be positioned in our opinion. The market agreed, sending shares up almost 10% on the news and reaching new highs for 2019.

We continue to hold Twitter in the portfolio and see it hitting all-time highs (north of $75) sooner than many think possible.

We will have much more on earnings in the August Update and will summarize more individual companies as well as a general take on the "season." But here are a few statistics we have with over 65% of companies having reported thus far:

- ✓ 77% of US companies are beating expectations, in line with this cycle's average.
- ✓ 57% of guidance has been positive, which is the best result in a year.
- ✓ EPS growth is showing a single-digit gain rather than contraction
- ✓ Weak sectors have mostly been those trade-exposed (Industrials, Materials), so highlight limited contagion from tariffs.
- ✓ With 50%+ of Companies Reported, S&P 500 Earnings up 2% year-over-year, slowest growth rate in 3 years.
- ✓ S&P 500 Sales up 4.3% year-over-year, slowest growth rate since Q4 2016.

It's mostly good news, better than feared for sure, but there are signs of slowing earnings growth. Whether that is a blip on the screen or a new trend, remains to be seen.

Finally,

Remember when legalizing marijuana was going to bring in windfall tax revenue, decrease crime and the black market, and bring safety standards to a product that had never had any?

Well, not so fast. California lawmakers had anticipated cannabis tax receipts of more than $1 billion for 2018. The actual number came in at $345 million. Well over 50% less than planned for.

The reason is that despite of being legal, the black market for marijuana is thriving. Illegal cannabis dispensaries are popping up all over California (reportedly there are 229 in LA county alone according to the LAPD). They aren't paying taxes or the regulatory costs required to sell cannabis legally, and also don't have any insurance that is also required to open a shop.

The result, as anyone can quickly deduct, is the ability to sell their products at lower costs with much lower overhead. The current fine for running an illegal shop is a paltry $1,000.

Consumers are apparently flocking to these shops to save some money and likely to circumvent the allotment limit laws as well. But this has brought back poor quality issues and in some cases has led to poisoning and severe overdoses when the marijuana was mixed with toxic substances.

Maybe this is the reason is why the Alternative Harvest ETF is down 25% since hitting its peak in March, and the majority of “hot pot” stocks have tumbled hard in 2019 (Tilray is now down 42% YTD)

It just goes to show you that, as always, it’s never as easy as it appears. Investing in the marijuana space seemed like a no-brain winner only nine months ago and now all those gains have gone up in smoke (had to do it).

Basic economics and human behavior are still the law of the land. California’s foray into the legal cannabis world just gave us a nice reminder.

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