Where We Stand

Hey guys, Tyler here. I'm standing in for Alex this week on the Brief as he is off exploring Tel Aviv and Vienna this weekend.

My Latest Thoughts On Major Market Indices

We saw a ton of positive developments last week in the US equity market. For starters, the S&P 500 has officially broken out of a long and painful-to-trade consolidation that's been playing out since the Feb 5th vol shock.

Price has cleared both the downtrend line and the prior high of the consolidation.

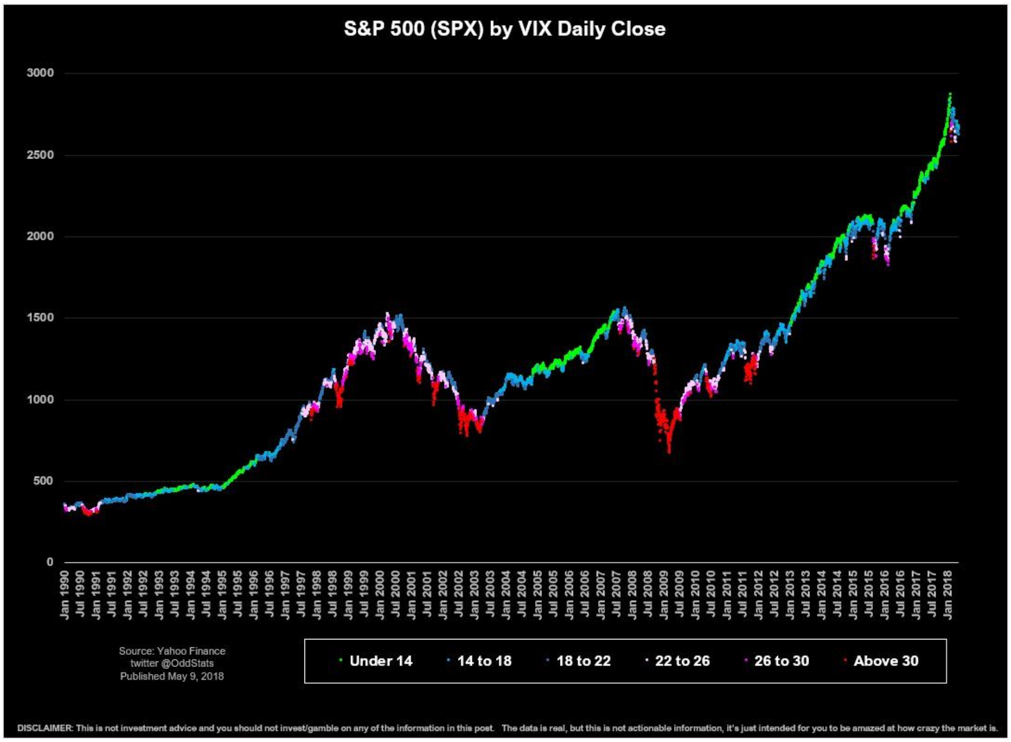
This breakout raises the probability of a new bull trend forming and lowers the probability of continued chop.

I have higher than average conviction that this breakout will hold because of the confirmation we're seeing in volatility markets.

The VIX closed below 13 on Friday. (Hard to believe, I know.) It also breached the prior low put in on March 9th.

Low VIX values tilt the forward probabilities heavily in favor of the bulls. It's virtually impossible for the SPX to have a sustained downtrend with the VIX trading in the teens. And historically speaking, any VIX value under 14 comes with a raging bull market.

Oddstats posted a nice visualization of this correlation on his Twitter feed the other day (graph on next page). The green and blue shading on the equity curve shows what SPX price action looks like with VIX levels of 18 or less.



This makes it easy to see that low volatility = bull trends. A low VIX, and in turn stable SPX pricing, gives large investors the confidence they need to put money to work.

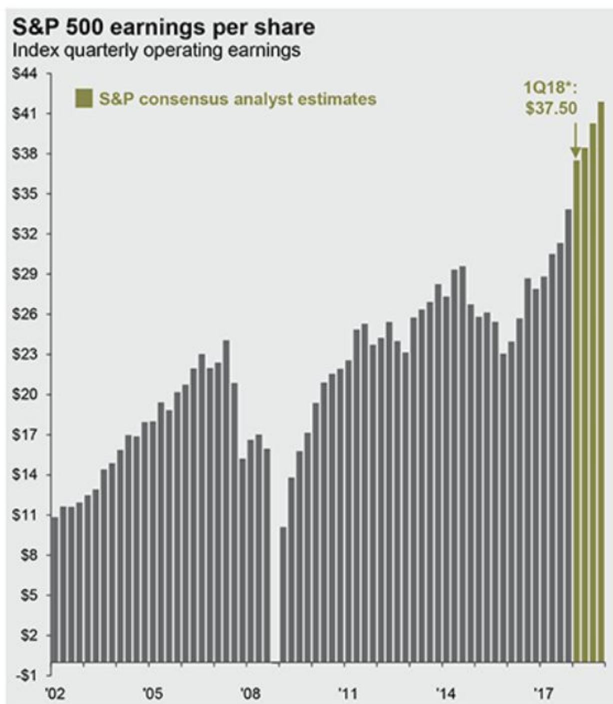
The term structure of volatility (1M/3M) has also relaxed considerably which means stress is leaving the system. The term structure ratio below trades above 1 during times of stress and below 1 when liquidity conditions are favorable. The current value is 0.85.

It’s been holding levels below 1 for the last few weeks now which further strengthens my conviction on the bull move in SPX holding.

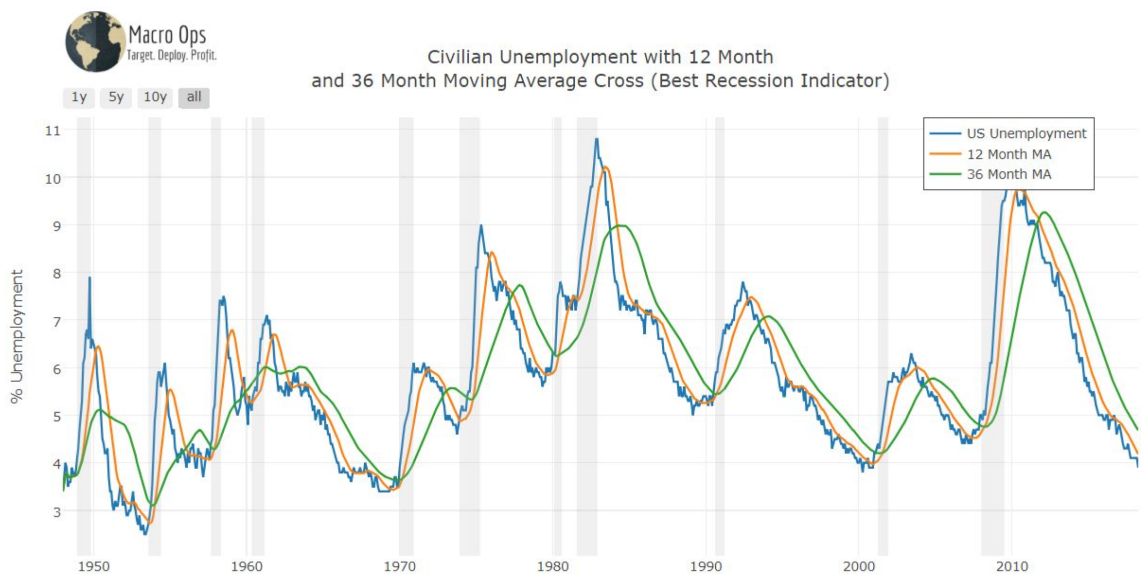
I find it fascinating how in 3 short months we’ve gone from hyper volatility all the way back to 2017-style vol. This supports the theory that the pop in VIX and the sell off in SPX was **machine driven instead of fundamentally driven**.

And after looking into the basic fundy indicators this weekend I’m about 90% convinced that we can blame auto selling due to margin calls and crowded positioning for the unwind earlier this year.

The fundies never followed through alongside the downside price action. Earnings have been great so far and after this 1st quarter reporting is all said and done will likely put in a new all time high in S&P EPS.



And then from a “real economy” perspective the picture has stayed bullish. The latest unemployment number beat estimates, coming in at 3.9% over the estimated 4%. The US economy is firing on all cylinders.



I don't anticipate a recession or a large drawdown (20%+) in stocks until the trend in unemployment breaks higher.

And finally credit never followed through during the high volatility period of Q1. The HYOAS (credit spreads) chart failed to breakout and is now trading back near the lows of its range.

This is a huge tell. From a liquidity perspective things still look fine. I know everyone has been in a tizzy about increasing rates. But US risk appetite is still here as shown by the c-spread chart.

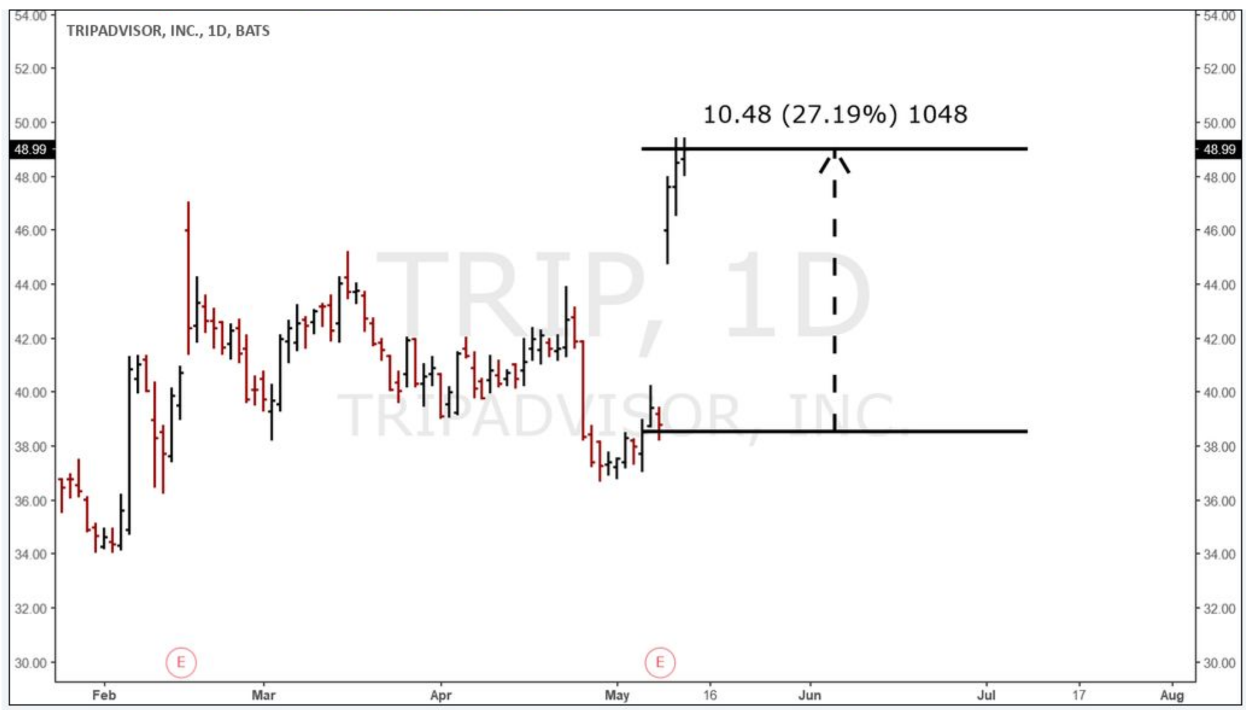
So in my view I think February's down move was really just a gift from Mr. Market — otherwise we would of seen follow through from the above indicators. And now that the technicals have realigned with the fundamentals — I expect the bull trend to resume it's trajectory higher into the summer months.

Of course we still have to think about the China slowdown risk that Alex has been talkin about. So this isn't a layup trade. But overall I think upside bets are the plus EV trade here.

Portfolio Review

The MO Portfolio had its best week of 2018 posting gains of **5.97%** since last Sunday. This puts us up 3.31% for the year. Nothing to write home about, but positive nevertheless, and slightly ahead of a buy and hold portfolio.

The bulk of our gains were made after Trip Advisor smashed estimates and finished up the week around 27%.



Here were the highlights from the earnings report:

- ➢ User reviews and opinions grew 26% year-over-year and reached 630 million as of March 31st
- ➢ Average monthly unique visitors on TripAdvisor-branded apps grew 12% yoy

➢ TripAdvisor rebranded its Attractions offerings to “Experiences” and grew bookable products by more than 80% yoy

Management has also been supporting the stock price this year with a $250 million stock repurchase program of which $100 million has been repurchased year-to-date.

TRIP traded just under our original target this week of $50.00. But the plan is to hold past this target and play for a takeover. Alex still thinks this stock has a lot more room to run. There will be more color on his thoughts in the weeks to come. If the trend gets going our DOTM calls struck at 75 may kick in later this year. Fingers crossed.

Cameco (CCJ) is another one of our holdings that has recently broken out of its basing pattern.

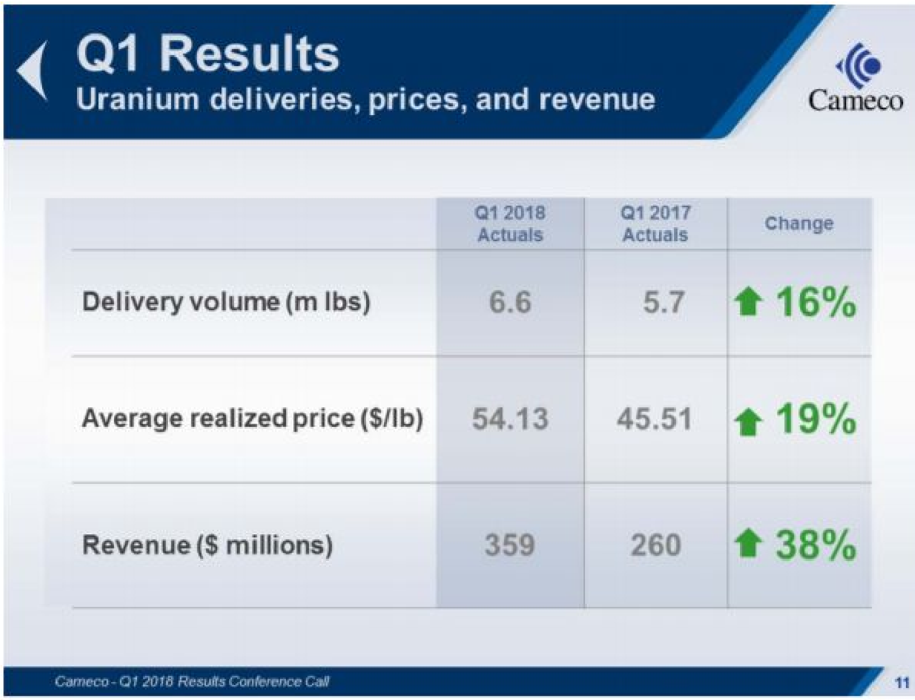
We’ve been tracking the bullish uranium theme for the better half of a year now. Our latest macro take can be found in the January MIR starting on page 7. (link here)

Cameco is one of the world’s largest uranium producers in the world and serves as a nice leveraged upside bet on the price of uranium.

We’ve taken the leverage one step further by expressing the trade via DOTM (deep out of the money) calls struck at 17 and set to expire in 2019.

Our target for the stock remains up near $17.00 — which now looks doable by the end of the year.

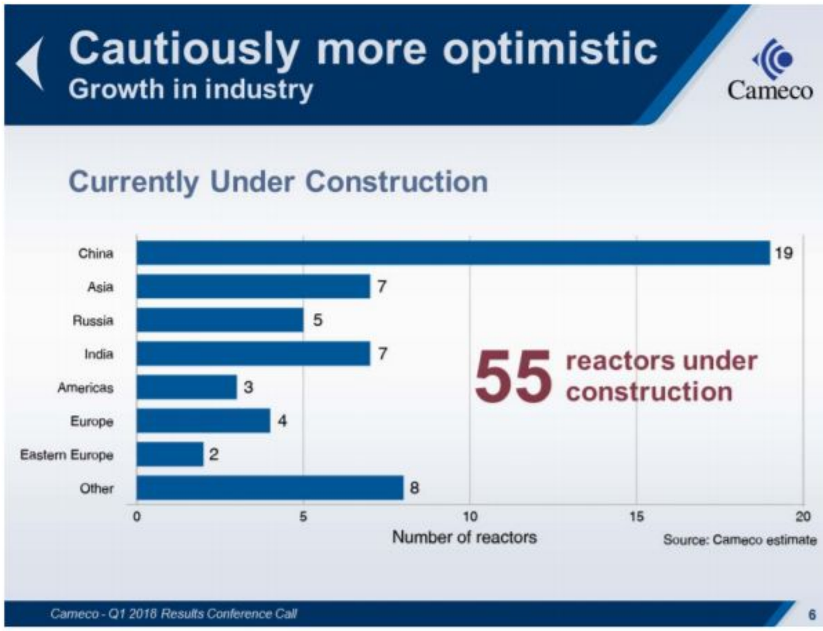
CCJ broke out because of better than expected earnings on April 27th. Revenue was up 38% from last year's numbers.



	Q1 2018 Actuals	Q1 2017 Actuals	Change
Delivery volume (m lbs)	6.6	5.7	⬆ 16%
Average realized price ($/lb)	54.13	45.51	⬆ 19%
Revenue ($ millions)	359	260	⬆ 38%

They beat on earnings because of a strategic decision in January to shut down production at the McArthur River mine. Shutting down this mine helps CCJ in two ways. Number one it cuts out all the costs associated with keeping the mine operational. And two, it restricts the supply of uranium on the market which sows the seeds for higher spot prices down the road.

Future uranium demand also looks hopeful. Cameco pointed out in their earnings presentation that 55 new reactors are currently under construction.



14 of these reactors are expected to start by the end of the year. This incoming demand will also help to boost uranium spot prices.

We still like our position in the DOTM calls here and will consider adding vanilla stock later this month. The commodity bull theme of 2018 has been one of our best performing market calls of the year and we want to continue adding to our winners.

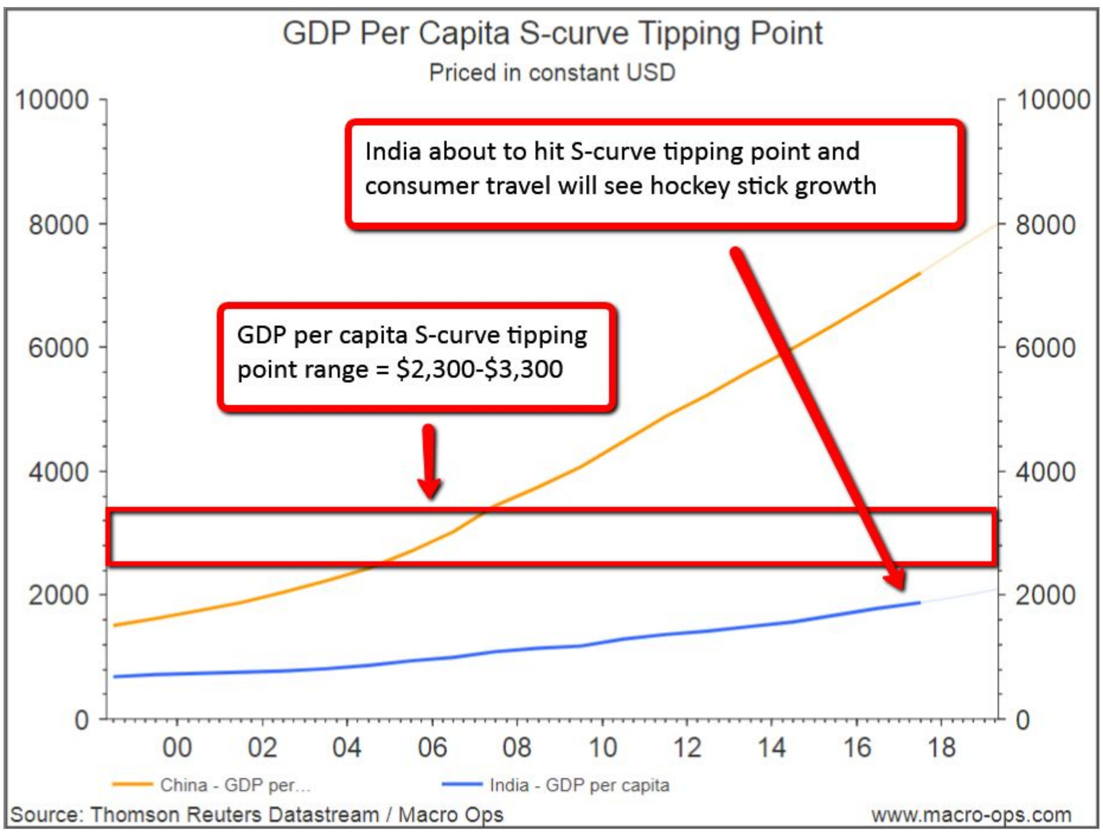
Yatra Online (YTRA) has been the dog of the portfolio, but we're willing to sit with it unless the fundamentals change significantly. (Original write up on page 19 [here])

The chart has been grinding sideways because Norwest Venture, an original VC backer since YTRA got started in 2006, has been exiting the investment through open market selling. They have seven million shares to sell in a stock that has limited daily liquidity.

Once that liquidation winds down — we expect YTRA to break its resistance level at $8.00 and start it's ascent towards our target of $15.00.

Our bullish view on Yatra is largely based on the macro tailwinds India will experience in the next few years. As the Indian population gets richer they will have much more discretionary money to spend on travel and vacations.

China's travel market took off once GDP per capita hit $2,300. India's economy isn't far off from this point. And once they hit it, the travel industry will see hockey stick growth.



Yatra also has an exciting catalyst in the pipeline that should come to fruition towards the end of 2018. Reliance Jio, a large teleco in India who has a meaningful stake in Yatra, has agreed to download the Yatra app on the front page of up to 35 million Jio smartphones.

This will supercharge Yatra's consumer biz instantly doubling Yatra's downloads at an incredibly low customer acquisition rate.

We remain convicted bulls on this name and have a position size that will allow us to withstand any amount of short-term volatility before the eventual break past $8.00.

Our position in the US dollar has been strong out of the gate. But from here we expect to give a little back. The dollar will likely retrace 50% of its most recent move before resuming higher again, assuming this is the start of the next mega bull trend. We'll closely watch price action on this retrace. If the retrace fails to bounce hard we'll likely cut our exposure and take a small win.

Finally the newest portfolio additions, Facebook and Google, have been crushing it out of the gate. We expect these to track the market fairly closely but outperform to the upside if the bull case in SPX plays out.

I got a few questions last week in the Comm Center on why we decided to play these two with vanilla stock instead of DOTM calls. The reason is that we are already loaded with DOTM calls right now and we needed a way to capitalize on a medium sized rally in SPX and tech.

Remember that DOTM calls only pay out when the right tail trend plays out, which happens less than 20% of the time. It's psychologically tough to run an entire book of trades that only have a 10-20% hit rate. So we like to mix in other positions where we expect to win 50-60% of the time.

By choosing vanilla stock on FB and GOOGL, we can capture a medium move up in the market and still make some money without a right tail move materializing.

That's all I got for updates this week.

If you guys have any other questions on existing positions don't hesitate to holler at us in the Comm Center.

It feels good to have a solid winning week after such a long dry spell! Everyone have a great trading week!

- Tyler

Macro Ops Portfolio

		YTD	Inception (16')
NAV	$2,786,361	3.31%	38.69%

Big Bet Macro

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Limbach LMB	2,750	$13.66	$11.00	$4,207.50	$18.00	$12.53
Equity	Interactive Brokers IBKR	1,800	$41.71	$64.60	$27,180.00	$55.50	$79.70
Equity	W&T Offshore WTI	16,000	$2.18	$3.30	$72,480.00	$4.50	$7.83
Equity	United Insurance UIHC	13,000	$16.98	$17.45	$43,810.00	$20.00	$20.82
Equity	Trip Advisor TRIP	7,754	$36.46	$35.50	$104,601.46	$50.00	$48.99
Equity	Facebook FB	1,775	$179.99	$165.00	$38,996.75	$230.00	$186.97
Equity	Google GOOGL	332	$1,073.37	$992.00	$36,885.20	$1,400.00	$1,103.10
Equity	Yatra Online YTRA	36,819	$7.24	Investment	~	$15.00	$7.39
Equity	MU Jan '19 70 Call	118	$2.12	$0.00	$31,978.00	$10.50	$2.71
Equity	BCS Jan '19 15 Call	574	$0.35	$0.00	$9,758.00	$3.50	$0.17
Equity	DB Jan '19 30 Call	670	$0.30	$0.00	$1,340.00	$3.00	$0.02
Equity	CCJ Jan '19 17 Call	236	$0.41	$0.00	$5,192.00	$5.00	$0.22
Equity	FCAU Jan '19 25 Call	108	$0.90	$0.00	$20,304.00	$5.00	$1.88
Equity	JD Jan '19 70 Call	108	$0.92	$0.00	$2,160.00	$7.00	$0.20
Equity	TRIP Jan '19 75 Call	108	$0.89	$0.00	$7,236.00	$7.00	$0.67
Equity	CHK Jan'19 10 Call	750	$0.14	$0.00	$1,500.00	$1.00	$0.02
Equity	MS June '18 65 Call	126	$0.46	$0.00	$1,134.00	$3.00	$0.09
Equity	WMT June '18 120 Call	126	$0.51	$0.00	$504.00	$3.00	$0.04
FX	June Dollar Futures (DXM8)	20	$91.09	$89.80	$52,200.00	$96.00	$92.41
Metals	June Gold Futures (GCM8)	-4	$1,322.0	$1,350	$11,720.00	$1,250	$1,320.70

Volatility

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Commodity	SLV June 2018 17 Straddle	130	$2.84	$0.00	$22,880.00	$5.00	$1.76
Commodity	GLD Sep 2018 128 Straddle	24	$15.10	$0.00	$17,760.00	$30.00	$7.40

Risk Budget

	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,844	656	73.76%
Big Bet Macro	1750	1698	52	97.04%
Volatility	750	146	604	19.45%

**Updated 5/13