Doomed To A Life of Excessive Expectations

In This Issue:

Operators,

We got a little bit of everything in this month's MIR.

To start I rehash why the final stage of an expansion cycle can be one of the most challenging *investing* environments. But at the same time one of the most profitable *trading* environments.

Within that context we take a look at a tactical long in bonds as well as three of our favorite idiosyncratic equity plays.

Then we debut a new mean reversion strategy in the quant section that we produced using a genetic algorithm.

It's some cool stuff.

And finally we got fresh updates on our highest conviction holding, JD.com

Enjoy!

Your Macro Operator,

Alex

In his book *Hedgehogging*, Barton Biggs recounts a story about Winston Churchill and excessive expectations that may or may not be apocryphal.

> *In the 1930s, out of power and financially strapped, Churchill taught a lecture course at Cambridge on human sociology. One afternoon standing at the lectern and, always prone to the dramatic, he turned to the large class and demanded, "What part of the human body expands to 12 times its normal size when subjected to external stimulation?"*
>
> *The class gasped... Churchill, obviously relishing the moment, pointed at a young woman in the tenth row. "What's the answer?" he demanded.*
>
> *The woman flushed and replied, "Well, obviously it's the male sexual organ."*
>
> *Wrong!" said Churchill. Who knows the correct answer?"*
>
> *Another woman raised her hand. "The right answer is that it's the pupil of the human eye, which expands to twelve times its normal size when exposed to darkness."*
>
> *"Of course!" exclaimed Churchill, and he turned back to the unfortunate first woman. "Young lady," he said, "I have three things to say to you. First, you didn't do the*

> *homework. Second, you have a dirty mind, and third, you are doomed to a life of excessive expectations."*

Churchill knew his asset-pricing theory. Excessive expectations are dangerous! They inevitably lead to disappointment… not just in the bedroom but also in markets.

And expectations matter because of something Howard Marks calls the Quality / Price paradox. Here's Marks with the explanation (emphasis mine).

> *When everyone believes something is risky, their unwillingness to buy usually reduces its price to the point where it's not risky at all. Broadly negative opinion can make it the least risky thing, since all optimism has been driven out of its price. And, of course,* ***as demonstrated by the experience of Nifty Fifty investors, when everyone believes something embodies no risk, they usually bid it up to the point where it's enormously risky****. No risk is feared, and thus no reward for risk bearing—no 'risk premium'—is demanded or provided.* ***That can make the thing that's most esteemed the riskiest. This paradox exists because most investors think quality, as opposed to price, is the determinant of whether something's risky. But high quality assets can be risky, and low quality assets can be safe****. It's just a matter of the price paid for them... Elevated popular opinion, then, isn't just the source of low return potential, but also of high risk.*

Market pricing is always a function of embedded expectations versus probable outcomes.

The higher the value placed on something (ie, the greater multiple applied to its cash flow and earnings) the higher the probability the market has assigned to that asset fulfilling its lofty expectations. But as enthusiasm builds around the quality of the asset, the risk of these expectations going unmet *increases*.

Since price is what you pay, and value is what you get — it behooves us to understand what expectations are priced into markets. And then weight these expectations against likely potential outcomes.

And here's the thing about expectations. They're based off the past, off what's already happened. The market is supposed to be a future discounting mechanism but in reality it's mostly a trend follower of fundamentals and price action.

This is why expectations lag prices. Participants primarily form their expectations by extrapolating current fundamentals and price action out into perpetuity.

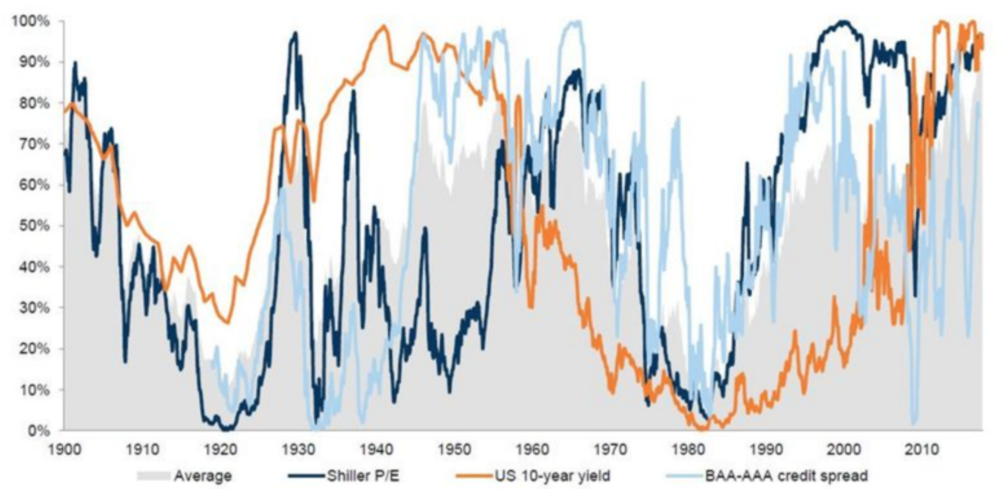
For the most part, this works, because very seldom does the big picture change much.

Danger only arises at the points where, as Jeremy Grantham notes, “exuberance of extrapolating great fundamentals into the future perpetually” meets a changing macro landscape.

And though we are getting closer to this ‘danger point’ there still remains some runway for stocks over the coming year. Let’s explore this by taking a look at the market’s current expectations.

Valuations across asset classes are priced for perfection. Aggregate valuations for stocks, bonds, and credit are now in the 98th percentile of a historical data set that goes all the way back to 1871.

Exhibit 12: Valuation frustration - both bonds and equities appear expensive
Valuation percentile (since 1871 for S&P 500 & US 10-year yields, 1919 for BAA spreads)



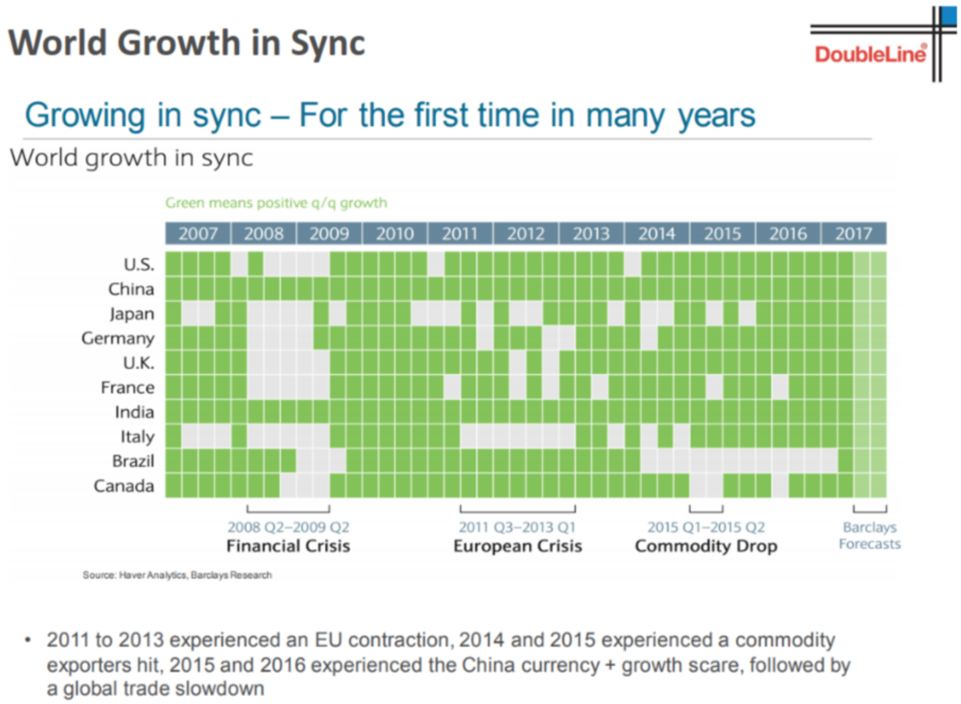
Source: Shiller, Goldman Sachs Global Investment Research

We discussed the structural reasons for these high valuations in our August MIR titled *Where’s Our Irving Fisher Moment?* Essentially, there’s a growing structural mismatch of supply and demand. A dwindling availability of developed market securities relative to the available money supply.

The reasons for this are numerous. There’s a dearth of new companies being created, even fewer going public, more being acquired (shares taken out of market) and the increasing popularity of using share buybacks to return earnings to shareholders. For the full explanation I suggest you read the report here.

In addition to these structural causes, we're also seeing the progression of a cyclical one. We're 9 years into the second longest bull market in history and stocks have been going up for a long time — hence valuations are going higher due to simple trend persistence.

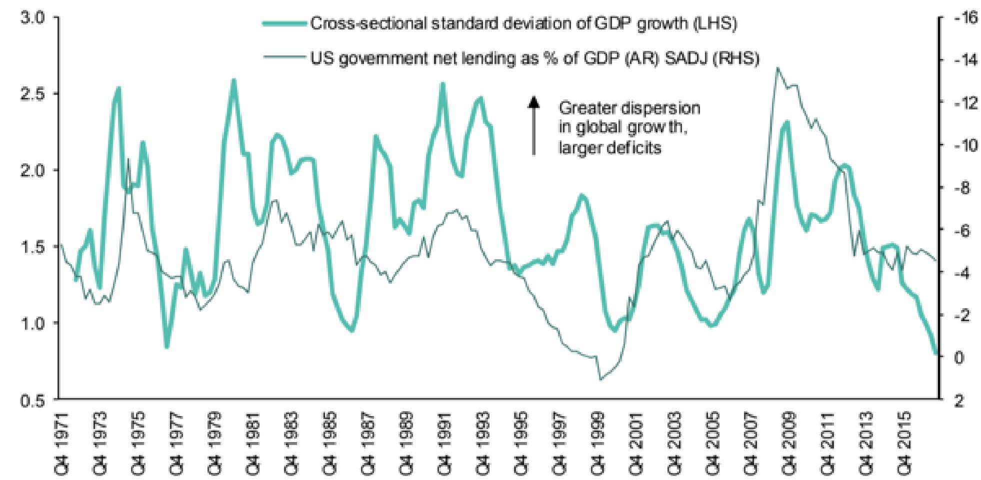
These increasing expectations are coming on the back of one of the easiest money making environments in history. A market characterized by record low volatility and synchronized growth across the world, with nearly every asset class providing positive returns in 2017.



Market research firm, Alliance Bernstein, recently commented on just how unusual this is, writing:

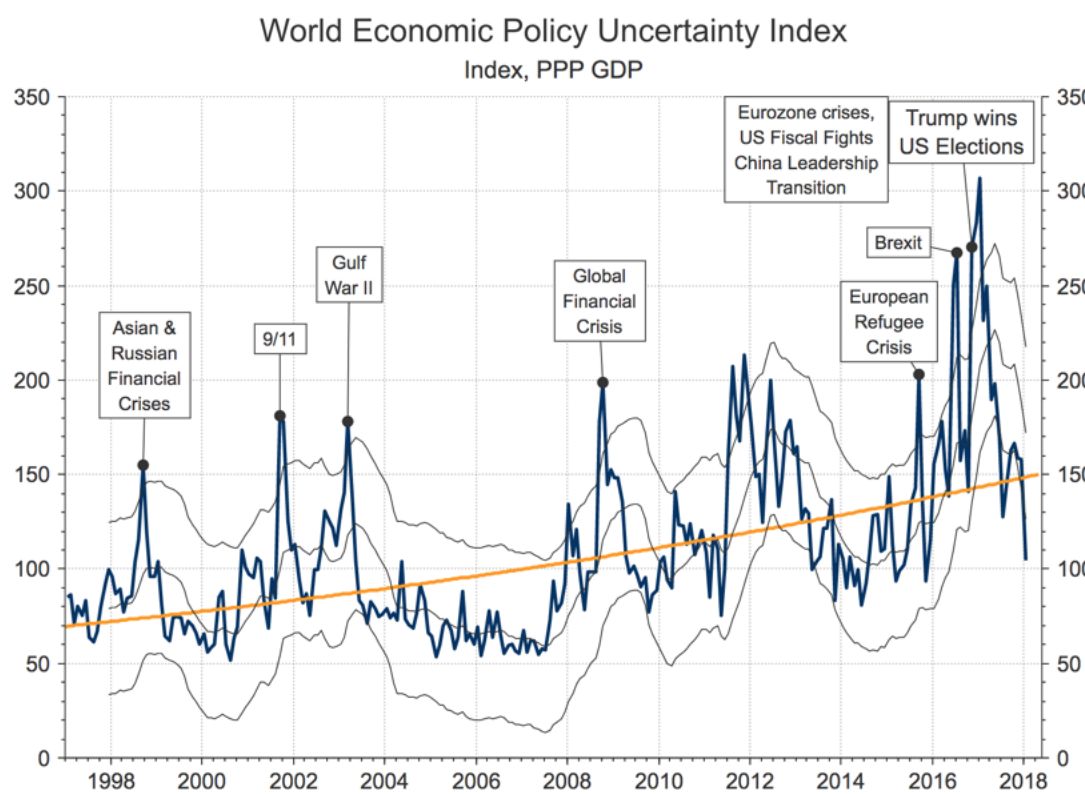
> *Last year was an anomaly. We are in a very unusual period for the global economy at the moment in the degree to which growth across the world is highly synchronised. It is hard to overstate the scale of this. Since 1970 the cross-sectional standard deviation of GDP growth across developed markets has only been lower for one quarter (Q2 1977). This backdrop explains much of the low volatility in capital markets late last year.*

EXHIBIT 4: **It is very unusual to see synchronised global growth and a US fiscal expansion**



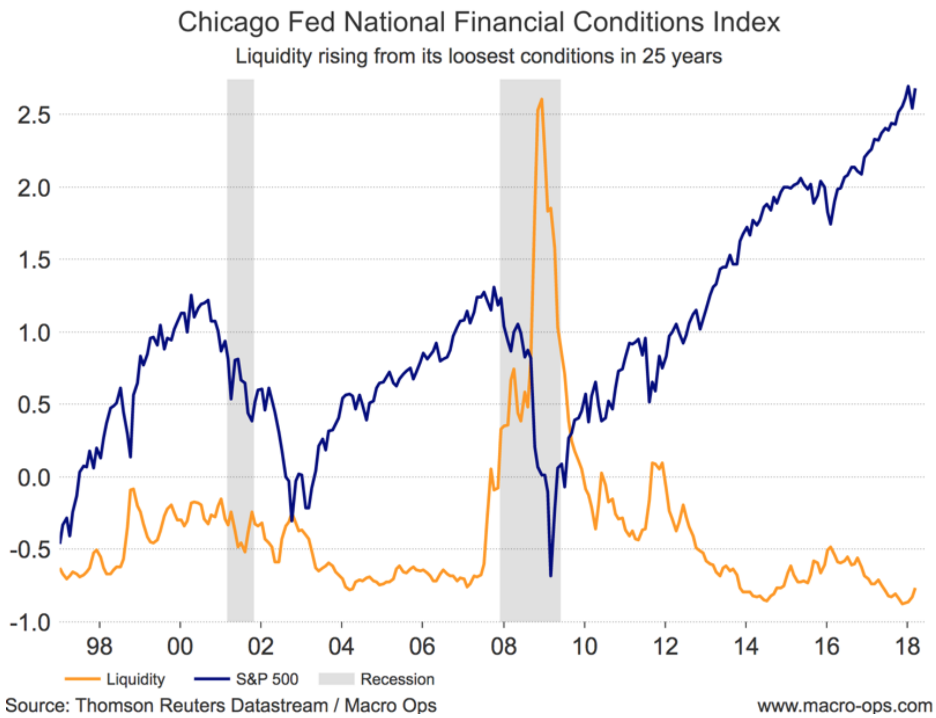
Source: Datastream, Bernstein analysis

This synchronized economic backdrop has been aided by a period of falling uncertainty, as measured by the World Economic Policy Uncertainty Index. After spiking in 16'/17' on Brexit fears and the election of Trump the index has fallen well below its long-term trendline.



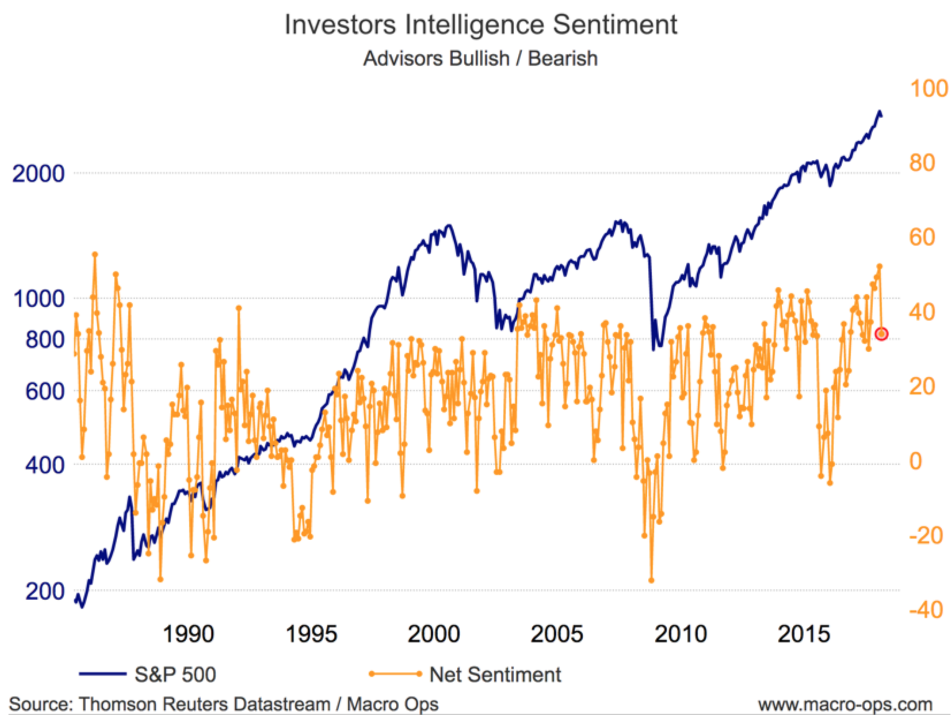
Source: Thomson Reuters Datastream / Macro Ops

The relentless market bid and total lack of volatility are largely the result of liquidity conditions falling to their easiest levels in over 25 years.



These conditions have created an extremely powerful pavlovian market response to buy the dips.

While net investor sentiment, measured by Investors Intelligence, recently hit its highest levels since 1987.



So up until only recently, we've had unprecedented synchronized global growth, record low volatility, the easiest liquidity conditions in over 25 years, and greater certainty over global policy. It literally doesn't get any better than this. At least not from an asset pricing perspective.

Since expectations lag fundamentals and price action, we can infer then that current market expectations are increasingly pricing in a perfect future outcome — extrapolating current conditions into perpetuity. And that's a tough bar for markets to clear going forward…especially with the macro landscape evolving as it is.

We're moving closer towards a danger point in markets. Where reality will soon start failing to meet our increasingly excessive expectations.

This isn't going to happen overnight and overall fundamentals coupled with the strong positive momentum in both sentiment and equities are supportive of further upside this year — with a growing potential for a parabolic 'melt-up' scenario playing out.

But this performance is going to come at the cost of greater dispersion between asset returns, greater volatility, and a narrowing of the market. And the driver of these changes, like always, will be liquidity. And the Federal Reserve still remains the most important lever on global liquidity.

Macro: A New Fed, A New Approach

Ray Dalio, founder of one of the most successful hedge funds in history, recently wrote the following about the growing predicament that the Fed now finds itself in (emphasis ours).

> ***We know that we are in the "late-cycle" part of the short-term debt/business cycle with the conditions... but we don't know precisely where we are****—i.e., we don't know exactly how far we are from the top in the stock market and then the economy, though it is clear that we are past the top in the bond market. While squinting and doing calculations to try to figure that out, we know that we won't get it precisely right, but we hope to get it as by-and-large right as we have in past times.*
>
> *As for the calculations we are doing, classically, if the spurt in growth in profits (which is good for equities) is faster than the rise in interest rates (which is bad for asset prices) that will be marginally bullish,* ***and if there is a lot of cash still on the sidelines (which there is) that causes one last spurt in equities prices, which is also bad for bonds (raising interest rates) and leads to Fed tightening, which makes the classic top. For the most part, that will be the most important determinant of the exact timing of the top in stocks.***
>
> ***What we do know is that we are in the part of the cycle in which the central banks' getting monetary policy right is difficult and that this time around the balancing act will be especially difficult*** *(given all the stimulation into capacity constraints and given the long durations of assets and a number of other factors) so that the* *<u>risks of a recession in the next 18-24 months are rising.</u>*

The end of this cycle isn't set in stone. It all depends on how the Fed (the largest source of global liquidity) reacts to an economy operating at above capacity (which we now are).

And from Powell's recent testimony it's clear that he is set on taking a more aggressive policy stance than his predecessor.

Note the following from Fed watcher Tim Duy (emphasis ours):

> Yesterday I called attention to this line from Federal Reserve Chairman Powell's testimony:
>
> *In gauging the appropriate path for monetary policy over the next few years, the FOMC will continue to strike a balance between* ***avoiding an overheated economy*** *and bringing PCE price inflation to 2 percent on a sustained basis.*
>
> I interpreted this as a shift in the Fed's focus. **The risks are shifting, hence the new concern about an overheated economy.** In contrast, previous iterations of this policy

guidance referred to “achieving” and then “sustaining” full employment. Central bankers must view the economy as in a danger zone for inflationary pressures.

The next line of the testimony reads:

While many factors shape the economic outlook, ***some of the headwinds the U.S. economy faced in previous years have turned into tailwinds:*** *In particular, fiscal policy has become more stimulative and foreign demand for U.S. exports is on a firmer trajectory.*

The Fed’s forecast was already only tenuously supportive of three rate hikes. The extra stimulus hence throws the economy into the red zone. If we had any doubt that this policy shift was underway, Julia Coronado of Macropolicy Perspectives catches the topic of Federal Reserve Governor Lael Brainard’s speech next week:

“Navigating Monetary Policy as Headwinds Shift to Tailwinds.”

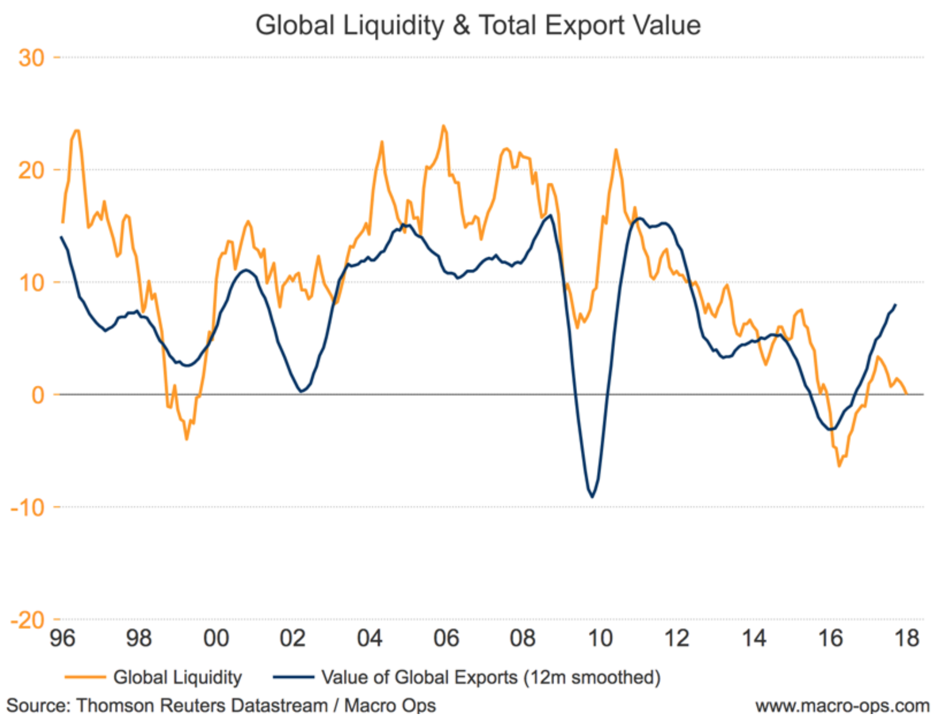
Bottom Line: I don’t think this is just about three or four hikes. It strikes me as something bigger, **a more fundamental change in the policy objective.** I understand if you want to resist such an interpretation. We, myself included, all have a lot of ink spilled on gradualism, so there is a natural resistance to changing the story. But as I said Monday, it felt like policy expectations had been set adrift during the transition and I was looking for Powell to re-anchor those expectations. That’s what it looks like he is doing. But he is raising as many questions as he is answering. For instance, **I think we need to give some extra weight to the view that 2 percent inflation is a ceiling, not a symmetric target. And now we will be talking about monetary offset. Should get interesting.**

Stanley Druckenmiller long ago pointed out why a shift like the one we’re now seeing in the FOMC is important, stating (emphasis ours):

We look at the market in three different ways — and each of them is flashing warning signals. First of all, we look at valuations. We use them to determine, really, the market’s risk level, as opposed to its direction… Valuation is something you have to keep in mind in terms of the market’s risk level… when catalyst’s come in and change the market’s direction… the decline could be very major if you’re coming from the kinds of overvaluation levels witnessed in ‘29 and the fourth quarter of last year (note: this was in the year following the 87’ crash). So valuation is something we keep in the back of our minds.

The major thing we look at is liquidity, meaning as a combination of an economic overview*. Contrary to what a lot of the financial press has stated, looking at the great bull markets of this century, the best environment for stocks is a very dull, slow economy* *that the Federal Reserve is trying to get going…* ***Once an economy reaches a certain level of acceleration… the Fed is no longer with you… The Fed, instead of trying to get the economy moving, reverts to acting like the central bankers they are and starts worrying about inflation and things getting too hot. So it tries to cool things off… shrinking liquidity…*** *[While at the same time] The corporations start having to build inventory, which again takes money out of the financial assets… finally, if things get really heated, companies start engaging in capital spending… All three of these things, tend to shrink the overall money available for investing in stocks and stock prices go down…*

The Fed "Put" is getting pulled at the same time that global liquidity is rolling over; pulled lower by a deleveraging China and a more hawkish Fed.



So what does this all mean?

It means that we're entering a trader's market. This market is going to reward stock selection over passive allocation and tactical trading over buy and hold. It's time to get active.

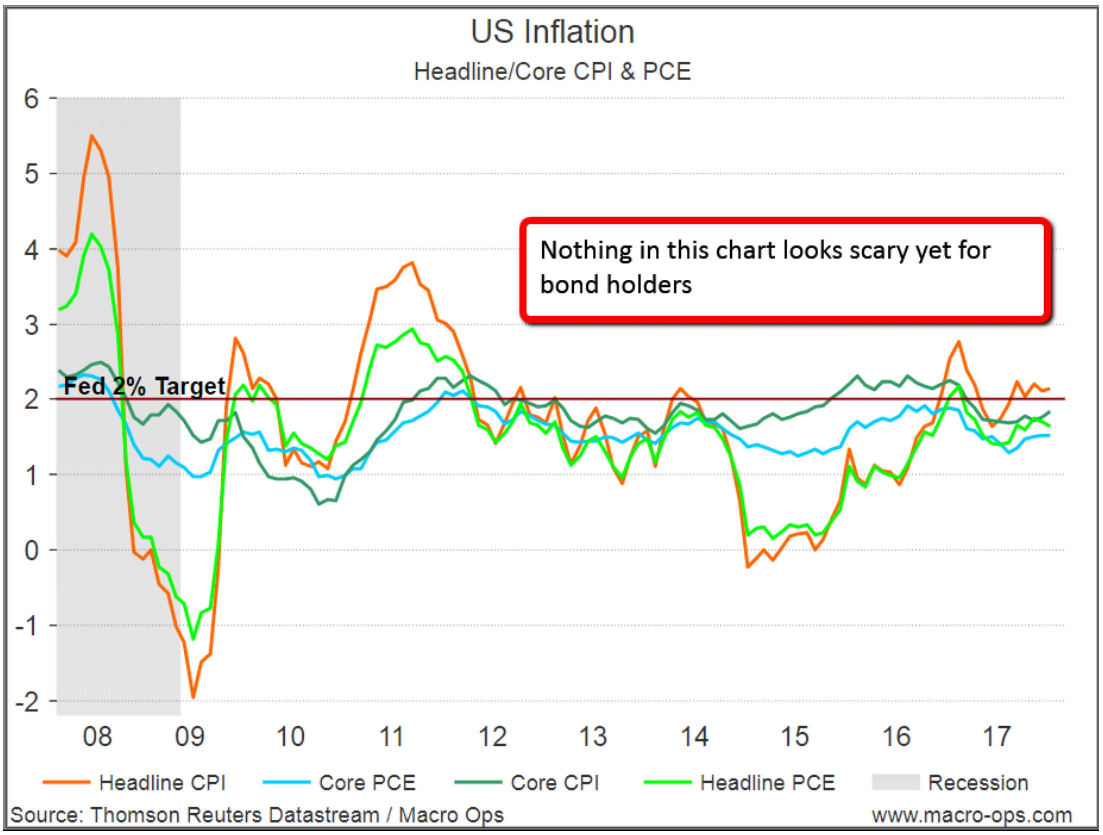
Right now our focus is on two different tactical macro trades and three high growth stocks.

We'll cover the first macro tactical trade here, then talk about the stocks, and finally we'll cap it off with the second macro tactical trade in the quant section.

A Tactical Long In Bonds

Yields have been uptrending all year on hawkish Fed rhetoric and global growth confidence.

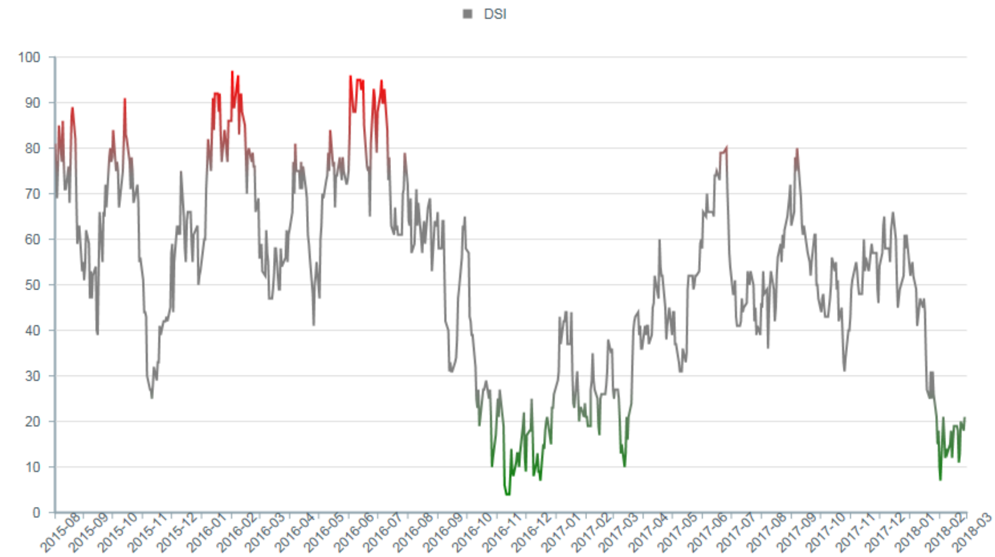
This has turned everyone into big bond grizzly bears. But now the move is likely overdone **in the short-term**. We agree with the market, that yields will trend higher this year, but it won't happen all at once. The move will back and fill in a methodical fashion because there's no reason to panic yet. Inflation needs to surprise big time in order for bonds to start panic selling and we're just not seeing that yet in the data.



Bond sentiment according to the Daily Sentiment Index is at a level that typically signals downside exhaustion.

T Bonds

Last Day 21
Change 3
10 Day Average 16.7



And 30-yr yields are stalling out at a really important resistance level.

This setup allows for a nice convex payout on going long 30-yr US bonds.

If you use TLT you can enter here and put a stop right below the lows. If bonds work off their extreme negative sentiment the trade will payout around 2.5:1 putting the asymmetry in your favor.

The nice thing about this trade is that it complements a trading book full of long equities. If the SPX decides to retest the February lows the 30-yr will catch a flight to safety bid and reverse its move sharply. TLT will respond by rallying and retracing around 50% of its down move.

Now onto the equities…

Micro: GAIA, MU, PRPL

GAIA Inc.

Company Profile: We first pitched Gaia Inc (GAIA) back in March of 2017 (you can read the original write-up here). Back then, the stock was trading for $8.70 a share and was in the early stages of a big transition. The company was pivoting to become a pure play streaming video on demand company geared towards new age types. The stock has risen 60% since and we're reiterating our buy rating on this company and believe there's substantial upside left.

What The Market Is Pricing: GAIA has remained a surprisingly under the radar growth stock. This is probably due to the massive business restructuring it began in 2014 that led to it selling off what had been its primary business units and main money makers in order to focus purely on video streaming. Because of this, the stock's numbers don't quantitatively screen well over the last five years. You just see a big drop off in revenues. Context is key and it seems to be missing for most.

Our Take: GAIA has been crushing it. Jirka Rysavy, the CEO monk, one of the best and lesser-known capital allocators in the game, is setting the bar high and surpassing it every quarter. With the company's current and expected growth, there's no reason why the stock can't/shouldn't 3-4x from here. Just look at the numbers.

Their service is expected to hit one million subscribers by 2019. That equates to a revenue run rate of roughly $110m. The business is fully funded for the next 24 months at which time it plans on lowering spending on customer acquisition and bringing down growth from the current 80% y/y rate to a more sustainable 20%.

So in under two years, this $200m market cap company will be generating free cash flow somewhere in the ballpark of $45-60m. And what type of multiple do you give a company that's growing free cash flows at roughly 20% a year? 15 or 20x maybe?

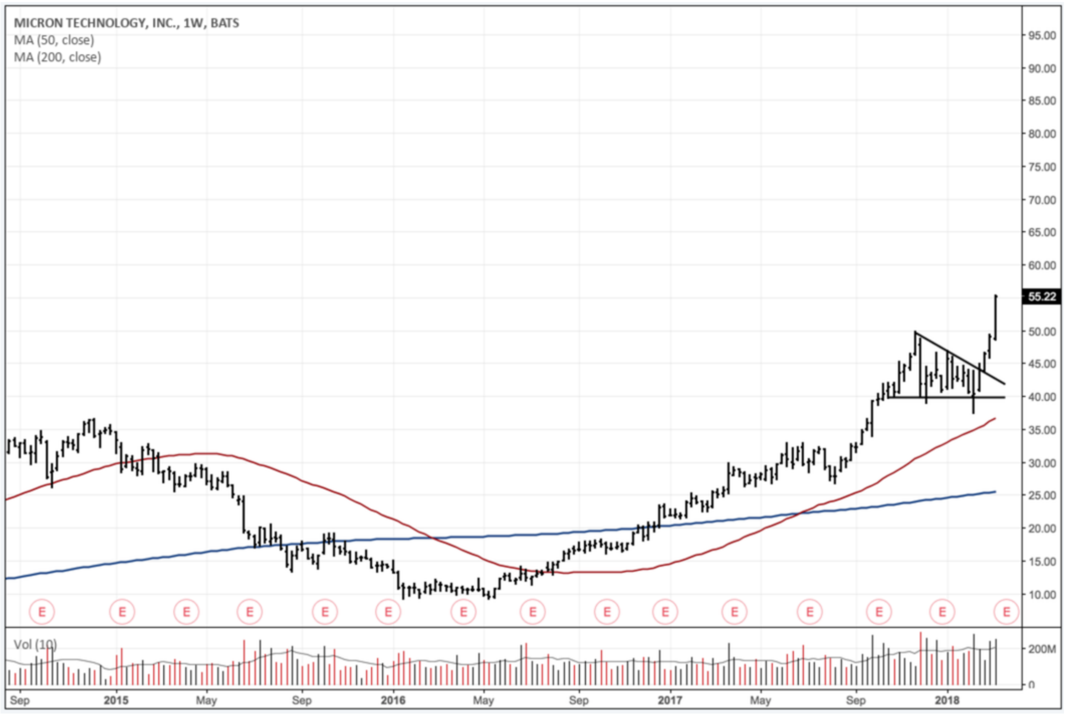
Let's be conservative and give it a cash flow multiple of 15. 15 times $50m is $750m which is 3.75x higher than where it's trading right now. A 20x multiple would give it a market cap of $1B which would mean the stock would trade at $65 a share.

Jirka is one of the few CEOs that I would back in nearly any endeavor. The guy has a long history of delivering results and building big highly profitable businesses. GAIA looks set to be another notch on the belt.

The stock had been battling the $13 level for the last six months but it finally punched through last week. A large holder that we know had a big sell limit order at $13 that has finally been fully liquidated.

This should clear the way for the stock to run.

Micron Technology



Company Profile: Micron Technology (MU) makes semiconductors. The Company's portfolio of memory technologies, including dynamic random-access memory (DRAM), negative-AND (NAND) Flash and NOR Flash are the basis for solid-state drives, modules, multi-chip packages and other system solutions.

What The Market Is Pricing: MU was a real head scratcher for me. Its revenues were up 70+% y/y but it was only trading at a forward PE of 6. We put on a position two weeks ago and would have bought much sooner but I kept thinking that we must be missing something. The only plausible explanation I could find was that the bears are concerned over too much semi capacity coming online and flooding the market with supply. They think we're at the end of the current capital cycle in semis.

Our Take: I don't quite buy the bear thesis. I think these people are anchoring on how past semi cycles played out without realizing that the demand space has completely changed over the last decade. The rise of the internet of things, autonomous driving, and machine learning has created a more persistent and sustainable demand for semis. Combine this with the increased costs and limited ROI of creating new fabs, I think the capital cycle here still has plenty of room to run.

The company should easily clear $9-10 in EPS this year which at current prices gives it a PE ratio of around 6x. And even better, the company recently updated their guidance on the coming quarter's earnings which are due in two weeks. Micron boosted its EPS guidance to $2.70-$2.75 and revenues up to $7.20-$7.35B. Not an insignificant increase.

On growth alone, even absent a rerating, MU should trade above $65. But throw in a rerating and potential momentum effects from the US tech trade picking up steam again and we could see MU clear $100 by year's end.

Purple Innovation

Company Profile: Purple Innovations (PRPL) is a consumer goods company. They make innovative mattresses, pillows, and such which they deliver direct to consumers. You've probably seen one of their advertisements ([here's one of them]). Many of which have gone viral, racking up tens of millions of views on Youtube. The company recently came public through a SPAC. The stock was first brought to my attention by two readers (thanks JC and PB).

What The Market Is Pricing: This stock isn't on anybody's radar. That's due to the fact that it came public as a SPAC, most of which go largely ignored. But this is going to change, and probably change very soon.

Our Take: Purple reminds me of the Dollar Shave Club. Remember them? They hit the ground running and caught a lot of attention with their viral video marketing. They were acquired by Unilever after just a few short years in business for over $1B.

PRPL has managed to spark the same kind of viral sharing with its videos. It's most popular advertisement has over 150m views (and counting) on Youtube now. That's a lot of free press. It also helps that their mattresses, made out of a unique patented material, is highly rated by consumers (Tyler's girlfriend recently bought one and she loves it).

All this attention is translating into growth. Lot's of it.

Sales are currently expected to grow from $66.5M in 16' to $194-$195M in 17' (year end results come out next week). That's y/y revenue growth of 290+% all while producing breakeven free cash flows. And for 2018, the company expects revenues to come in somewhere between $370m and $480m, another triple digit gain… accompanied with positive earnings as well.

Eric Gomberg of Dane Capital, a talented value focused hedge fund that specializes in SPACs, thinks that "revenues could exceed $1bn+ in 3-4 years with 15% EBITDA margins. At 10x EBITDA, that implies a stock prices approaching $30." The stock currently trades at just over $10.

And 10x EBITDA is a very conservative estimate for a growth company like this.

Opportunities like PRPL don't come around very often. Company's would kill for the kind of attention and brand recognition they're creating with their marketing videos. In fact, billions upon billions a year are spent trying to do just that. But you can't buy viral… and PRPL has stumbled upon something special. At current prices, we get a very cheap call option on a high growth company with tons of potential runway.

Right now we only have positions on in MU via DOTM calls. The other two we will look to enter soon.

And now Tyler will wrap it up with our final macro tactical trade idea.

Quant: Regime Change

February volatility has clearly signaled a regime change. We're no longer in a market that rewards 'hodlers' to think less and hold more. It's a traders market now.

The S&P finally snapped that ridiculous no pullback streak we've all been watching on Fintwit. (Picture below via Bespoke.)

And that break caused the largest short volatility unwind in the history of the VIX complex. The one day move on February 5th set records for the largest point move and percentage move in the VIX index. **This includes data from the 2008 financial crisis.**

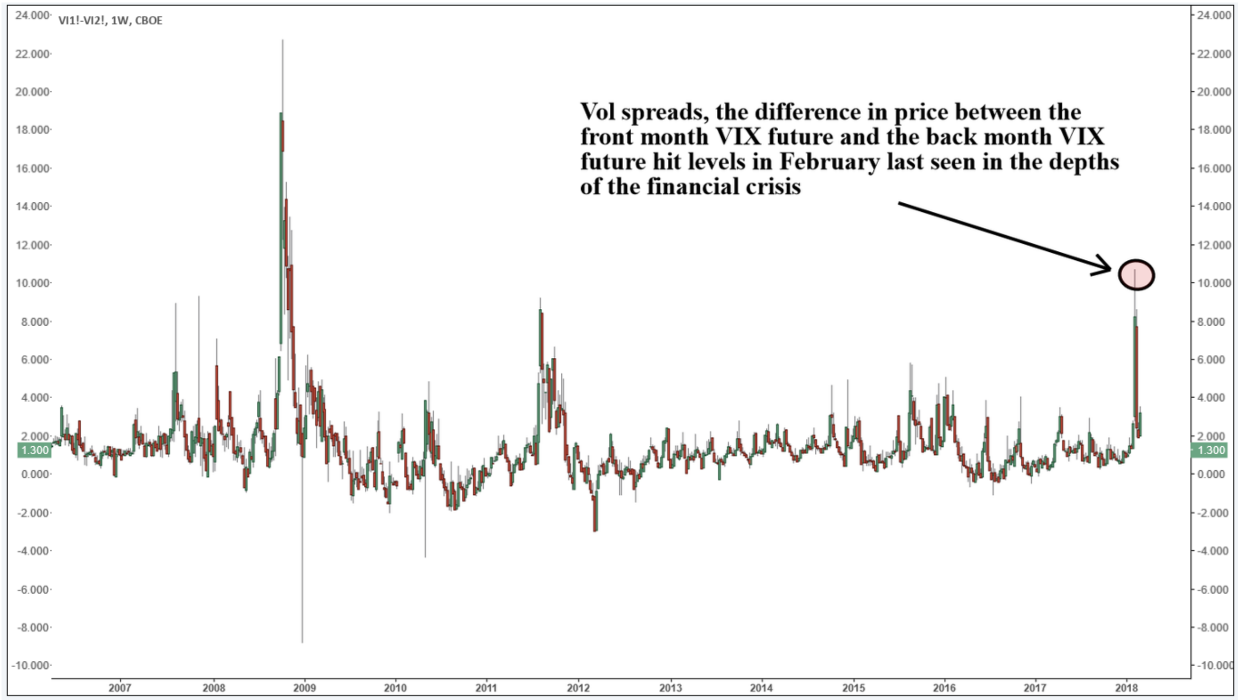
Biggest One-Day Up Moves for VIX® Index

(Jan. 1990 - Feb. 5, 2018)

Point Moves			% Moves		
1	**5-Feb-2018**	20.01	1	**5-Feb-2018**	115.6%
2	22-Oct-2008	16.54	2	27-Feb-2007	64.2%
3	8-Aug-2011	16.00	3	15-Nov-1991	51.7%
4	15-Oct-2008	14.12	4	23-Jul-1990	51.5%
5	1-Dec-2008	13.23	5	8-Aug-2011	50.0%
6	24-Aug-2015	12.71	6	24-Jun-2016	49.3%
7	29-Sep-2008	11.98	7	21-Aug-2015	46.4%
8	24-Oct-2008	11.33	8	17-May-2017	46.4%
9	18-Aug-2011	11.09	9	24-Aug-2015	45.3%
10	20-Jan-2009	10.54	10	10-Aug-2017	44.4%

Sources: Bloomberg and Cboe. www.cboe.com/VIX

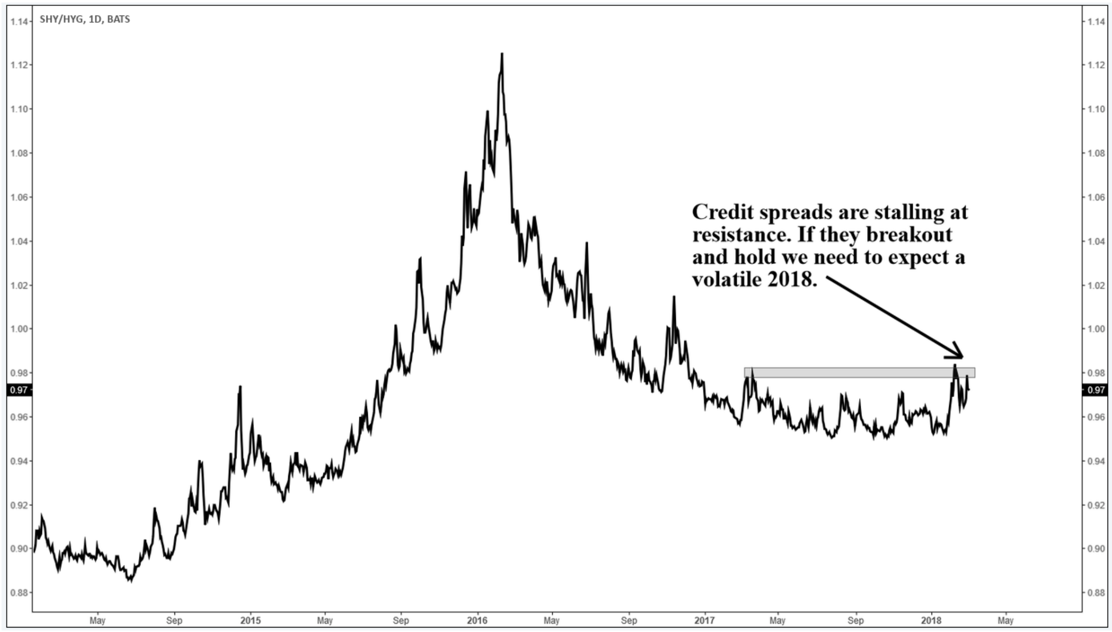
This up move caused the VIX futures term structure to trade at levels last seen in the 2008 financial crisis.



Now the big question is whether or not this volatility will persist. Will equities work off the uncertainty and resume the 2017 uptrend? Or will 2018 look like a giant volatile and choppy range?

We've found it extremely helpful to watch the trend in credit spreads to determine the forward vol regime. When credit spreads widen volatility in the market will persist and stay high. When credit spreads tighten the opposite occurs — volatility comes down.

A quick way to check out credit spreads is to plot the ratio between SHY and HYG (SHY/HYG).



Credit spreads are on the precipice of breaking out and reversing the down trend from 2015. If this chart can breakout and hold then we should expect more volatility in the months ahead.

Right now it's sort of in "no-man's land." In response, we've cut back on our aggressive short vol stuff and have started to move our focus into trades that will benefit if this chart breaks out. This is in line with our macro view that higher volatility is ahead.

Unfortunately, monetizing a forecast for higher volatility is tough. Pretty much anything that benefits from higher vol has a negative carry along with it (short high yield bonds, long VIX calls, long puts on SPX, long VXX etc.). All of these long vol trades slowly bleed you to death unless you happen to get in at the perfect time. It's possible to do — but tough.

Luckily, there's an alternative way to monetize higher vol if you're willing to do some tactical trading. **Historically speaking, long only mean reversion systems with one day holds have worked fantastic on equity indices during volatile conditions.**

Tactical strategies in stock indices that buy on panic closes, hold overnight, and sell on the next day's close can harvest a liquidity premium that appears when market participants freakout and dump their exposure.

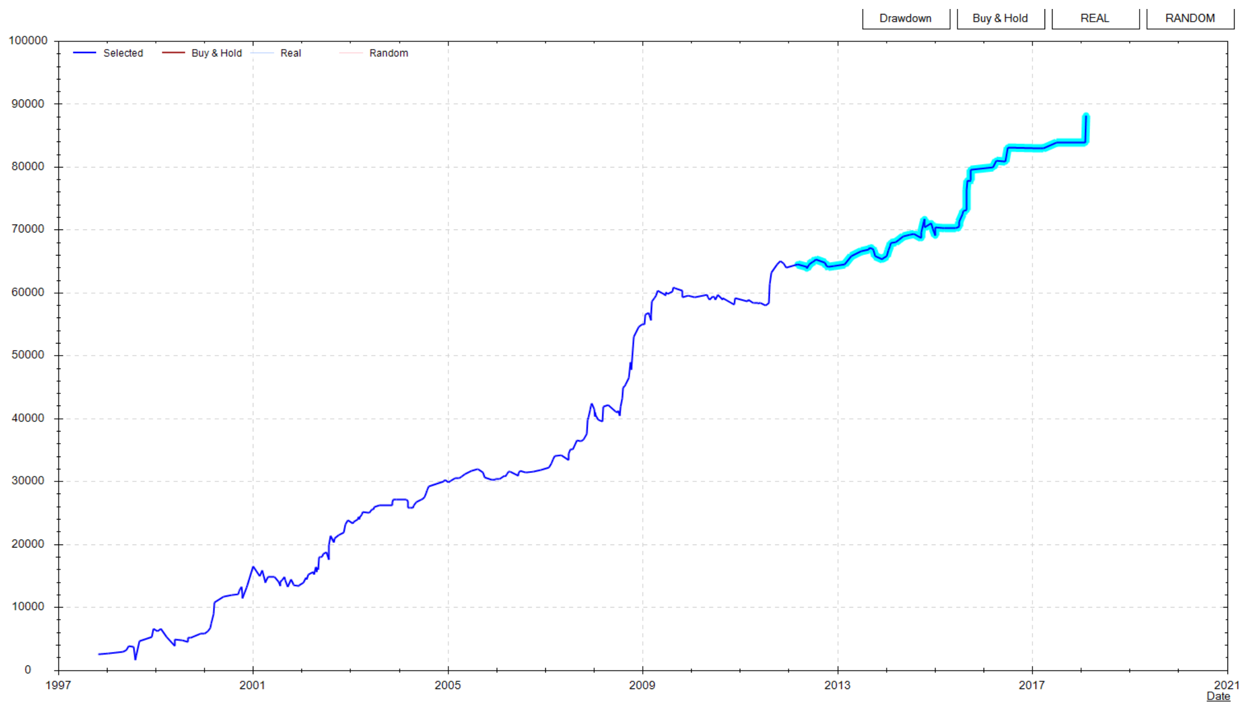
There's hundreds of way to write strategy logic that takes advantage of the overnight liquidity premium.

We have access to a genetic algorithm that can scan for the top ones. Here's what it spit out for the S&P.

- ➢ Mon,Tues = 1
- ➢ rateofChange(close,3)[0] < rateofChange(close,3) [2]
- ➢ Stochastics(4) <= 20
- ➢ If true, buy market and sell after 1 day

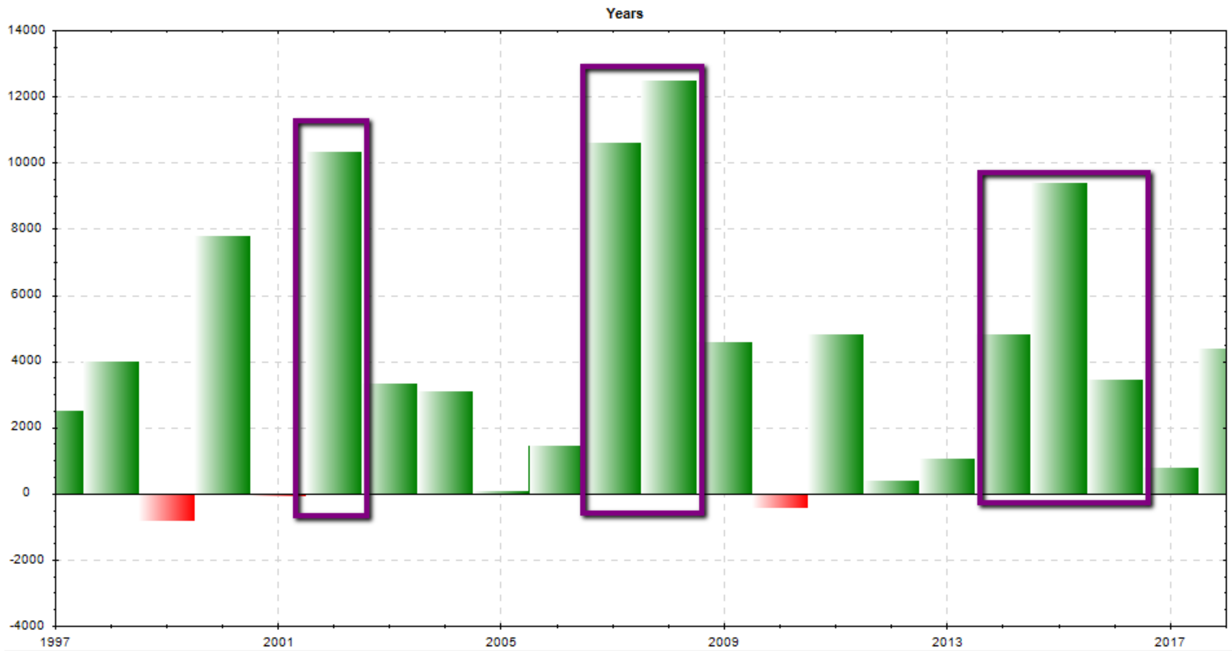
Basically, it’s telling us to buy when markets get really oversold on Monday or Tuesday and then to sell on the next day’s close.

The graph below shows the equity curve for the strategy all the way back to 1998. Performance has been strong throughout time — and the strongest during 2008.



That highlighted part of the equity curve on the right is the performance of the algo on “out of sample” data. When using a genetic algo it’s important to make sure you test it on unseen data to make sure it’s robust. The fact that this logic has continued to perform on unseen data is a great sign. It means the overnight liquidity premium in volatile conditions is real and not some spurious relationship dug up by a machine.

The next plot shows a breakdown in performance per year.



2002 did fantastic. As well as 2007-2008 and 2014-2015. **All of these periods were characterized by high volatility and choppy price action — the exact type of environment were expecting in 2018.**

The above trading strategy can be executed on either the SPY ETF or the E-mini S&P 500 futures.

Consider adding this tactical trading strategy into your trading book this year especially if credit spreads breakout and hold.

Equity Updates: JD & TLND

JD.com

JD, our [highest conviction holding](), took a small hit following the Q4 2017 earnings report on March 2nd, 2018. But that down move was nothing more than knee-jerk selling from weak hands. Since the report the stock has recovered most of its losses.

Revenue rose 46% year over year coming in at $16.9 billion. Adjusted earnings were up as well — climbing 67% higher to $0.10 per share. The company's accounts payable is even increasing at a steady 25+% y/y rate. This essentially equates to a large short-term interest free loan, giving the company a sizable float to leverage. Dell carried out a similar strategy with much success in its early days.

Supplemental Information	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Annual active customer accounts [1] (in millions)	169.1	188.1	198.7	226.6	236.5	258.3	266.3	292.5
Inventory turnover days [2] – TTM	36.8	38.0	37.3	37.6	36.7	36.3	36.9	38.1
Accounts payable turnover days [2] – TTM	45.7	49.2	51.5	52.0	52.3	56.2	58.4	59.1
Accounts receivable turnover days [2] – TTM	1.3	1.3	1.2	1.3	1.2	1.2	1.3	1.4
Free Cash Flow [3] – TTM (in RMB billions)	4.4	9.2	15.0	13.5	17.3	28.9	14.6	15.7

(1) Selected operating data for all presented periods exclude Paipai.com.
(2) Turnover days on a trailing twelve months basis are the quotient of average inventory, accounts payable, and accounts receivable over five consecutive quarter ends to total cost of revenues (and total net revenues for AR turnover days) for the last twelve months, and then multiplied by 360 days; AP turnover days are for online direct sales business; AR turnover days exclude the impact from JD Baitiao.
(3) Free cash flow is defined as operating cash flow adding back the impact from JD Finance related credit products included in the operating cash flow, and less capital expenditures, which include purchase of property, equipment and software, cash paid for construction in progress, purchase of intangible assets and land use rights.

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This is a long-term holding. The length of runway for this stock is ridiculous. The more I read about Richard Liu, JD's Founder/CEO, the more I love this company. The Bezos comparison is not overkill. I think in 5 years time JD will have a market cap north of $500b, easy.

Talend S.A.

We talked about Talend in our [January MIR](). It has since shot up 36% and is now only $10 away from our initial target.

If you're unfamiliar with the company check out our quick synopsis here on page 11.

The rally began after the earnings move on February 14th. Talend reported fourth-quarter revenue of $41.5 million, a 36% year over year increase. Subscription revenue jumped 40% to $35.2 million with the largest increase occurring in the Asia-Pacific region.

Talend is expecting 2018 revenue to come in at $200 million.

Data is this century's oil and Talend's efforts to organize enterprise data has been celebrated so far. We expect a lot more growth in the months ahead.

TLND is a buyout target with a number of potential suitors. The price tag would come with a hefty premium. Buying this stock under the $50 level still represents a trade with positive asymmetry.

That's all we've got for this month!

If you've got any questions please shoot them over to me at alex@macro-ops.com or hit us up in the CC if you're a Collective member.

Take care and good luck in the markets,

Alex and Tyler