

Operators,

Today we executed a number of trades. A couple of longs and a few shorts.

Since my base case is for a period of extended chop (1-3 months) with a downward bias, I'm playing both sides of the market; going long stronger tapes with good fundamentals and shorting weak charts with bad fundies and silly valuations.

The tape-bomb risk is extremely high in this environment. We should expect active coronavirus cases to pick up dramatically in the US over the coming weeks as we begin testing more people (our testing capacity is horrendously low right now). This is likely to support the negative narrative over the coming weeks, which is why our equity book is now net-short.

With that said, this situation is very fluid and I'm going to be quick to change my mind and positioning. So the risk taken on each trade will likely end up being much less than what's noted below, as I'm not willing to sit on these names if they're not moving in my favor. **Agility and minimizing risk are key in a market like this.**

Let's start with the longs.

Altria Group (MO), the tobacco and cigarette manufacturer, is roughly 45% off of its June 2017 highs.



The stock is a victim of the rise in ESG investing and hyperbolic news stories regarding the health safety of e-cigarettes (MO has a large stake in JUUL). The company is growing both the top and bottom line, has a FCF yield of 9.5%, pays out a 7%+ dividend, and trades at its lowest-earning multiple in roughly a decade.

On a technical basis, the stock has put in a double bottom near a support level. A close below this double bottom would nullify the trade for the time being (h/t to Dan McMurtrie for bringing this [one to my attention](#)).

**Symbol: Altria Group (MO)**

Size: 100 bps  
Entry: \$43.60  
Risk Point: \$38.50  
Target: \$68



Digital Turbine (APPS), is a technology company that's headquartered here in Austin. I run/bike by their offices nearly every morning down by Town lake.



APPS helps cell phone carriers monetize the real estate on cell phone screens by playing the middle-man in deciding what apps come pre-downloaded. App developers pay Digital Turbine for this privilege and the revenue is then split with the carriers.

The company has partnered with the big four carriers here in the US and is expanding quickly in international markets — APPS recently announced a partnership with Telefonica and LG Electronics that will be kicking off this year. The company is growing revenues at over 30%, has zero total debt, strong free cash flow and trades for an EV/sales of 2.9x which I think is cheap considering the long runway for growth.

The stock is attempting to break out of a four-month bullish wedge. If it fails and reverses back below its 200-day moving average (yellow line) then I'll likely cut it before it hits its risk point.

**Symbol: Digital Turbine (APPS)**

Size: 100 bps  
Entry: \$7.14  
Risk Point: \$5.35  
Target: \$11



Livongo Health (LVGO), is a medical tech company that develops applied health signals for the treatment of chronic health conditions here in the US.



I really like this company's prospects. It's a fast grower, increasing revenues 138% YoY to \$170.2m in 19' and exceeding all targets set by management. The company offers a cloud-based platform that connects wearable health devices to their Applied Health Signals Engine which then provides coaching and data-backed insights to help those suffering from chronic illnesses (think diabetes) make important behavioral changes.

The TAM for LVGO is large. In the US alone, there are roughly 130m+ people suffering from at least one chronic illness; and this number is growing. Personally, I think we're nearing a major inflection point in how we approach health care — partially due to what we've learned from the science over the last 10-15 years and partly out of necessity since our rising healthcare costs combined with the mediocre outcomes is an unsustainable path.

Basically, it's time we accept that a pill isn't the be-all cure-all to our ills. The best medicine is preventative. This means making behavioral changes, which is exactly what LVGO's platform does. And apparently, does well. LVGO has a [net promoter score of 67](#) and a 94% user retention rate. Meaning, customers [love it](#) — and so do their employers and insurance providers, since it's been shown to drastically reduce healthcare spend per user. It's also rated one of the top [3 Best Places to Work in healthcare](#), which helps them attract top tier engineers and data scientists.

Management recently raised FY2020 revenue guidance calling for topline to come in between \$280m-\$290m. On the earnings call, management spoke to a high degree of confidence in hitting these numbers given that over 90% visibility comes from the recurring nature of their revenues.

On the surface, valuations are high at just under 10x next year's revenues. But considering its growth rate, huge addressable market, and excellent track record of execution, current prices are likely to seem like a bargain in a few year's time.

**Symbol: Livongo Health (LVGO)**

Size: 100 bps

Entry: \$28.20

Risk Point: \$23.20

Target: \$43

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Advanced Micro Devices (AMD), is trading at the highest price-to-sales (yellow line) ratio in its history after going on a retail investor fueled parabolic run.



AMD is in the top 10 most held stocks amongst [Robinhood accounts](#). 8x revenues is a plain stupid valuation for what is ultimately a cyclical business. Over the last two months, the stock has been so extended that it has traded almost entirely above its monthly Bollinger Band. My stop is close on this one and odds are decent it will get hit as tops are tough to pick. But I'm willing to take multiple swings if this one whiffs.

**Symbol: Advanced Micro Devices (AMD), Short**

Size: 100 bps

Entry: \$49

Risk Point: \$51.40

Target: \$32

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Boeing (BA), is what I like to call a turd turducken.



Steven Wood over at Greenwood Investors has done a terrific job detailing the wide body of issues over at planemaker Boeing. Here's a [link to his original write-up](#). BA's problems extend far beyond the 737 MAXX, a plane that has a propensity for falling out of the sky. Years of mismanagement, cutting engineering corners in favor of short-term profits, and an infuriating unwillingness to take their medicine, make BA the poster boy of US corporate rot.

The market seems to be quickly waking up to this fact as the chart's completed a textbook 3-year long H&S top.



And it's done so while valuations are more than 2std above their 30-year history... It should be a fun ride down.



**Symbol: Boeing (BA), Short**

Size: 100 bps

Entry: \$267

Risk Point: \$298

Target: \$190

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Apple (AAPL). A lot has changed since [I pitched the bull case for AAPL](#) back Jan 7th, 2019 when the stock was over 50% lower than where it's trading today.



Back then, I argued that the stock was trading at dirt-cheap multiples and the technical setup — with the stock kissing its 200-week MA — was stellar. The opposite is true today. The stock has completed a measured 1-2 leg move, it's the most extended its ever been from its 200-week moving average, and valuations are at eye-watering levels for a company that's seemed to have reached terminus market size and can barely eke out single-digit top-line growth

It's also a top-ten Robinhood account holding.

**Symbol: Apple (AAPL), Short**

Size: 100 bps  
Entry: \$294.50  
Risk Point: \$304  
Target: \$200



Yelp Inc (YELP). This is a clean technical short with fundamental tailwinds.



Yelp is universally hated by business owners, who refer to them as the [Mafia](#) because they would threaten them with poor listings if owners failed to pay up. And for a long-time, business owners would, because YELP was dominant and a huge driver of traffic for them. Now that's all changed... thanks to Google. Google's reviews, which are embedded right into Gmaps passed critical mass sometime last year. Now, there's really no need for anybody to use Yelp. They abused their power and are now on the way to becoming obsolete.

**Symbol: Yelp (YELP), Short**

Size: 100 bps  
Entry: \$29.25  
Risk Point: \$32.30  
Target: \$21

That's all I've got for now. If you have any comments or insights into any of these names, shoot me a reply or hit me up in the CC.

Your Macro Operator,

Alex

| <b><i>The Four Pillars Portfolio</i></b> |                         | <u>2019</u>          | <u>YTD</u>          |                   |                   |                   |
|------------------------------------------|-------------------------|----------------------|---------------------|-------------------|-------------------|-------------------|
|                                          |                         | 27.04%               | 11.12%              |                   |                   |                   |
| <b>The Core</b>                          | <b>Fixed Allocation</b> | <b>Market-Timing</b> | <b>Net Position</b> |                   |                   |                   |
| <b>Large Cap Equities (/ES_H or VOO)</b> | 25%                     | -25%                 | 0%                  |                   |                   |                   |
| <b>Short-term Bills (/ZT_M or VGSH)</b>  | 25%                     | 0%                   | 25%                 |                   |                   |                   |
| <b>Long-term Bonds (/ZB_M or TLT)</b>    | 25%                     | 0%                   | 25%                 |                   |                   |                   |
| <b>Gold (/GC_M or GLD)</b>               | 25%                     | -25%                 | 0%                  |                   |                   |                   |
| <b>Big Bets</b>                          | <b>Thematic</b>         | <b>Cost Basis</b>    | <b>At Risk</b>      | <b>Notional %</b> | <b>Risk Point</b> | <b>Last Price</b> |
| Albemarle (ALB)                          | Renewable/value         | \$69.71              | Above B/E           | 5%                | \$74.00           | \$81.85           |
| Centrus Energy (LEU)                     | Uranium Bull Cycle      | \$6.69               | B/E                 | 7%                | \$6.00            | \$7.98            |
| Square (SQ)                              | Growth play             | \$70.21              | B/E                 | 9%                | \$70.21           | \$83.33           |
| Altria Group (MO)                        | Deep value              | \$43.60              | 100bps              | 9%                | \$38.50           | \$43.60           |
| Digital Turbine (APPS)                   | Growth play             | \$7.14               | 100bps              | 5%                | \$5.35            | \$7.14            |
| Livongo (LVGO)                           | Growth play             | \$28.20              | 100bps              | 5%                | \$23.20           | \$28.20           |
| Advanced Micro Devices (AMD) - Short     | Technical/Overvalued    | \$49.00              | 100bps              | -22%              | \$51.40           | \$49.00           |
| Boeing (BA) - Short                      | Technical/Overvalued    | \$298.00             | 100bps              | -9%               | \$298.00          | \$298.00          |
| Yelp (YELP) - Short                      | Technical/Overvalued    | \$29.25              | 100bps              | -10%              | \$32.30           | \$29.25           |
| Apple (AAPL) - Short                     | Technical/Overvalued    | \$304.00             | 100bps              | -32%              | \$304.00          | \$304.00          |