

Sit Tight

Our portfolio is having a good year. We've nailed most of the major macro themes year-to-date (ie, long USD, short gold, China deleveraging and EM trouble, long US stocks vs. ROW etc...). We're also sitting on a good deal of cash which I hope to deploy more of over the coming weeks.

One of the hardest things to do when you're riding profitable trades — like our dollar and gold trades — is to not overthink things and micro-manage the trade. The tendency is to try and top-tick the move and lock in the maximum amount of profits before things turn. But one of the most valuable lessons I've learned over the years is that doing this is a suckers move...

We like to think we're better than we *actually* are at picking major turning points (at least I do, maybe you're different)... But, more often than not, this leads to us exiting the trade well before the trend is truly over — trends almost always last longer than we think they will. And we give up a lot more profits over the long-term doing this versus if we just sit back and ride the trend until price action and/or the fundamentals suggest the move is clearly over. We always give a little back at the end doing this, but we make a lot more money in the long run by staying in the trend until exhaustion.

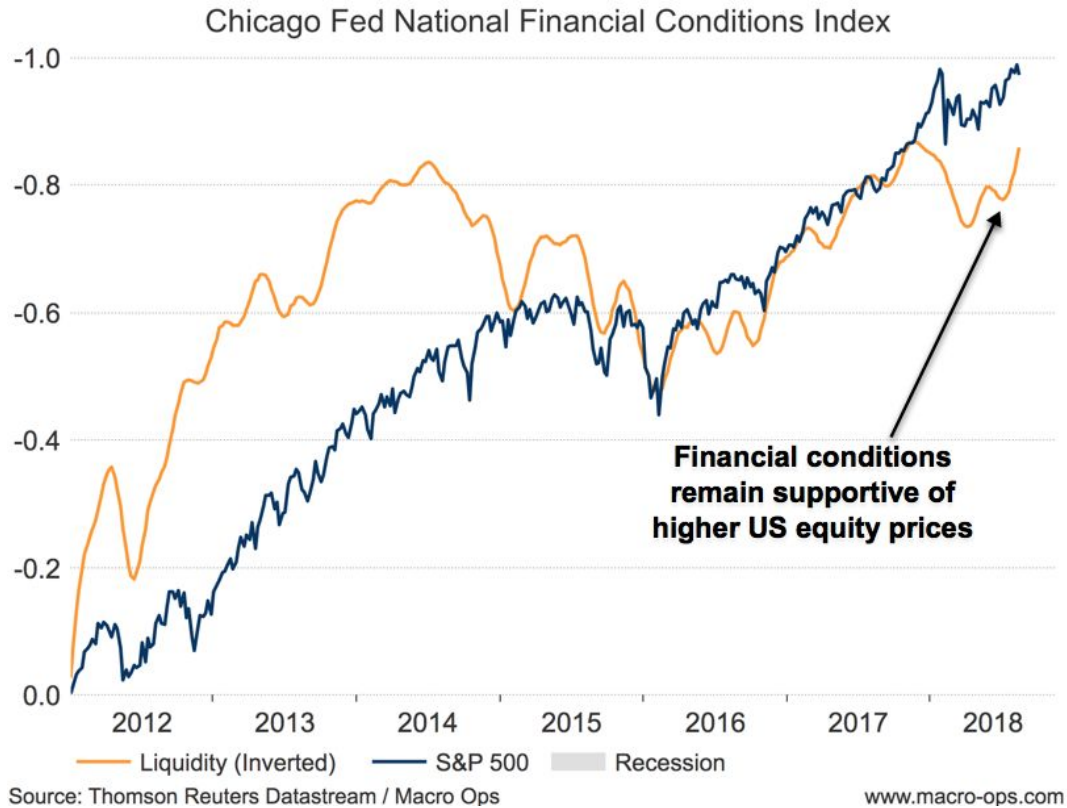
This is Livermore's idea on the importance of "sitting tight". The words from Livermore below are one of the few trading quotes I have taped to my wall. They are that important.

And right here let me say one thing: After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight! It is no trick at all to be right on the market. You always find lots of early bulls in bull markets and early bears in bear markets. I've known many men who were right at exactly the right time, and began buying and selling stocks when prices were at the very level which should show the greatest profit. And their experience invariably matched mine — that is, they made no real money out of it. Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money. It is literally true that millions come easier to a trader after he knows how to trade than hundreds did in the days of his ignorance.

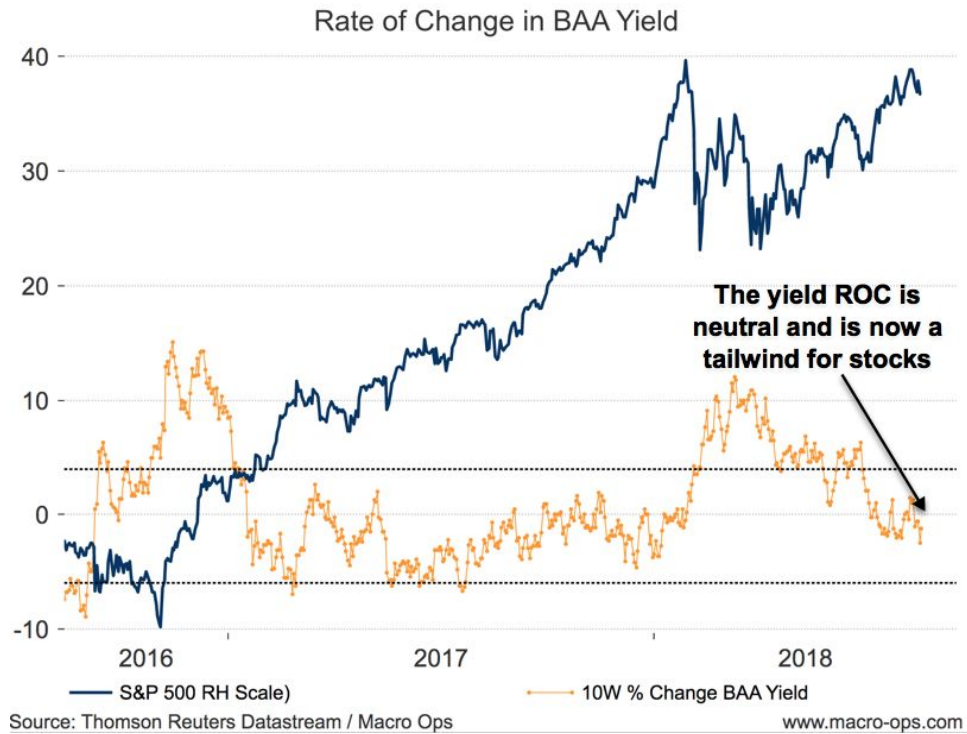
I've received a number of emails lately asking about when we'll take profits on our dollar and gold trades and my answer is: **when the trend clearly changes**. This hasn't happened yet so we'll continue to sit tight.

Alright... let's run through and update our macro, technicals, and sentiment view on the market real quick.

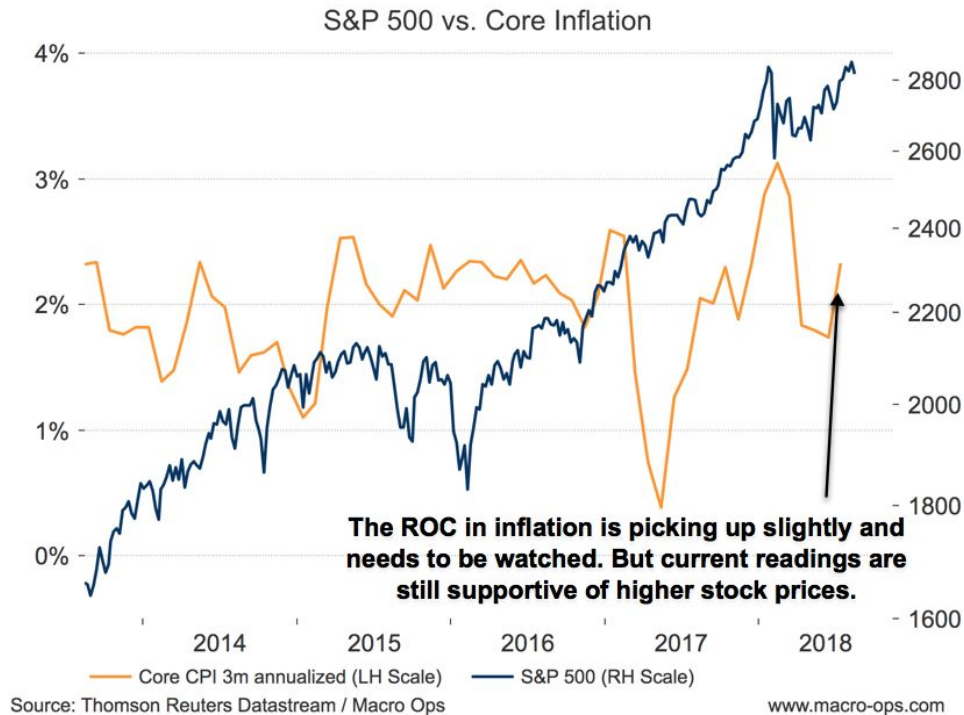
Financial conditions, though tightening in the rest of the world, remain flush in the US. This is supportive of a continued uptrend in stocks.



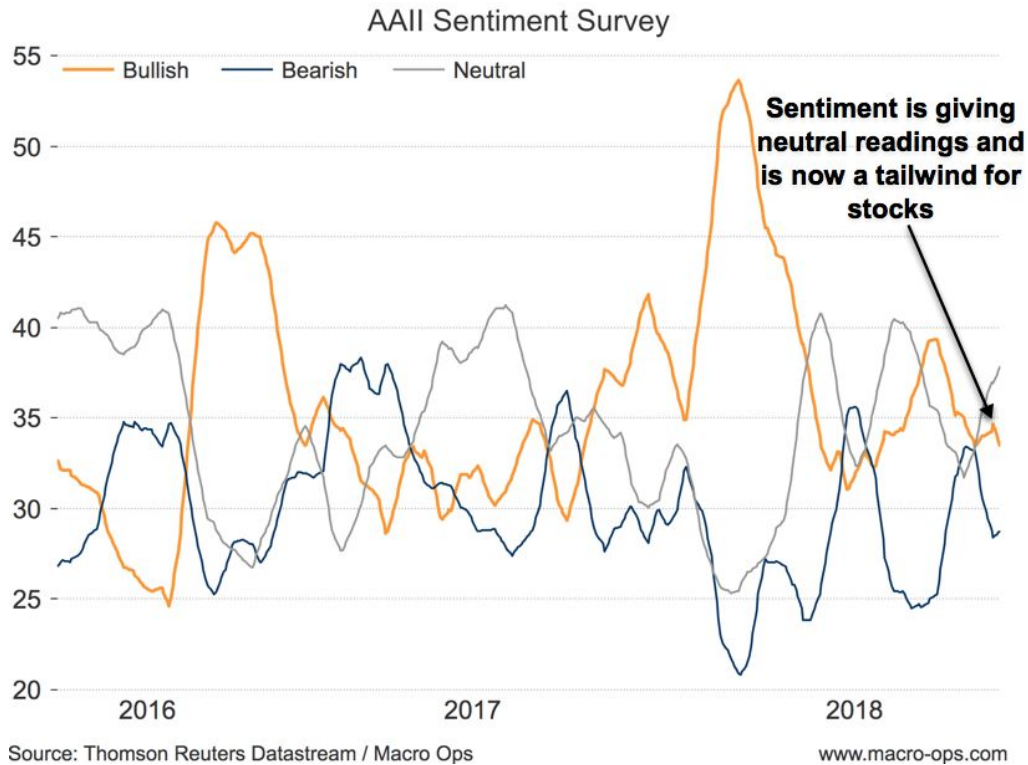
The rate of change (ROC) in yields has settled down and is now a tailwind for stocks.



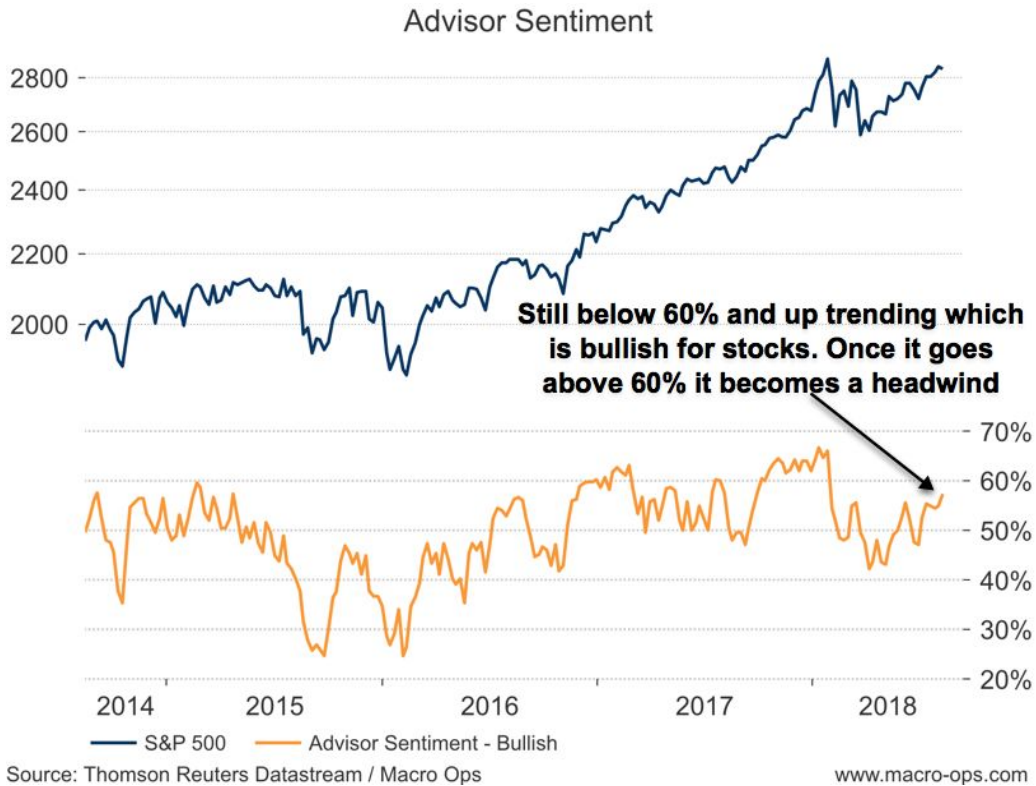
The ROC in inflation is beginning to perk up which is something we need to keep an eye on. But the current reading remains neutral and is a tailwind for stocks. The ROC in inflation matters because positive inflation surprises cause shocks to the bond market which drives yields higher and sucks capital out of stocks.



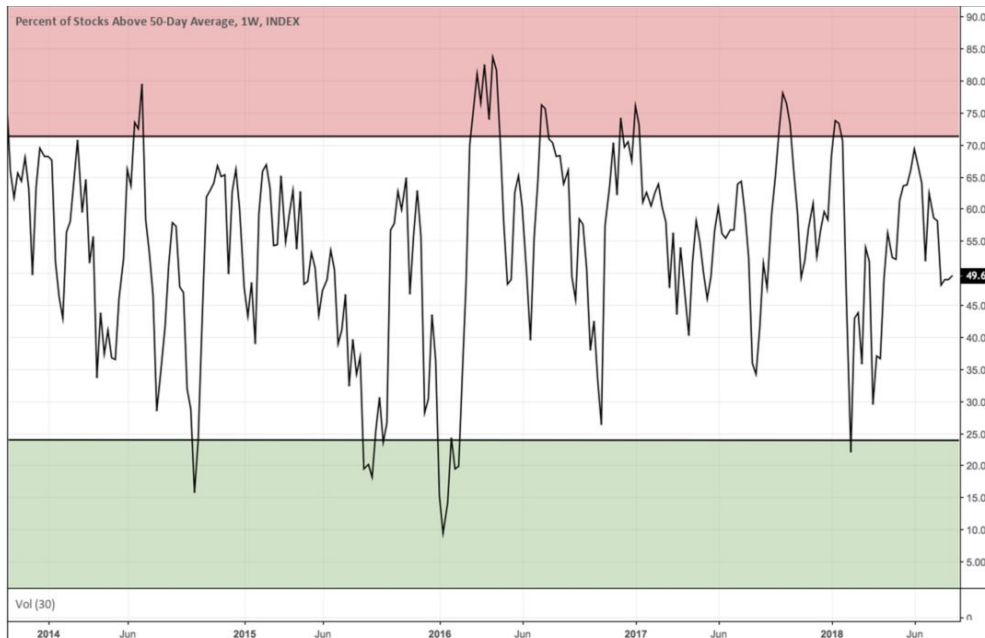
The AAI Sentiment Survey, which is a great indicator of short to intermediate sentiment, shows that bullish sentiment is back down at 33%. This is a bullish tailwind for stocks. When bullish sentiment rises above 40% we need to start being on the lookout for a correction.



Advisor sentiment is a good sentiment indicator on a slightly longer-term basis. When sentiment rises above the 60% levels it indicates excessive bullishness and we should expect a sizable correction at some point. Currently, advisor sentiment is sitting at 57% and trending higher. This is bullish for stocks in the short to intermediate term.



The percentage of stocks trading above their 50-day moving averages is at 50%. This is a neutral reading and is supportive of stocks moving higher from here. When 70% of stocks trade above their 50-day moving averages is when the market becomes technically overextended and we should expect a pullback.



The technical picture in all of the major US stock indices remains bullish. The Russell (IWM) is forming a strong bull flag (chart below on a weekly basis) and a break higher would indicate another likely strong thrust up in US markets.



Emerging markets (EEM) are currently bumping up against a significant long-term support level (chart below is a monthly). I'm monitoring EMs closely for a good buying opportunity. I don't see signs of capitulation yet, but I think we're getting close. A bottom in EM should correspond with a top in the dollar.



Trades I'm monitoring:

We'll probably execute a swing trade in the 10yr this week. Like we talked about in last week's Musings, sentiment and positioning are extremely one-sided to the short side in bonds while the technical picture looks very bullish. A break above the current consolidation zone would likely catalyze a significant short-squeeze and a quick pop in price.



I'd typically expect a strong move like this in bonds though to be driven by a risk off event of some type and the stock market currently looks strong, so I'm not sure what the driver will be here. But either way, the setup is such a good R/R that we'll likely put on the trade today or tomorrow if the chart holds up.

We're going to start building positions in both Yelp (YELP) and Stratasys (SSYS) this week. We covered the long cases for these two stocks in last month's MIR [A Value Investing Manifesto](#). Both have long-term compounder potential and offer highly asymmetric trades at these prices.

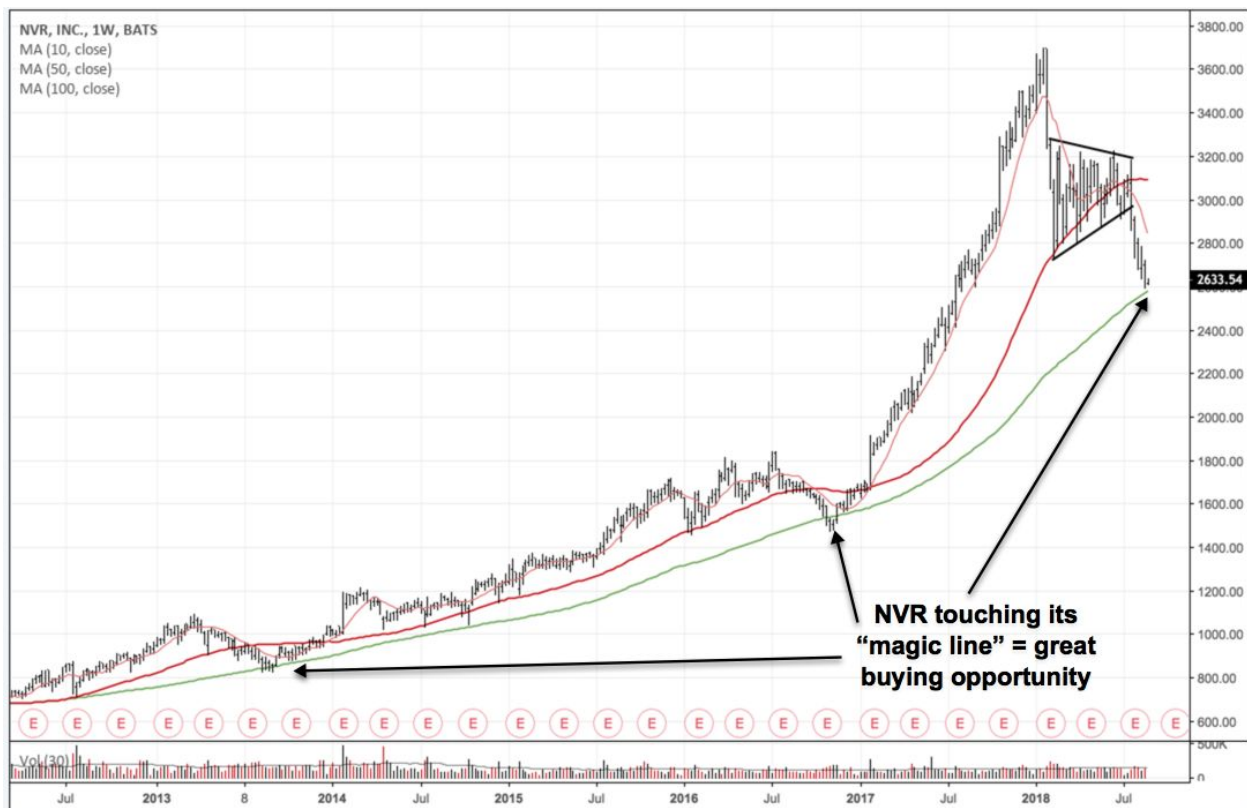


I'm also looking to establish positions, either through straight stock or DOTM calls, in our Fallen Angels that I wrote about in Musings this last week. These are Interactive Brokers (IBKR), Fiat (FCAU), Gaia (GAIA), and NVR Inc. (NVR).

I love Fallen Angel plays because it lets us buy into great companies at 25%+ discounts to where they were trading at just a few months ago. And the discount is for no other reason than a technical washout of weakhands. The fundamentals are still as strong as ever for each of these four companies.

And one thing you'll notice is that these stocks nearly always fall down to around certain moving average before they rebound and move to new highs. Each stock has its own particular MA that it likes to use as support. Jesse Stine calls these MAs "magic lines" and they offer the astute trader a great buying opportunity.

Take NVR for example (chart below is a weekly). NVR's magic line is its 100-week moving average (green line). We get to buy this incredible long-term compounder at a 30% discount to where it was trading just 6-months ago. We covered NVR in our June MIR titled [A Persistent Bid](#).





This week I'm also digging into discount retailer Tuesday Morning (TUES) which is a company I wrote about over a year ago. The stock currently trades at 0.13x revenues and just 13x FCF while sales growth is starting to accelerate into the low double digits and spending at department stores is seeing its first yoy pick up since 2014. TUES reports earnings tomorrow morning. I'll be sharing my writeup on the stock with you guys later this week.

Chart 4: Spending at department stores turned positive for the first time since 2014 (%yoy)



Source: BAC internal data

I'm also currently digging into eXp World Holdings (EXPI) which is a cloud base real estate brokerage services company that has a really interesting business and its stock is currently flying under the radar. Big thanks to the MO member who alerted me to it. EXPI is growing revenues in the high double digits but is only trading for 3x sales. I'll be sharing more on this stock soon.

I'm also considering adding to our 5% position in our Indian OTA play (YTRA). It's been pummeled on negative EM sentiment and short-term thinking by the market. But the company is averaging 30%+ revenue growth and is trading for just over 1x sales. I have a feeling the \$5 level is going to act as a permanent floor for this stock (hopefully). Our current position is being treated as an investment but I will treat any additional capital adds as trades, with risk points and such.



And we can add JD.com (JD) to this group of head scratchers. JD is now trading for just 0.8x sales with its average revenue growth over 30%. That's just insane... We may buy some more DOTM calls on the stock soon.

Other than that, we're also looking to buy some index calls to up our market exposure. Expect to see a trade alert on that later this week.

That's all I've got.

If you've got any questions for us in the meantime, let us know in the Comm Center.

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD	Inception (16')				
NAV	\$2,995,766	10.81%	49.12%				
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Discovery DISCA	3,450	\$28.09	\$23.80	\$14,801	\$60.00	\$28.09
Equity	Stitch Fix SFIX	1,750	\$32.96	\$25.50	\$14,525	\$60.00	\$33.80
Equity	Advanced Micro AMD	14,818	\$14.84	\$11.50	\$122,249	\$25.00	\$19.75
Equity	United Insurance UIHC	13,000	\$16.98	\$17.45	\$46,670	\$20.00	\$21.04
Equity	Google GOOGL	332	\$1,073.37	\$992.00	\$74,202	\$1,400.00	\$1,215.50
Equity	Disney DIS	5,694	\$102.34	\$95.00	\$99,645	\$150.00	\$112.50
Equity	Yatra Online YTRA	36,819	\$7.24	Investment	~	\$15.00	\$5.11
Equity	MU Jan '19 70 Call	118	\$2.12	\$0.00	\$5,900	\$10.50	\$0.50
Equity	FB Jan '19 260 Call	35	\$2.59	\$0.00	\$1,085	\$20.00	\$0.31
Equity	AMD Jan '19 28 Call	192	\$0.40	\$0.00	\$10,176	\$3.90	\$0.53
Equity	BCS Jan '19 15 Call	574	\$0.35	\$0.00	\$8,610	\$3.50	\$0.15
Equity	DB Jan '19 30 Call	670	\$0.30	\$0.00	\$1,340	\$3.00	\$0.02
Equity	CCJ Jan '19 17 Call	236	\$0.41	\$0.00	\$2,360	\$5.00	\$0.10
Equity	FCAU Jan '19 25 Call	108	\$0.90	\$0.00	\$1,620	\$5.00	\$0.15
Equity	JD Jan '19 70 Call	108	\$0.92	\$0.00	\$1,512	\$7.00	\$0.14
Equity	TRIP Jan '19 75 Call	108	\$0.89	\$0.00	\$16,200	\$7.00	\$1.50
Equity	CHK Jan'19 10 Call	750	\$0.14	\$0.00	\$14,250	\$1.00	\$0.19
FX	UUP Jan'19 27 Call	1,230	\$0.13	\$0.00	\$18,450	\$1.20	\$0.15
Commodity	Sep Crude Oil Futures	-3	\$67.17	\$71.00	\$11,040	\$60.00	\$67.32
FX	Sep Dollar Futures (DXU8)	20	\$94.44	\$93.71	\$46,200	\$96.00	\$96.02
Metals	Dec Gold Futures (GCZ8)	-9	\$1,234.0	\$1,245.7	\$48,510	\$1,110	\$1,191.80
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Commodity	GLD Sep 2018 128 Straddle	24	\$15.10	\$0.00	\$30,000.00	\$30.00	\$12.50

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,869	631	74.77%
Big Bet Macro	2250	1867	383	82.98%
Volatility	250	100	150	40.06%

**Updated 8/19