June 2020

OCCASIO PARTNERS LLC

San Francisco, CA

The Summer Set: We are now officially halfway through 2020, a year which we would argue has been the most interesting any of us has ever witnessed and lived through. That goes the same for the markets as well. What we have observed has been the most fascinating real-time experiment in human psychology ever displayed. Few, including us, would have envisioned that the equity markets would be where they are currently, especially given the unprecedented economic backdrop and consistent uncertainty that we all face right now.

But what we can take away from this first six months are hopefully lessons we can all store away and use in future times of distress. The main lesson we have taken away, at least with regard to markets, is that things are seldom as bad (or good) as they seem. The easiest and most common reaction to a negative news event is to sell now and ask questions later. This "shoot first" mentality was on full display in the second part of March when we witnessed the SP-500 plummet 36% in a matter of days as uncertainty and confusion reigned supreme.

After the selling barrage ended and the dust settled, at least in terms of market dynamics, it was time to sit back and assess the situation at hand. Unfortunately, we are still all trying to assess what is going on concerning the spread of Covid and just how bad, or better, this situation will get as we enter the fall and another flu season is upon us.

As we remain uncertain in regard to the physical and economic health of our nation, we have learned a few things about markets that we already somewhat knew. The main takeaway being that fighting central bank policy, especially for the past 10-plus years has been both a futile and unprofitable venture. If that was ever in doubt, then just consider that with our country, and most of the globe, literally shut down for a huge chunk of economic activity, and the unemployment rate surging from 4% to almost 20% in a matter of weeks, stocks remain flattish to up even up double digits in tech - for the year.

One could surmise that the action in markets is simply discounting the fact that the future will remain bright after Covid passes. And that we will experience a V-shaped recovery, rather than a L-shaped one. All very possible by the way, but it sure assumes a lot of positives and blatantly disregards any significant negative headlines or developments.

As we have discussed in the past few months, the Fed, and other developed central banks have unleashed unprecedented stimulus packages to stave off the ill-effects of Covid. To the likes of which we have never seen or frankly ever imagined was even possible years ago. Also, the treasury has responded on a micro-level with stimulus checks, increased unemployment benefits, and various lending programs to try and help main street as well.

How, if, and when all these measures are the antidote for our economic ills remains to be seen, but it has undoubtedly stemmed the negative tide and at least given a perception that we are not in as bad a shape as one would have imagined or the media loves to portray daily.

As if trying to assess a pandemic wasn't tricky enough, we have other factors to consider. First, it appears that the first wave of stimulus initiated in early April from the treasury in forms of $1,200 stimulus checks and the Payroll Protection Program (PPP) will dissipate by the end of July. Also, the generous extra $600/week unemployment benefits are also set to expire at the end of this month.

Whether or not another round of help comes in the form of extensions of the above-mentioned programs is soon to be determined. Our guess is there will be extensions and other stimulus measures taken in July. Our rationale behind this 1) the economic damage done to the retail, service, and tourism sectors has hardly abated and is showing signs of increasing stress, especially when one looks at the re-closing of phases in Florida and Texas. And 2) We have an election in just four months. Obviously, the better off economically any voter is the better chance he or she will stick with the incumbent. Polling has proven that fact for years. So it is in every interest for the current administration to do *whatever* they can to help lift the mood of the general population before they hit the voting booth, in what is sure to be one of the most interesting elections our country has ever witnessed.

On the other side of the pro/con ledger we must still remember that the Fed and other central banks are still in full accommodative mode and are showing no signs of stopping or reining in their balance sheets (although there was a *slight* contraction in the Fed balance sheet the last few days of June). CNBC estimates that the Fed has only deployed 6% of their stated firepower thus far during the pandemic. We aren't sure how they arrived at that figure, but if it's at all accurate then we should post more "don't fight the fed" notes all over the office.

"We are not thinking about raising rates. We are not even thinking about thinking about raising rates and we are strongly committed to using our tools to do whatever we can and for as long as it takes to provide some relief and stability. What we're thinking about is providing support for the economy and we think this is going to take some time." Fed Chair J. Powell 6/10/2020

That was the comment from Chairman Powell after the FOMC meeting on June 10th. As we can all clearly see, the fed has no intention of putting on the brakes; it has their collective feet on the gas. The only question that we should be pondering is if the current, or additional stimulus, provided is *enough* to satiate the markets or at *some* juncture become impotent? Our quick answer is "no", but we need to be mindful and meticulously observant of the market's response seeing that we are in an unprecedented period.

Bitcoin update: June saw another month of positive new flow for Bitcoin and the crypto space as a whole. Some of the highlights included the results from an 800-sample institution survey which concluded the following:

- A survey of 800 institutions found nearly **80%** of institutional investors see the appeal of digital assets.
- More than a third of such investors have already invested in the market
- The survey found derivatives exposure has also increased substantially compared to 2019.

The results from this survey simply add to the theme we have been highlighting all year now, and that is that the push by institutions to gain access to these markets continues to move upward, this survey being the latest example. We are confident that six months to a year from now we will start hearing crypto currencies mentioned in the same breath as gold, silver, wheat, etc.

Further proof to augment that statement was bolstered by the news that Pay Pal is gearing up to enable its hundreds of millions of customers to buy and sell digital tokens. In a partnership with CoinDesk, customers of PayPal and Venmo will be able to buy and sell Bitcoin and other cryptocurrencies directly from the app. Considering that stock trading app Robinhood's popularity has exploded recently with the younger generation, we see this news as a potential catalyst to garner more interest amongst retail traders.

Despite all this good news, Bitcoin cannot seem to trade with any conviction over the $10,000 mark and continues to thrash around in a frustrating trading range. We have repeatedly communicated that we are long-term believers/holders of Bitcoin and are in this to make multiple times our current investment – but that does not preclude us from getting frustrated in the short term – especially when the macro backdrop seems so welcoming for this space (as it does with precious metals.)

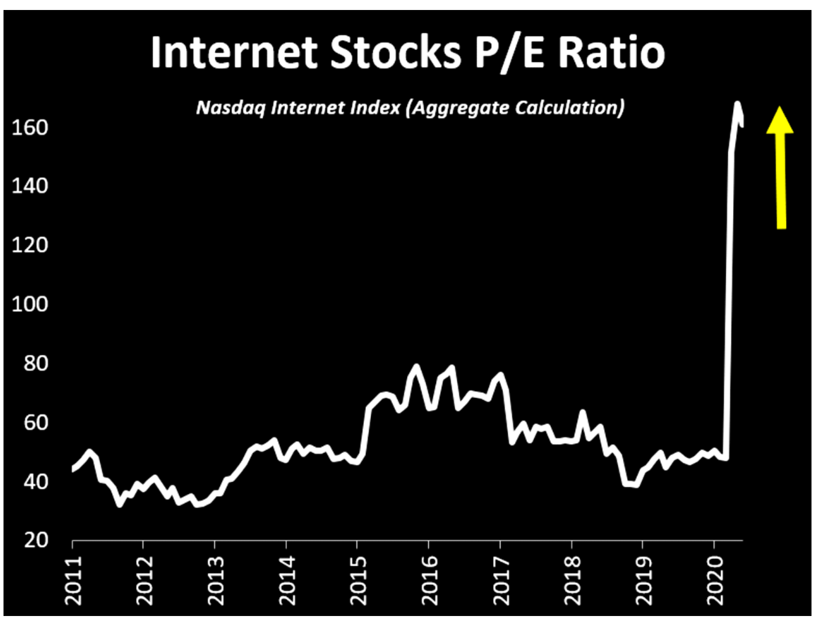
Looking Forward and other Market Commentary: July is setting up to be an extremely busy month in what already had been a busy year. For starters, another earnings season will commence around mid-month when the big money center banks begin to report. The meat of the "season" however will register more towards the latter part of July and first couple weeks of August.

This is shaping up to be one of, if not the, most important earnings seasons in years. The reason being is we are now in the fourth month of Covid/lockdown/re-openings. It is imperative to get a read from corporate America on just how they are dealing with this new world we all find ourselves in. Remember that the last earnings releases were just weeks into the lockdown and the beginning stages of understanding what Covid was and how deeply it would affect us all. Which gave corporate America a convenient excuse to withdraw guidance and plead ignorance for trying to survey the current and future landscape – which was fair. But now, especially given the massive bounce off the March lows, it is time to hear what companies are saying about the next 3-6 months and how they perceive the reaction to three months of lockdown.

It also will give us a good read on the consumer and just how strong they have remained during this now prolonged economic contraction.

One might think that with the market retreat and economic calamity caused by Covid that the market multiple may actually be "cheap" now on a relative basis and hence full of bargains. Well, think again. Actually, the current multiple for the 2021 SP-500 stands at over 21x 2021 earnings. Which, by historical standards is near all-time highs. According to FactSet, analysts expect earnings for S&P 500 companies will be down -21% from 2019 levels.

So, before you rush out and scoop up all these "bargains," keep in mind that despite all the chaos in 2020, it has done little to soften the expensive market multiples. And if you want to talk technology or, specifically, internet valuations, we will just direct you to the chart below and let it speak for itself:



We are pretty sure it's still 2020, and not 1999. But by the looks of this chart we must be in a time machine.

Internet/software/cloud stocks are all the rage tight now and the valuations are soaring.

Is it another bubble? Time will tell as always, but it sure is looking frothy – especially considering the macro backdrop.

That wrinkle is just one of many that investors will be facing when they return from the July 4th holiday (staycation?) and face the daunting task of trying to figure out exactly what the second half of 2020 will bring. To be clear, the real answer is that no one knows. The Covid variable continues to confound everyone from government officials to medical experts. That sure doesn't bode well for those in the investment community who think they have an upper hand.

Social media stocks were in the spotlight in June thanks to a boycott of Facebook by a growing list of prominent advertisers and because that they are too tolerant of politically offensive positions. That caused the company to lose nearly 16% of its market cap as advertisers one-by-one declared their political purity by demonizing Facebook. The whole thing is pretty ridiculous really, but welcome to 2020.

Fortunately for us, the abandonment of Facebook was a boon for Snap, of which we aggressively traded on the long side in June and still hold a long position into July. We also wrote about our decision to stay away from Twitter after the White House turned the platform into a political football in May. That decision proved prudent as the stock has fallen 15% in three weeks. Almost all the backlash towards Facebook has begun since the racial equality protests began, many feel Facebook isn't strict enough on that front. True or false, we are in the camp that this backlash will eventually subside and advertisers will realize that Facebook and other social media platforms aren't going away anytime soon and that they will only strengthen given the intense news environment we find ourselves in. This will only increase as we get closer to the election and the possibility of major league sports re-starting their seasons.

For now, we will let the dust clear and see how deep this sudden political wokeness lasts with corporate America. Snap seems like the best way to play the space right now, but even it has succumbed to selling pressure. Also, this month we will hear from all three major social media companies when they report their Q2 results. It makes sense for us to wait and see what they all have to say before trying to gauge the current political environment that seems to be changing every 10 minutes these days.

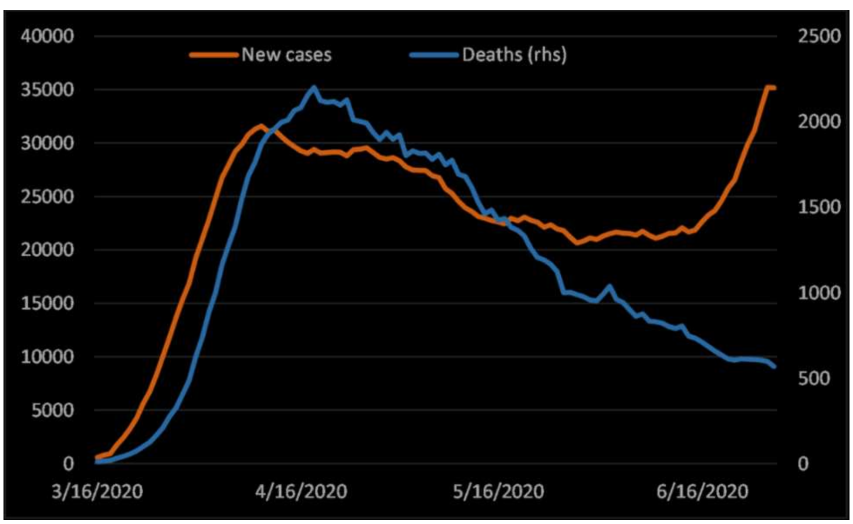
We have been hesitant to short many names these days, it has made more sense to stick to indices than try and find individual themes. But, in late June we shorted Draft Kings, which is a fantasy sports league provider that now has gotten involved with sports gambling as well. As much as we would all love to see sports come roaring back in late July – as they are all tentatively planned to do - we have our reservations about how successful they will be. The logistics and ability to enforce strict quarantining seems almost impossible. And the proof is coming out: we have already seen 16% of NBA testing positive. Even the PGA Tour, which has been back for almost a month now is encountering problems, and they are as non-contact, low risk as a sport can get. Also, numerous reports from college football camps are reporting outbreaks.

A halt, postponement, or outright cancellation of any league will have devastating effects on Draft Kings. But apparently the market is not too concerned about that seeing as the stock is up over 200% this year and now trades at a sporty 56x 2021 estimates. All that seems awfully optimistic given the circumstances. Hence, the risk-reward scenario here seems favorable for a play on the short side – and that is what we have done.

Along those same lines, there are two companies that we are very anxious to hear from in the coming weeks. Expedia (July 23rd) and Disney on August 3rd. It feels to us at least that these two companies (along with Draft Kings) have an awful lot of optimism currently priced into their shares. Specifically, travel and the re-starting of various sports leagues. Something we all desperately want but is looking increasingly unlikely – specifically for sports.

Again, we hope we are proven wrong and would love some televised sports to occupy our heads at night instead of the pandemic. But facts are facts, and as of right now they aren't encouraging. Which makes Disney seem like a very vulnerable company given they are dependent on travel to their parks and sports (ESPN/ABC) for their ad dollars. We all would love to take a real trip somewhere and get out of the houses we have collectively been stuck in for months. But it just seems to us with the increasing number of travel bans, and re-shutting of resorts/hotels/restaurants and bars in highly populated states such as California, Arizona, Texas, and Florida, those travel dreams are quickly fading, exacerbated by the addition of statewide quarantines, and much like Draft Kings, Expedia is not accurately pricing in the downside risk.

It will be a nice respite in July to focus on specific company reports and potential guidance to gauge the market's overall health. We are growing tired of the hourly Covid case updates from populous states that can be massaged into good or bad news depending on death rates, testing % increases, or overall hospitalization rates and capacity. It is important data obviously, but the markets whipsaw reactions to every data point can become tiresome, especially when trying to establish any longer-term positions (of which we have few). A perfect example of what we are referring to is displayed in the graph below:



The news has been bleak lately considering the virus spikes. But some real underreported news is the death rate is in a steady downtrend. Let's hope that trend continues.

July 14th could prove to be a critical day for equities. That is the day Wells Fargo, JP Morgan, and Citibank will report. The banks have been laggards all year, and even acted lethargically during this sharp snapback. There are likely a few reasons for this. One being the uber-low interest rate environment does little and has done little to help their yield curves. But that has been the case for years now. More importantly is the verbiage that will emerge from their conference calls regarding the defaults.

We are currently in a period where we *could* see record defaults for mortgages, credit card, auto, and personal loans. Also, add in tenant defaults, which could seep onto the bank's books in some capacity, and you have an almost Armageddon scenario for the banking industry. Hopefully, it turns out not as bad as it seems, and we all know the Fed will come in and backstop some losses if any unraveling truly begins. But, nonetheless, the commentary surrounding their defaults will be listened to by ***everyone.***

Now that half of the year is in the books, we have been reflecting on both the markets and our performance in them. It goes without saying that this has been a year like no other in our lives. Away from the markets, we are all trying to adjust to the "new normal" and grappling with a future that no one has any clarity on. These are scary times but also interesting when you consider that we are currently all involved undoubtedly in the biggest social experiment the world has ever seen.

When we assess our performance, there are swaths that we are proud of. Mostly, avoiding the huge downdraft in late March, and even more so being caught long during that swoon and unfortunately selling near the lows – which many did. Only to watch the market rebound sharply - just when it seemed this pandemic would wreak the devastation that even the biggest doomsayers were predicting (hoping?).

So, to avoid any kind of serious drawdown, something we strive for on a daily and monthly basis (at times to our detriment) is a positive for us and obviously our partners. Opening an account statement or PDF that shows an investment down double digits % during the height of a pandemic is something we can all agree would be nice to avoid. That was not and is not the case for many investors across the globe in the first half of 2020.

We accomplished this by keeping high levels of cash and sticking to shorter-term time frames in the first few months of 2020. That was mostly due to the fact that the markets had a strange "feel" to us. We are not at all saying we knew a pandemic was coming, but there were rumblings out of China all over social media along with a few doctors here in the US who were starting to exhibit signs of worry. However, we were reassured by authorities here and even Dr. Fauci in late January that the Covid would not be coming to US shores. And to some credit, President Trump was quick to shut down the borders for China travel.

Also, there have been cases of Ebola, Sars, and H1N1 that were prevalent in parts of Asia and Africa in the past and never reached US shores. Why would this case be different? In addition, the markets sure didn't seem concerned considering the SP-500 was trading at an all-time high in mid-February. Another big reason was that many thought the fears were overblown. But as the saying goes…" *Risk happens fast*" and that was never so on display as the Spring of 2020. Our large cash position and suddenly extremely volatile environment allowed for us to post positive months, albeit not as large as we would have liked due to the fact we were forced to trade smaller because of severely reduced liquidity and an overall environment no one living had ever seen before. But in the end, we maintained our composure and hopefully kept our partners minds at ease with constant communication and reassuring results.

We would love to say that we knew the reaction to the pandemic was overblown and that stocks, and bonds, and even some commodities would bounce back with a vigor that no one had ever seen. But that would be disingenuous, and it simply was not the case. Yes, we did participate on the upside move: focusing primarily on indices trading, Amazon, Trade Desk, and the IGV Cloud Software ETF. However, we were in the constant mindset of booking quick profits and constantly (almost hourly) trying to assess the situation while attempting to filter out the massive amount of news flowing (lot of it false) that was burning through the internet. It was the most chaotic situation we have ever seen and there was no blueprint to fall back on and study (The 1918 Spanish Flu and current market landscape do not correlate at all in our opinion)

The Fed has been a mainstay in the markets for some time now, and it is something we have chronicled extensively. But even with their gigantic reaction to this crisis, we did not see the markets responding in such a rapid V-shaped fashion, Yes, we for a while at least, fell into the trap of the worst four words one can ever utter.."it's different this time"

Suddenly, the mood of the market turned from fear to FOMO...or fear of missing out. Investors and money managers stared in disbelief at their screens as stocks rose in an almost a straight line, despite the economic backdrop worsening and uncertainty of the virus only deepening.

Much of trading in April and May felt like a game of musical chairs. In that, buying equities was the right idea but it felt like as soon as the music stopped the downside would be harsh. Again, the macro backdrop did little to bolster confidence in owning equities. But in the end, as we always preach, and try our best to practice, you need to trade the markets in front of you - not the ones you want or perceive.

With that, we have to inflict some self-criticism. We did not get aggressive enough on the long side and took too many attempts trying to short the forceful move higher. Thankfully, they were short-termed trades with tight stops. So, the damage was minimal, but so was the upside. Which helps explain the consistent, but low monthly returns.

This is a trading market environment and will continue to be one for the remainder of 2020 - and likely beyond. That at least is our opinion. There are just too many variables that need to be solidified, including the election, rebound status of the economy (V-shaped, W-shaped, or L-shaped?), and the spread/contraction of Covid and a hopeful possibility of a vaccine being widely available soon. Those are three key agendas that will not be answered swiftly nor without some major fluctuations - all leading to higher levels of volatility for different asset classes.

Speaking of asset classes, we have done well in the second quarter of this year buying gold and plan on continuing to hold the position as it trades over $1,800 and makes a new 9-year high. It is our belief that the precious metals and Bitcoin have finally hit an optimal environment for substantial advancement. Although, we readily admit that we expected a sharper move higher by now considering the absolute rush to debase all fiat currencies by the world's central bankers. But we are trying our best to exercise patience and play the long game here, using some hedging techniques for gold to sleep better at night.

Before Covid, there was an on-going debate on passive versus active management. The trend toward passive has steadily increased through the past few years, mainly due to the low-volatility environment adored by the passive crowd. Well, it is fair to say that environment is over with for a while. Which should lead to a regression back into the active side of management. This will undoubtedly benefit our style and progression.

That is a long-winded way of saying that we are very excited about the second half of this year and think the future will be very advantageous for our style and the future of this fund. Also, as we enter the second stage of 2020, we are actively pursuing some new partnerships that include possible new employees and an automated trading system that we are reviewing and anxiously awaiting the results of to see if that could in the future become a facet of our fund.

These are trying times; we aren't breaking any news there. But we are doing our best to try and take advantage of this new environment to further our growth, improve our style, and bolster our strength as an actively managed hedge fund. There are certain days when those noble endeavors seem almost impossible and at times fruitless, especially when one reads the news and hears anecdotal stories of economic hardship spread throughout the country.

But to be clear, our number one priority is, and always has been, to provide steady returns and low drawdown for our partners. We have achieved that thus far in 2020, but as we turn the calendar to July and the rest of 2020 sits before us, we are frustrated and remiss in reflecting on of how we have handled parts this year thus far. The overwhelming sense of disappointment is fueled by missed opportunities that are now of course obvious. - but still painful. Looking in the rear-view mirror rarely is productive in life and certainly not in trading. The next opportunity is ahead of us, not behind. But we use these pages as not only a hopefully informative piece, but also a time to self-reflect and look for keys to better our performance. And this month's letter has been extremely hard to write in that regard.

We view the next six months as maybe the most significant stretch for our country and our fund - possibly ever. The unknowns outweigh the certainties like never before. While currently frustrated with our trading and positioning, we are confident of a solid second-half performance that will springboard Occasio into a record 2021 on many fronts. As always, we appreciate everyone's support and patience during this odd period.

Finally, the richest liberal arts university in the country, Williams College, announced this month they are cutting tuition by 15% in response to the Covid crisis. On the surface, that sounds like bad news (unless you are a parent paying the bill) but maybe in reality it is the beginning of a much-needed change for our university system

It costs $63,000 per year to attend Williams College. That is on the high, but there are many other schools across the country with similar prices. This fall many schools are not allowing students on campus or are implementing hybrid virtual/live classes. All this has resulted in parents and students balking at paying exuberant fees to attend suddenly crippled universities.

Maybe this crisis will be the catalyst that finally begins to dent the insanely unaffordable college tuition that the vast majority of Americans cannot afford and now find themselves deeply in debt due to.

There are reports of many first-year students opting for junior colleges to avoid the $50,000+ tuition bills. This is a trend that may outlast Covid, as college has simply become unaffordable for many. Maybe this is the final straw and we have seen peak college tuition insanity all due to a Coronavirus.

It is way too early to make that generalization. But we would not be surprised if the spring of 2020 was peak insanity for college students. If so, it will likely be the only good thing to come from this pandemic.

Also, Williams College, with a $1.9 *billion* dollar endowment has decided to cancel *all* sports for the upcoming school year to save on travel costs as they deal with new budgetary concerns. The fact they could not come up with the money from the $1.9 billion endowment to cover some travel expenses so the student-athletes could at least try and compete, and maybe get a small slice of normality back is simply mind-boggling.

Occasio Partners, LLC San Francisco, CA