April 2020

OCCASIO PARTNERS LLC

San Francisco, CA

Performance Summary: We posted another positive month for 2020 and now find ourselves well above the SP-500 for the year. And because of that, we are satisfied. But when we look back at our notes and some of the stocks we liked (and mentioned) such as Amazon, Twitter, and Trade Desk we are frankly sickened by how much money we have left on the table in Aptil. Especially since we reiterated in our "quick notes" that the pain trade was higher and that fighting the fed is pointless.

But we are human and cannot be swayed by the fact that the entire economy for the first time ever is literally shut down. The negativity has permeated society for obvious reasons but has been immune to stocks for the most part - we will expand on this below. We were keen enough to not bet against the market despite the macro contraction, but were also not aggressive enough in our convictions. Which is inexcusable. On the brighter side, we did see a huge surge in our Bitcoin Trust (+52%) and our gold position has jumped 7.6% in April.

Another bright note is that this sharp rally has created bigger trading ranges and the potential for more back-and-forth action versus just bumping along the bottom after a huge downward swoon. So, for traders it sets itself up for an interesting, lucrative summer - which we look forward too. But for investors on the sidelines (over $1 trillion currently in money markets) it has been a painful run-up.

This is been an interesting year-to put it mildly-and with an attempt at re-opening, a new social mantra, insane energy markets, and a presidential election all still to come, it will only get more interesting.

Despite our current frustration, we have to remind ourselves that our overall goal, despite any conditions, is to try and cultivate steady returns with low drawdown periods and *extreme* respect for risk. We are singles and doubles hitters and do not fare well swinging for the fences – especially in this environment. So far this year, we have delivered on our goal, which is good. This month really tested our resolve and led to many long nights of questioning ourselves. It is hard to feel much pleasure these days on or off the court.

We are happy to see the calendar turn to May.

The Beat Goes On?:

"Acknowledge the complexity of the world and resist the impression that you easily understand it." – Jim Rogers

We are now over a month into the crisis we all face and are all still mired in a shelter-in-place lockdown and a global economy that has been virtually shut-down. But one would be hard pressed to tell that much has happened if you were to glance at most stock charts. That has perplexed many, not only on main street but also on Wall Street.

Let's look at some of the possible reasons we have seen a nearly 25% bounce off the March 23rd lows and more impressively the fact that the tech sector, as measured by the NDX ETF, is actually UP 1.2% for 2020.

First, as we have mentioned numerous times the Fed, with the support of other Central Banks, has taken unprecedented measures to increase liquidity and provide funding and asset support for practically every industry in the country.

"When it comes to lending, we are not going to run out of ammunition. That doesn't happen."- Fed chair Jerome Powell 3/26 on *Today Show*

The Fed's current balance sheet is currently over $6.6 *trillion*, up from its previous high of $4.5 trillion in June of 2015, and is showing no signs of retreating, especcially when you read the above comment. Many were starting to believe that "don't fight the Fed" had finally run its course. Well, it hasn't. And that's not changing anytime soon. You may disagree with the concept, and may be worried about the future ramifications of these actions. Both fair points. But you need to recognize that this is the new normal, and until the bond market takes away the punchbowl, it's not going to change any time soon.

Another reason for the unexpected surge in stocks despite a economy that has been rocked, is good old-fashioned human emotion, or in this case panic. We are in unprecedented times, and the natural reaction is to shoot now and ask questions later. And that is exactly what investors did. If you look at the current positioning of the American Association of Individual Investors survey they indicate that the bearish sentiment is near multi-year highs and bullish sentiment is bouncing around multi-year lows. The market has a habit of inflicting the greatesr amount of pain to the majority of the people. Right now the pain trade is higher.

There was some interesting action on the credit markets in April. Despite the overall bleak conditions, the following companies were able to raise money in April: Carnival Cruises, Royal Caribbean, United Airlines, Slack, Nordstrom , and Macy's. These are mainly industries that have seen their business models obliterated by the aftershocks of Covid-19. Yet despite all that, they were still able to tap the credit markets and help shore up their balance sheets some. Pretty remarkable if you think about it.

Another factor to consider for the rise in prices is good old-fashioned FOMO - or Fear of Missing Out. Otherwise, people see prices going higher and start to fear that if they do not jump in now the prices will only go higher and they will miss out. This is especially prevalent when you see a sharp move after a spike lower, and even more so if you were a seller at those lower levels. Seeing that we are dealing with a crisis no one alive today has dealt with ever before, it would be logical to assume that there were a lot more sellers than buyers at those late March levels. Anecdotally, we are constantly bombarded with "why is the market so strong?" questions often accompanied with puzzled looks. More so, it seems all the high-profile strategists and managers that come on CNBC are boasting of shorting the market at these levels and calling for dramatic pullbacks and a re-test of the March lows. Those calls, at least for now, have been woefully wrong.

You can learn a lot by just observing and listening sometimes.

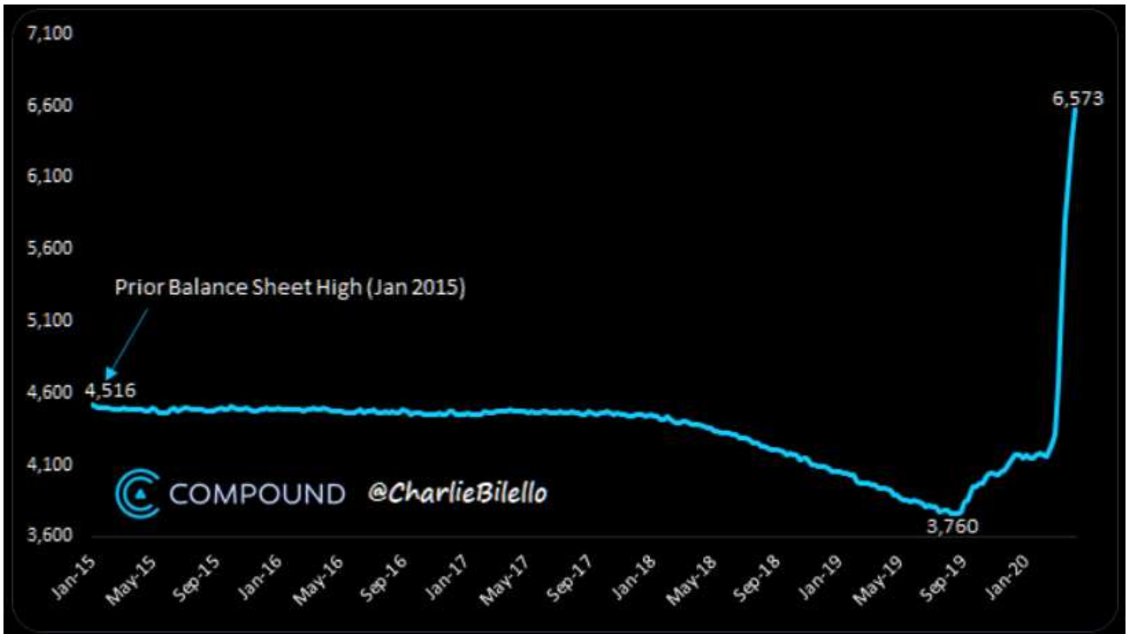
The last factor to consider when looking at amazement in the price action of stocks this month may be that the after-effects of the Covid fallout may not be as bad as everyone is assuming. On the surface that sounds crazy. And if you spend any time watching cable news or peruse Twitter, you are pretty sure the world is ending any hour now and all hope is lost. People like to point out the difference between Main Street and Wall Street, and there certainly is one, in fact now more than ever. But that doesn't necessarily mean Wall Street is wrong. What if stocks are trying to tell us that things will rebound quicker than anticipated? Maybe not a V-shaped recovery, but a strong U-shaped?

Essentially, right now if you are long stocks, you are synthetically short Covid-19.

But before lauding the Fed for their aggressive policies (to put it mildly) let's keep in mind that this is the same Fed (with a different governor) that kept rates at ultra-lows and expanded, rather than contracted their balance sheet from 2010-2019. All in an environment with steady growth, record low unemployment numbers, and a stock market making consistent new highs with little volatility to speak of. Which is the actual environment in which they should have been implementing the exact opposite policies from the ones they imposed.

And now, when that rainy day has come to fruition like never before, they find themselves without an umbrella or a piggy bank full of rate cuts. Sure, they have been creative, and effective, to be fair, with their aggressive money printing and sponsorship of depleted asset classes. But they come at a cost and leave a murky future. We understand what that they did what they had to, right or wrong; that is the world we live in now since the 2008 financial crisis. But let's not pretend their policy errors during the past 10 years have not and will not have a significant effect on future generations. After all, despite what many now seem to believe, there still is no such thing as a free lunch.

There is something else that needs to be brought up. Because we feel like it just gets glossed over on the news and almost all political shows. All these trillions of dollars being used for unemployment, paycheck protection, lending facilities, and rent forgiveness, are not coming from some big reserve that we have built up for a really rainy day like today. It is literally printed money that is created out of thin air and dispersed into the economy. Sure, it is effective in the short-term and essentially necessary. But the long-term ramifications are dire. If it were easy enough to solve all the financial ills with printed money, then there would be no need to collect taxes or worry about reserves.



Just in case you needed a visualization of how much the Fed has pumped up their balance sheet the chart above clearly shows the spike due to the after-effects of Covid. We would expect that line to go higher, maybe much higher, before this is all over.

If you are betting against the Fed - you are short that chart. And they have deeper pockets than anyone.

Gold and Bitcoin update: We have spilled a lot of ink lately on how we are now believers that gold and other precious metals should and will likely make all-time highs in the immediate future. Our thesis, and it is a pretty simple one, is that the money-printing environment we are witnessing and will continue to witness creates a nirvana for the metals -and hopefully Bitcoin as well.

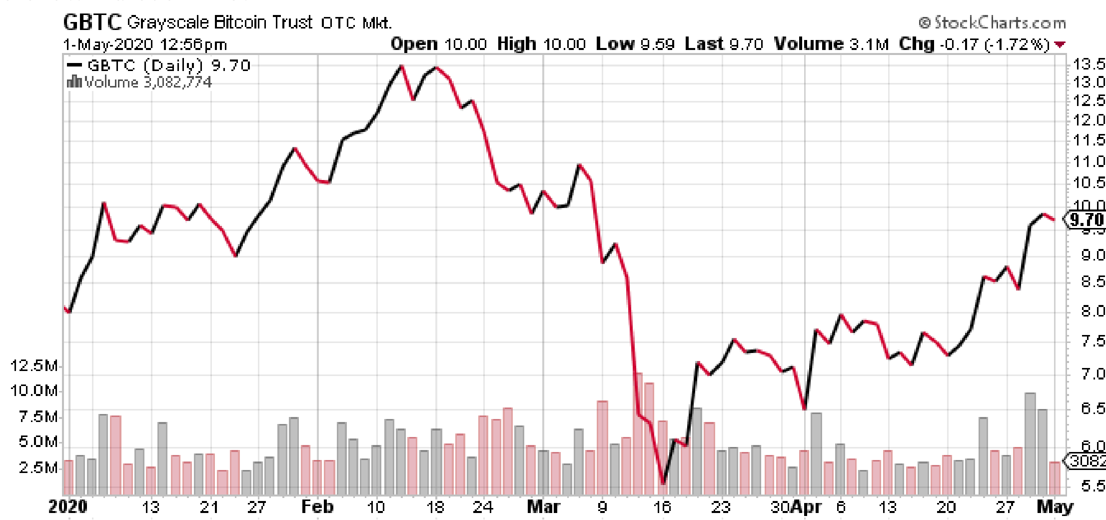
It boils down to the “if not now, then when?” mantra. Admittedly, that isn’t the most quant-driven, or intellectually inspired reason to take a position. But sometimes you just need to keep it simple and exploit the obvious.

The gold miners were up 34% in April and are on the cusp of a multi-year breakout. It is often thought that the miners lead the metals (up and down) because they are much more speculative. So, we will see if the miners do indeed breakout and if the physical metals join the party. Our best guess is a resounding yes.

In regard to Bitcoin, it had a good month in April jumping nearly 52% and is now up 23.7% in 2020. The same logic that applies to our gold thesis, but even more so. Bitcoin has always been marketed as an anti-establishment play. A digital product that was reliant on government controls and could price itself without interference. If that is indeed true, then much like our metal's mantra. The time is now.

On that note, we got some more encouraging news this month regarding the adaption of cryptocurrencies amongst the institutional set when hedge fund giant Renaissance Technologies with $166 billion under management, has decided to enter the Bitcoin futures markets to gain access to the crypto markets and help diversify their portfolios. It also opens another avenue for trading for them.

This is just another example of institutions slowly creeping into this new arena. We have been highlighting various stories that prove the migration, but it has been slow, and we would have thought more ingrained by now and more reflective in the (higher) price for Bitcoin. Patience is an area where we admittedly struggle tremendously in. But we are trying to take the long, long view in regard to cryptocurrencies. It is an investment for us, not a trade because we truly believe that it could be a revolutionary event. In our minds the price will go to $100k or $0. But with a current price of $8,800 – we like the risk/reward scenario.



After a tough March, Bitcoin has rebounded strongly in April and looks poised to attack new highs for 2020. The current monetary backdrop should be conducive for that move.

What if we told you that for a brief time in April the price of a barrel of West Texas Intermediate crude was priced at -$37/barrel? That is not a typo, there is meant to be a minus sign of front of 37. How is that possible one may wonder? The answer is storage.

The May futures contract was set to expire soon and speculators or even oil-producers had nowhere to store the oil they would have to take delivery on were paying people to take the oil off their hands. This has never happened in the history of oil trading and is a stark reminder to all that we are in unprecedented times for sure.

But before anyone starts to think they will be filling up their tanks for free soon, it should be noted that the June, September, and December contracts were all trading in the $20+ category. Proving that the May contract negative pricing phenomenon was a storage/supply issue much more than a demand issue; a super contango to coin a trading term.

Looking Forward and other Market Commentary: After a slew of fireworks in the last week of April, which included bellwether earnings and three central bank meetings, the scheduled news events will slow some in May. However, there are still a bevy of earnings reports that we are looking forward to reviewing. Some of them include: Booking.com, Shake Shack, Activision, Beyond Meat, Planet Fitness, Shopify, Grub Hub, Lyft, Uber, PayPal, along with some big-box retailers and gold miners.

However, the biggest catalyst for markets in May will be the progress, or lack of progress, that various states will be able to show when they attempt to re-open parts of their economy. These events will be highly scrutinized and debated on how successful they ultimately are. Also, they will serve as blueprints for other states and when/how they can re-open.

The markets, particularly equity, have priced this event in as a successful one when looking at the bounce off the lows. We will find out very shortly whether or not that was the correct prognostication. We have never in our lives seen a bigger disconnect between the economy and the equity markets. And we would hazard to guess that pretty much everyone is in the same camp right now. Someone, either the market, or the doomsayers, is incredibly wrong.

As we enter the meaty section of the earning season, we have to recognize one factor that has dramatically changed since the last earnings season just a few months back. And that is the guidance portion of a release or conference call. It is literally impossible for any company to accurately try and assess what the immediate future holds given the current landscape. It's especially complex when only a portion of the country is re-opened and the dates upon which reopening is set are staggered.

Also, no one knows what a post-pandemic economy will look like, especially at the consumer level, so any guidance would be literal guesswork. Which means that as much as people like to price companies off future earnings, gross margins, and balance sheets, it is simply not possible at this point. And using past figures is futile with the dramatic shift in the terrain.

No company reported so far has officially given guidance for Q2, which is expected to be the worst quarter in history ever. It seems the market is willing to look past 2020 entirely and focus on 2021 multiples. We came into the year expecting 10% year-over-year EPS growth, and now will probably see around 10%-15% decline year over year. With the S&P 500 trading where it is, it implies significant multiple expansion. At the end of the day, we may be able to look past a "horrid" quarter, but can investors justify adding to market here at multiples of 25x-30x earnings?

Both of our favorite social media stocks reported their quarters during the last week of April and were a mixed bag, like almost all earnings releases during these strange days. Snap was the better received of the two and saw its stock surge 34% and looks like it may make a run for $19.76 – which would eclipse the 2020 highs. CEO Evan Spiegel had this to say

"While it is difficult to predict the near-term impact of this unprecedented complex and global pandemic on our business, we believe that all of the long-term indicators we see in terms of our audience, their engagement, our momentum on product innovation, our auction dynamics and advertiser ROI, position us very well for success."

Twitter, on the other hand, did not respond as well to its report as Snap did. Granted, it had run up nearly 21% heading into the release. They missed estimates by $0.12 but did exceed revenue projections by nearly $40 million. Like most companies right now they withheld any guidance for 2020. The stock fell nearly 9% on the report.

We have said in the past that we believe these stocks will be beneficiaries of a pandemic environment. The need to virtual socialize and keep up on news now more than ever being the obvious catalysts. These two reports, while not great in financial terms, do reiterate those points. And if/when advertising revenue returns it will only be an extra boost for both.

We initiated a position in Twitter after the report and the 9% slide. Also, we traded Snap successfully to the upside in the waning days of April but are flat the name as of this writing.

There will be a full earnings summary in the May Update after we finish up the remaining two weeks of the "season." Also, we will discuss the crazy days at Tesla.

Finally, here in San Francisco, we just got slapped with another 30-day Shelter-In-Place mandate that will extend through May. This despite the fact our city has had 21 total deaths and our hospitals are, and have been, so uncrowded that nurses are being sent home due to lack of work and there is now a 1-year hiring freeze for all hospital employees.

We are not here to debate science, nor are we are we qualified to do so. But what we will attempt to pontificate on is the economic destruction being done in this American mecca of a city. Boarded up-windows and piled up garbage are now the norm. Our tax base is slowly becoming non-existent and the ability of some businesses to ever reopen diminishes every day we remain closed. We also know of people and have heard anecdotally that workers are choosing to stay home and collect the $4k/month unemployment benefits being offered rather than return to their jobs or even take new ones.

So, we must bring up the touchy subject of death versus economic prosperity. Even though in the long run they have been proven to not be mutually exclusive. Are we erring too heavily on the cautious side and ignoring the economic ruin that feels like is settling in deeper every day?

We understand the argument that death is something not to be taken lightly and that it instills fear in us all - obviously. But what about the increase in homelessness, depression, drug use, domestic violence, child abuse, loss of healthcare, increase in suicides, and food safety issues that a crushing economic environment fosters?

It's become a cliché now. But, are we killing the patient to find the cure?

And this can be taken a step further. Are we now a society that tries to de-risk everything? From kids' sporting events to stock market losses. Is the fact that we all want kids to get a blue ribbon every game and that the Fed is at the ready to support the markets anytime deep cracks appear really any different from shutting down an entire economy to protect less than .005% of our population?

Current projections are showing that for every Covid-19 patient in America there are 500 lost jobs attached. 3.8 million people have delayed their mortgage payments due to the crisis. This all seems way out of line in our opinion.

It is a heartless take; we are very aware. And in reality, there are no winners or good answers. But at some point, there needs to be better balance or else the future even without a virus to deal with will be even bleaker.