



10/23/2020: POWW Patents, Portfolio Changes, IBKR Earnings, NTDOY and New Watchlist Ideas

Operators,

Hope you had a great week and your weekend's off to a good start. We've got a few things to cover in the portfolio. We made a few changes that shifted our book into higher-quality names at larger allocations. We'll take that change every day.

Here's what we're covering this week:

- POWW granted new patent & extends backlog
- IBKR reports Q3 earnings
- Portfolio Changes
- Stalking Nintendo (NTDOY) For Second-Leg Buy
- New Watchlist Names

Let's get after it!

POWW: New Patent, New Backlog Record

It feels like we can't go a week without *some* good news about POWW. This week the company won a crucial patent and [increased their order backlog to \\$100M](#). At the time of release, their backlog was roughly the size of their market cap!

POWW also added Big 5 Sporting Goods (BGFV) and Academy Sports (ASO) as their latest retail partners.

Here's Fred Wagenhals on the company's record backlog (emphasis mine):

*“Our record backlog of booked orders continues to grow as consumer demand for ammunition remains at **significantly heightened levels heading into the upcoming election**. In addition, we've added two national retailers to our customer base, which **puts our product offerings in nearly every major ammunition retailer in the U.S.** With the investments we have made in equipment and machinery to expand production capacity, along with a dedicated staff **working around the clock in our manufacturing facilities**, we remain confident in our ability to fulfill this record backlog of booked orders.”*

Let's talk about the patent grant. POWW's new patent (which you can read [here](#)) is Patent No. 10,801,821. Here's the the official designation:



Recognizing the Company's development of both a protectable and cutting-edge process to mass-produce luminescent projectiles, as well as the luminescent projectiles manufactured as a result of the protected process.

The patent solidifies POWW's position as the only ammo maker to manufacture luminescent projectiles. This gives us a higher probability that POWW will one day get bought-out by a much-larger player. Hopefully for 10-15x sales if we're lucky.

You can read the entire patent document [here](#).

In the meantime, we've added to our position making it 5% of our book. We're looking for another retracement to support to add more.

Interactive Brokers (IBKR) Reports Q3 Earnings

IBKR reported Q3 earnings Tuesday (10/20). The company generated \$0.53/share in earnings and \$304M in pre-tax operating income. Here's some other notable business highlights from our brokerage company:

- Customer equity grew 49% from the year-ago quarter to \$232.7 billion.
- Customer credits increased 27% from the year-ago quarter to \$70.8 billion.
- Customer margin loans increased 17% from the year-ago quarter to \$30.0 billion.
- Customer accounts increased 47% from the year-ago quarter to 981 thousand.
- Total DARTs² increased 113% from the year-ago quarter to 1.83 million.
- Cleared DARTs increased 110% from the year-ago quarter to 1.63 million

Pre-tax profit margins remain robust around 60%. You can read the entire press release [here](#).

IBKR is trading ~15x FCF. That's a 6.66% FCF yield for a business doing 60% pre-tax operating margins. We'll take that and continue to hold as long as the business executes.

Portfolio Changes

Thursday we sent out a large Trade Alert highlighting some moves we were making in our book. Here were the changes we made:

- Cut Sandridge Energy (SD)
- Took Profits on Bolloré (BOL) and Cameco Corp (CCJ)
- Invested in Micron, Inc. (MU) via equity & calls
- Added to Cardlytics (CDLX) Investment

On a [MOCS](#) rating basis, these moves drastically improved our portfolio. It bumped our average portfolio MOCS rating from a 58 to a 71. Higher concentration in higher quality names.



Also going forward, we're only running MOCS ratings for **Investments**. Swing trades or cyclical longs are by nature shorter-term bets. We want the MOCS to track the quality of our long-term holdings. The companies we want to own for 5-10 years.

Speaking of a company we want to hold for decades ...

Stalking Nintendo (NTDOY): Consolidation Offers Entry

NTDOY is one of our favorite holdings yet remains too small a percentage in our portfolio (roughly 4%). We've patiently waited for a pullback to add to this stake and we think we're close.

Check out the weekly chart below:



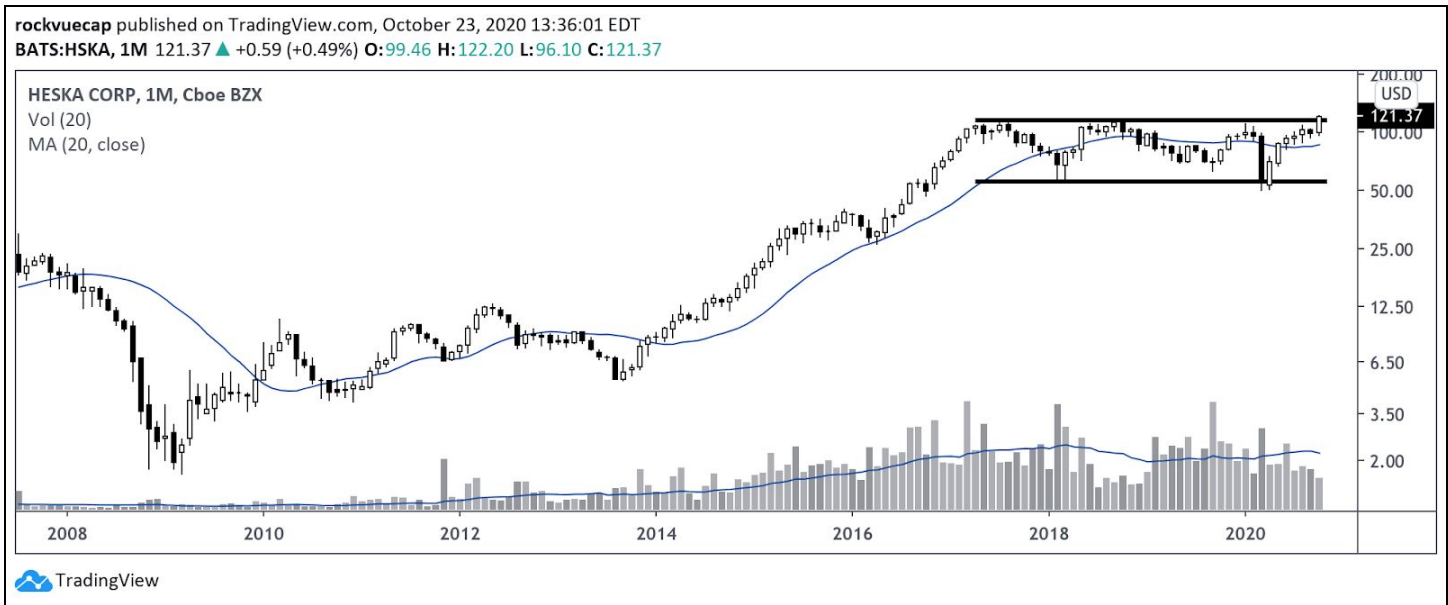
This is *exactly* what we want to see in a consolidation/pullback. Sideways chop on lower volume. We'll see how next week plays out. If we get a break below the rectangle/flag, we should test the 20MA. At which point we'd be eager to add a second-leg buy.

As a reminder, NTDOY has the **highest MOCS** rating in the portfolio at 84.

New Watchlist Names: Heska (HСКА) & Travelsky Tech (696.HK)

We added a couple names to the MO watchlist this week: HSKA and Travelsky Tech (696). I first wrote about HSKA in late April. Since then the stock's appreciated 80%. You can check out that write-up [here](#).

The name circled back on my radar because its monthly chart is one of the cleanest bull set-ups in the world (see below):



We're looking for a monthly close above the resistance line to take a starter position in the company. The animal healthcare space is very exciting and we want to exposure to that over the next 5-10 years. HSKA provides that.

Now, Travelsky Tech is a completely new name for us. I first saw it in Andrew Rosenblum's [Q3 letter](#). For those unfamiliar, Andrew runs [Bonsai Partners, LLC](#), a highly concentrated hedge fund.

Travelsky is the leading provider of software and systems for airlines and airports in China. Here's Andrew's thoughts on the recent COVID developments (emphasis mine):

“Domestic air travel in China continues to improve at a faster rate than in the United States, leading to some optimism by investors. Presently, air traffic in the United States is down over -60%, while the most recent Chinese data suggests volumes are down around -40% and improving.”

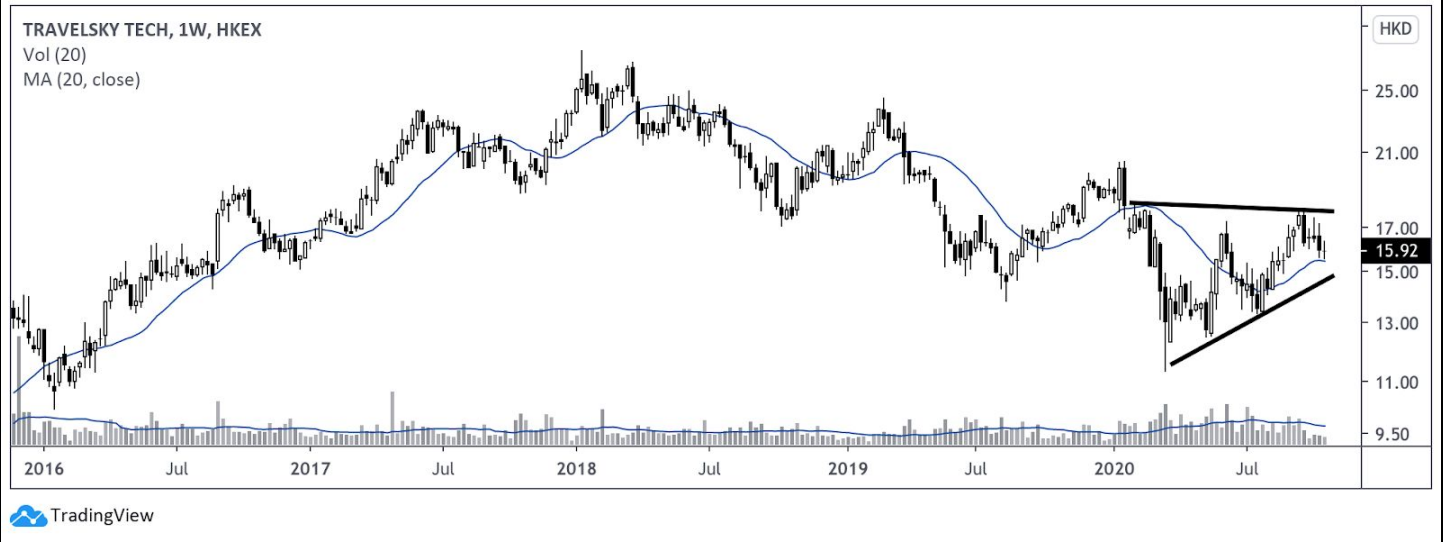
On a steady-state basis, this is a 60% gross margin and 30% operating margin business. Yet on a TTM basis, the company's booked heavy “Other Expenses” which are a drag on its operating margins (currently 7%).

We love businesses that run into (potential) temporary issues that distort the long-term earnings power. We'll send a write-up to the Collective when we're done our initial research. Be on the lookout for that.

In the meantime, appreciate the stock price attempting a bottom on the weekly time frame:



rockvuecap published on TradingView.com, October 23, 2020 13:51:23 EDT
 HKEX_DLY:696, 1W 15.92 ▼ -0.04 (-0.25%) O:15.90 H:16.36 L:15.54 C:15.92



Classical Trade Set-ups

LONG Autonomous Control Labs (6232.JP): Symmetrical Triangle

rockvuecap published on TradingView.com, October 23, 2020 13:54:38 EDT
 TSE_DLY:6232, 1W 2712 ▲ +50 (+1.88%) O:2704 H:2865 L:2565 C:2712



- 2% Breakout: \$2,766.24
- Profit Target: \$4,643.00
- Stop-Loss: \$2,667.00
- Reward/Risk: 4.19x

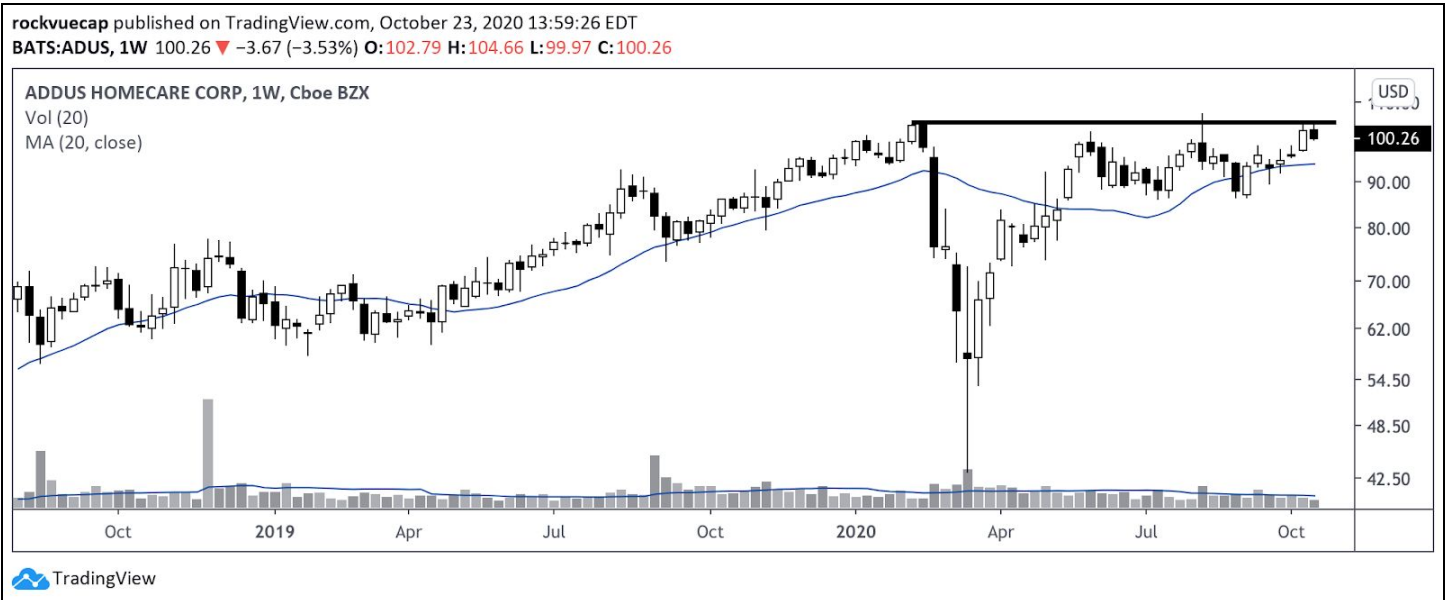


LONG Appfolio (APPF): Rectangle



- 2% Breakout: \$182.00
- Profit Target: \$222.14
- Stop-Loss: \$157
- Reward/Risk: 1.61x

LONG Addus Homecare Corp (ADUS): Cup & Handle

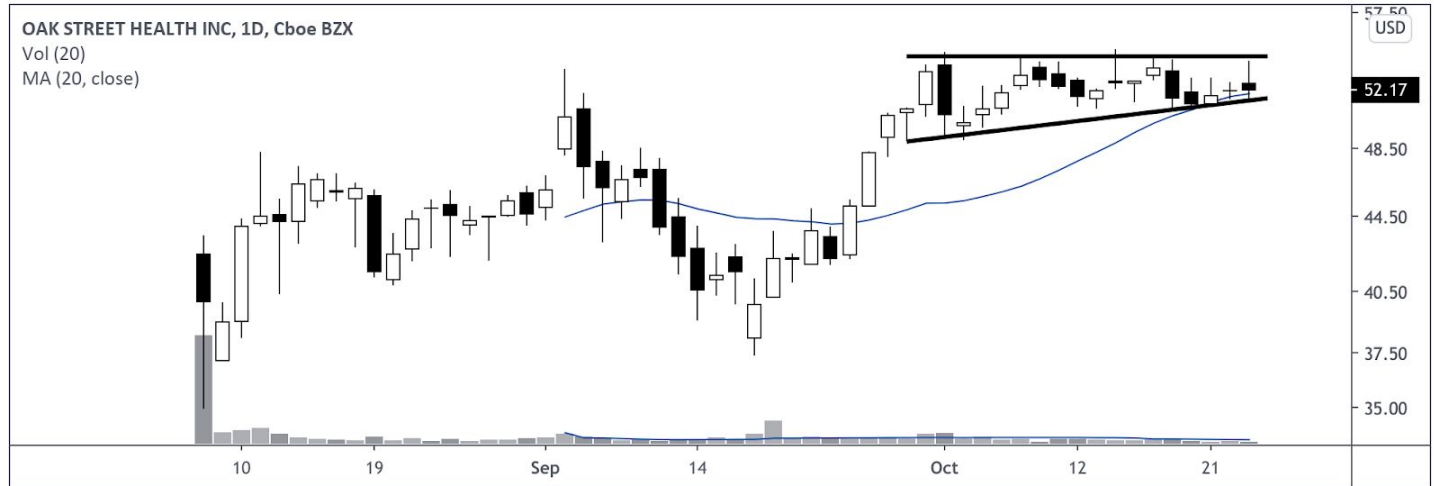




- 2% Breakout: \$106.38
- Profit Target: \$155.15
- Stop-Loss: \$90.91
- Reward/Risk: 3.15x

LONG Oak Street Health (OSH): Ascending Right Triangle

rockvuecap published on TradingView.com, October 23, 2020 14:01:09 EDT
 BATS:OSH, 1D 52.17 ▼ -0.02 (-0.04%) O:52.64 H:54.10 L:51.56 C:52.17



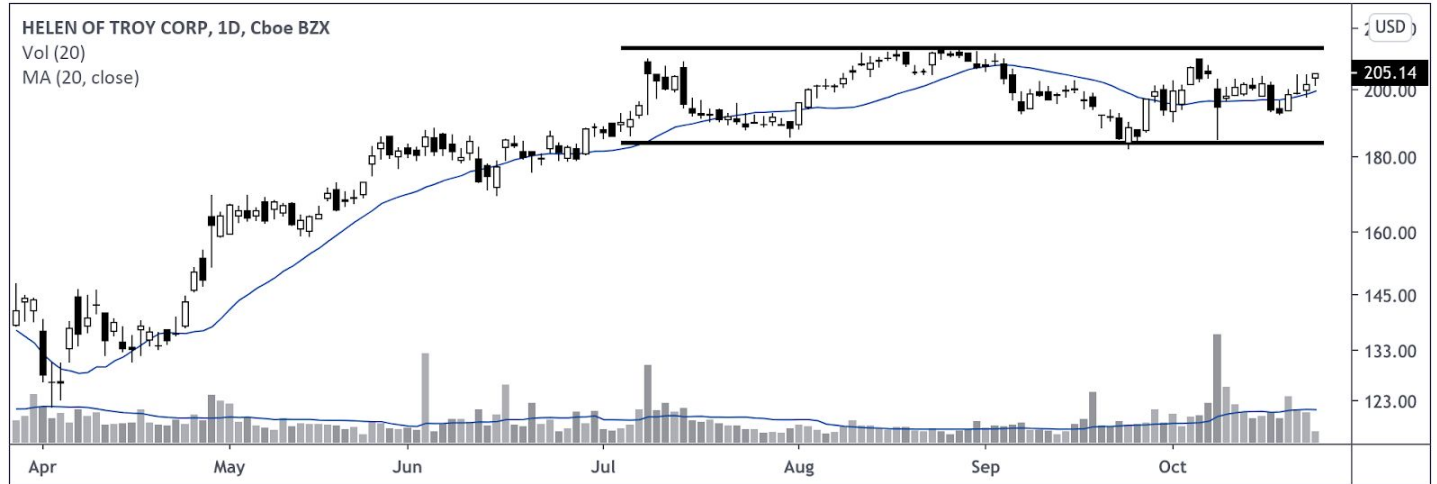
TradingView

- 2% Breakout: \$55.51
- Profit Target: \$60.10
- Stop-Loss: \$52.82
- Reward/Risk: 1.71x



LONG Helen of Troy (HELE): Rectangle

rockvuecap published on TradingView.com, October 23, 2020 14:02:42 EDT
 BATS:HELE, 1D 205.14 ▲ +3.32 (+1.65%) O:203.50 H:205.14 L:201.26 C:205.14



TradingView

- 2% Breakout: \$217.12
- Profit Target: \$243.18
- Stop-Loss: \$208.77
- Reward/Risk: 3.12x