



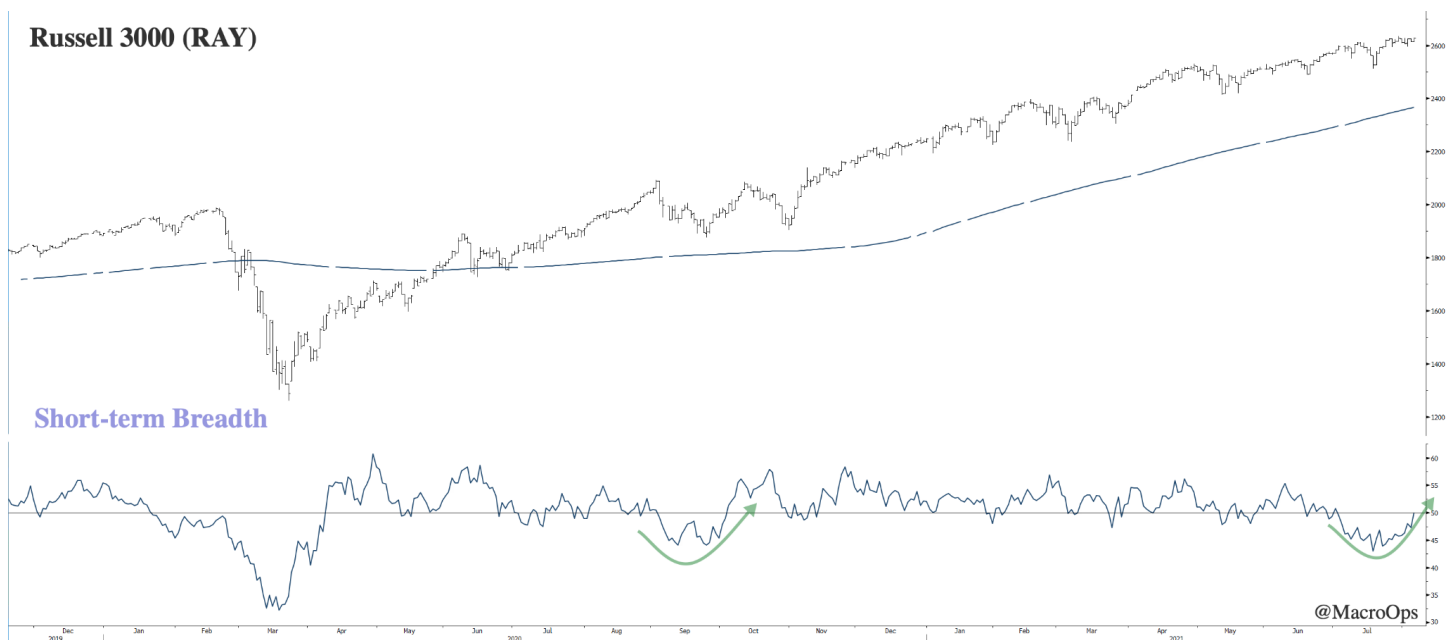
8/5/2021: A Test Survived, A Trend Strengthened...

Soros would often talk about how when a trend is tested and survives, it becomes strengthened in the process.

There are narrative and positioning reasons for this. Those who were betting against the trend and those on the sidelines are forced to either rapidly reposition (cover shorts) or chase the action higher, providing buying pressure to the tested trend.

The other week we discussed the possibility that market internals were “So Bad, It’s Good”. With the sharp recovery in breadth we’ve seen over the last couple of days, this looks to be the case. The trend has been tested, survived, and has been strengthened as a result.

Our breadth indicators should turn positive for all the major US indices over the next few trading days. As a result, our [TL score](#) which has been persistently negative since March should turn to neutral or even positive if we see credit also confirm soon.

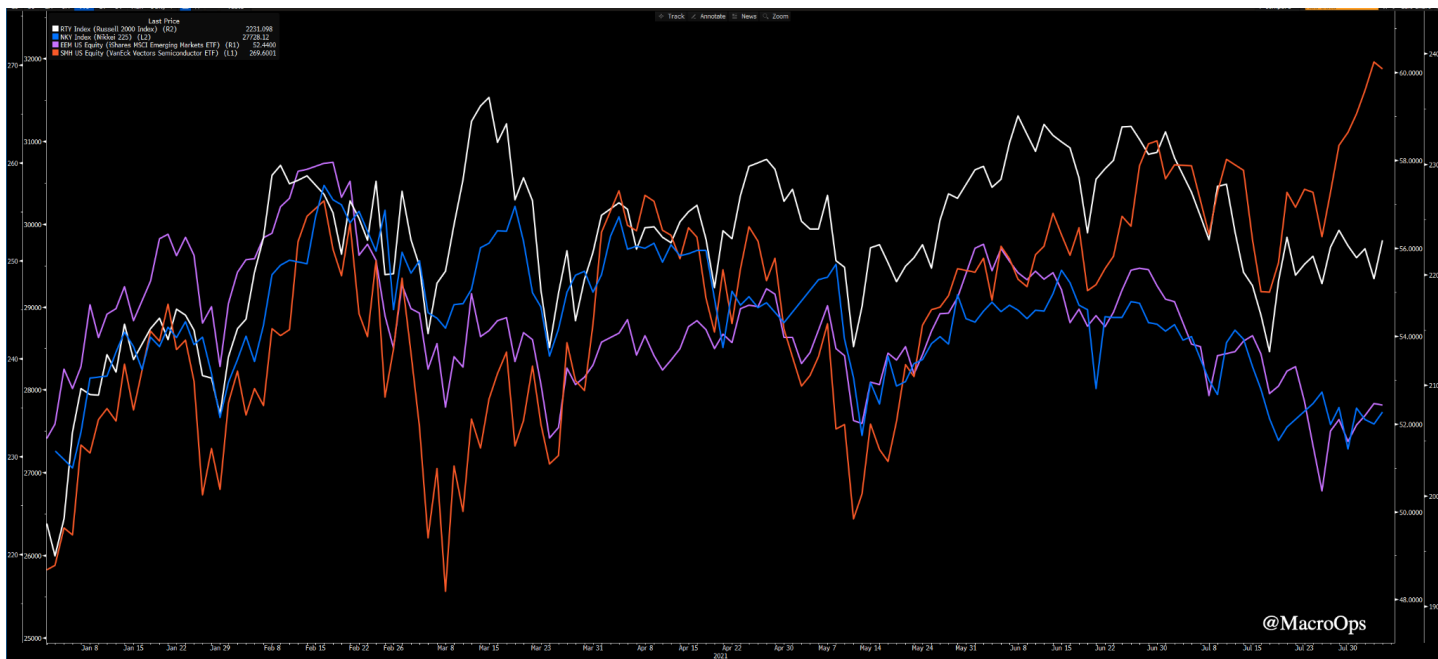


This rebound in breadth is a great signal that short-term momentum is picking up to the upside. We’ll want to see credit follow in the coming week(s). If it doesn’t, it’ll suggest this is likely just an acceleration of the final stages of the longer-term [Buy Climax](#).

But one thing that has me leaning more bullish than bearish at the moment is the fact that much of the world has been trading sideways to slightly down since the start of the year (see chart below).



We've seen roughly 8-months of consolidation after a significant run up from the COVID bear market lows. Markets don't top like this... A lot of weak positioning has been worked off. And if these markets start breaking higher...ie, the Nikkei, Dow Transports, RTY etc... follow the recent move up in semis, then it'll suggest we're at **the start of a larger bull market thrust**.



Our portfolio has taken on barbell characteristics over the last few months with a few large positions in high beta names and what's grown to become a 50% allocation to cash.

That's entirely too much cash relative to our longer-term outlook. So over the coming days and weeks, we're going to be putting more and more of this money to work, as long as the data keeps confirming our *So Bad, it's Good* thesis.

Here are the positions we're adding today.

We're getting back into the Japanese company, Murata Manufacturing (6981). Murata is the world's largest producer of multi-layer ceramic chips (MLCCs), which are critical components in IoT, 5g networks, EVs, and many other connected devices. You can read Brandon's original [write-up on them here](#).

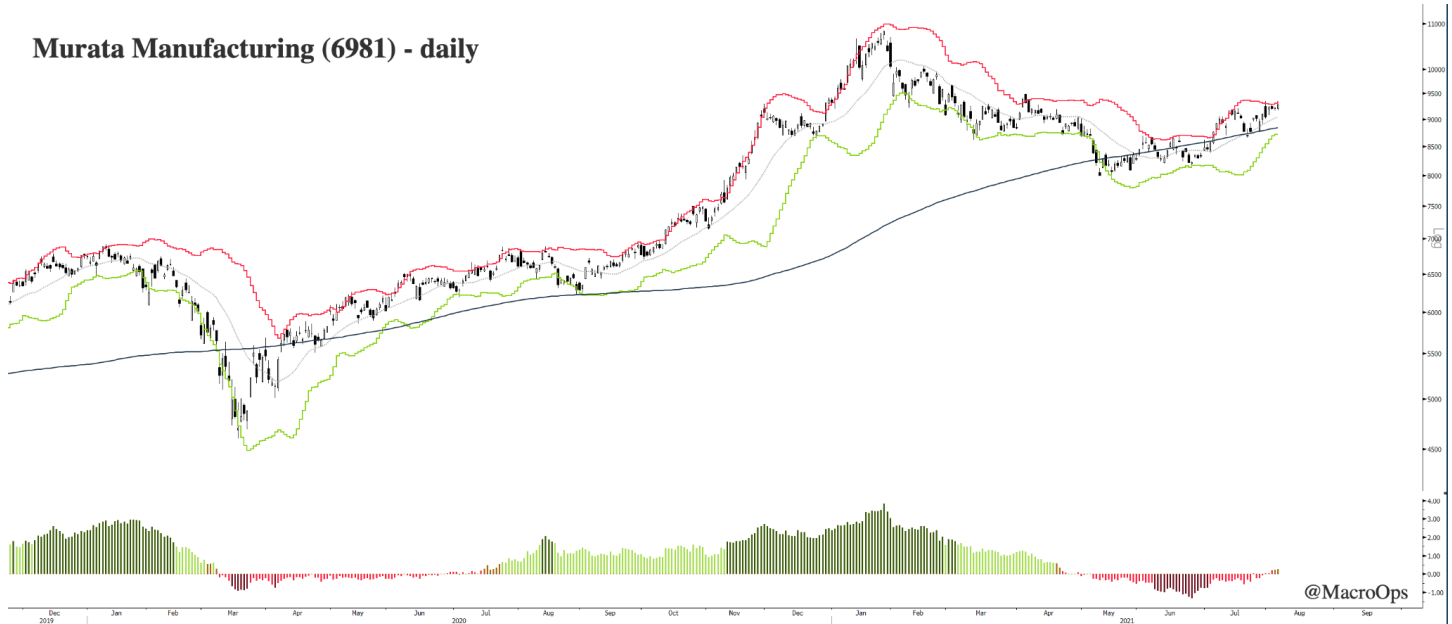
We bought a big position in this name last year and cashed out near the top of its run, pulling in a good return.

The stock has been correcting since the start of the year and a bottom looks to be in. The chart is teeing up off its 200-day moving average within a longer-term uptrend. The company recently reported solid earnings, handily beating estimates.



The MLCC market is expected to remain tight due to the strong growing demand for mobile and vehicle electrification, giving Murata the ability to continue expanding margins in the coming quarters. The company recently revised its operating-profit target for FY 22' to a record 365 billion yen (17% YoY growth).

Murata Manufacturing (6981) - daily



The company is a nice addition to our bullish semiconductor thematic as it runs parallel to our two other holdings (AMD and MU).

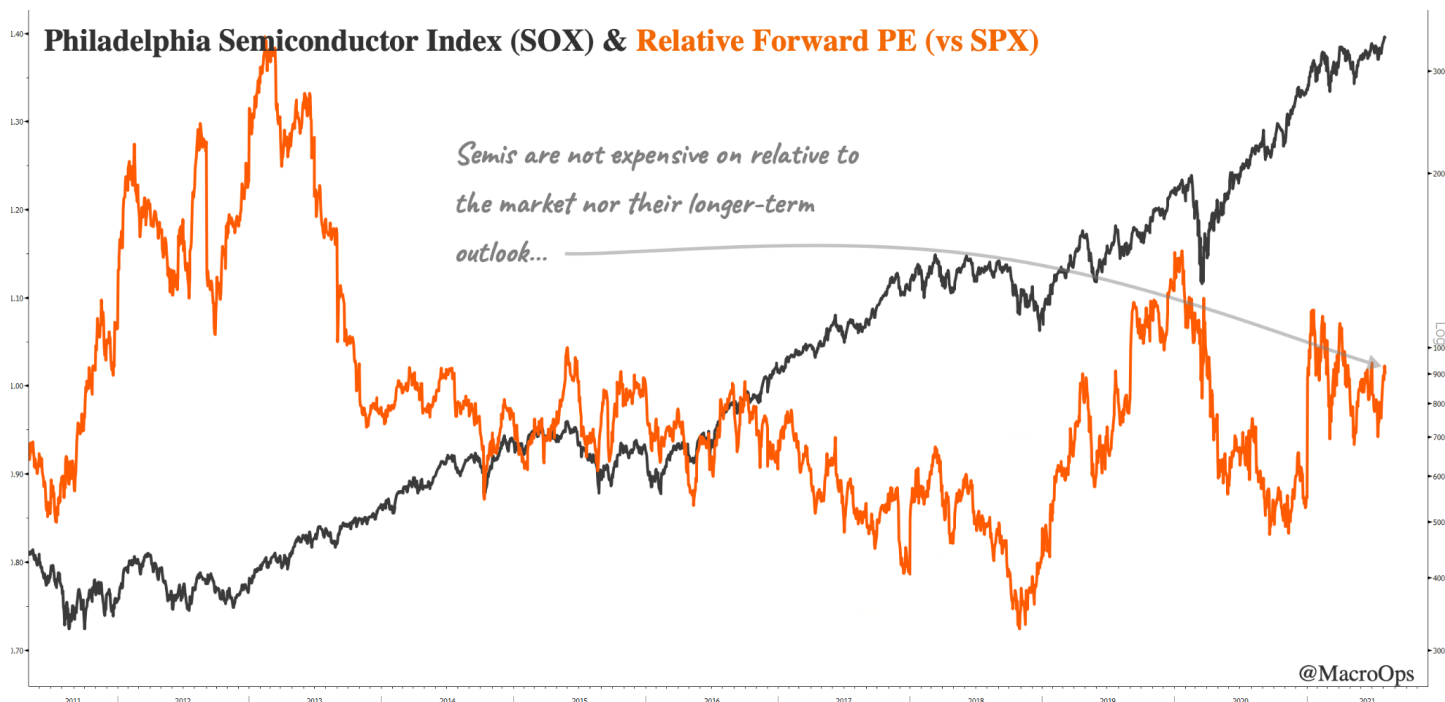
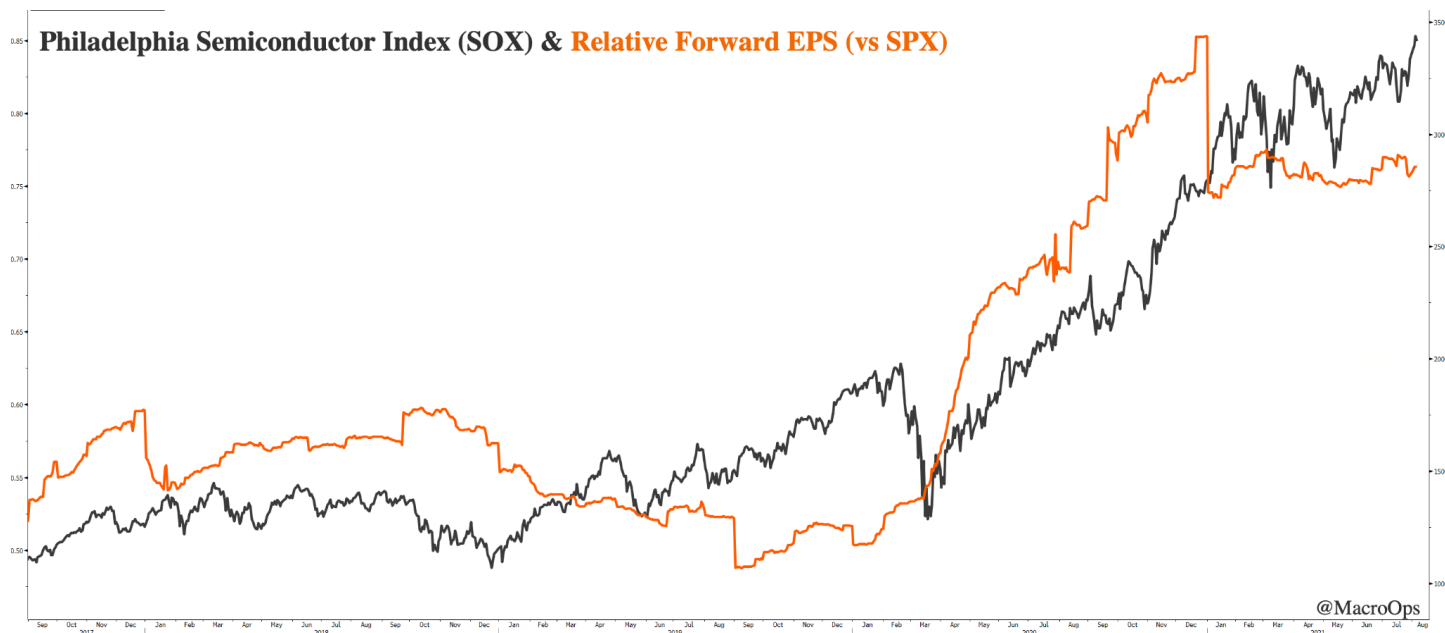
Speaking of semis, breadth is holding up and rebounding from its recent lows.

Philadelphia Semiconductor Index (SOX)





The longer-term trends in relative forward EPS and PEs for the industry are supportive of the broader bullish trend.



I'm coming out with an update on our secular [semi-bull thesis](#) soon, as well as a revisit of Micron which I continue to believe offers material upside from current prices.



We're *finally* adding a starter position in the Florida real-estate play St. Joe Company (JOE). This one was first brought to our attention by our buddy Kuppy who writes over at the [Adventures in Capitalism blog](#). I wrote about JOE in a [Dozen](#) last year. The stock ran for a near triple before we could get a position on.

It's been in a much-needed correction, taking a technical breather since March. The stock is now in a major compression on a weekly basis, meaning a big move is coming. We believe that move will be up as this stock has incredibly powerful fundamental drivers and presents another 3x opportunity from current levels.

Bruce Berkowitz of Fairholme discussed Joe's bull case in a recent investor letter ([link here](#)). The stock is his fund's largest position.

We're putting on a starter today and will be adding on a confirmed breakout.

St. Joe Company (JOE) - daily



Lastly, we're putting on a swing long trade in Square, Inc (SQ). I wrote up the bull thesis for Square back in 19' when we owned a large position.

Our primary reason for being bullish then was that the market wasn't assigning any value to the company's relatively new Cash App. That thesis has since been born out and the market has largely corrected the mispricing. We unfortunately were knocked out of our position during the COVID rout and failed to get back in.

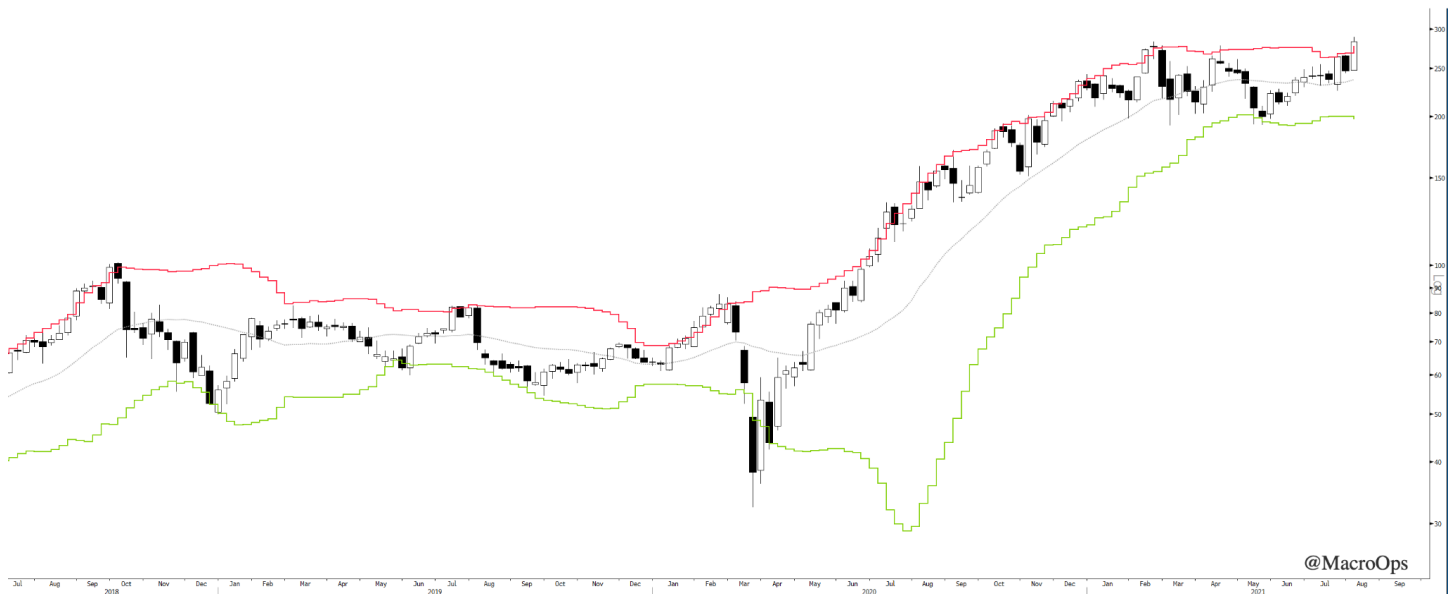
While SQ's valuation is now more reasonable, we still love this company long-term. It's run by Dorsey whom we believe to be one of the most impressive and consistently underrated operators in tech — despite his penchant for tie-dye shirts.



It has a long runway to continue disrupting a staid industry and prevents an interesting call option on crypto. We'll be coming out with a more in-depth look at this company in the coming weeks.

For now, we're treating this position as a technical swing trade. SQ is breaking out from tight consolidation on the weekly chart. We're going to size small and manage tightly to see if the bullish impulse continues to play out.

Square, Inc (SQ) - weekly



Below are the details for the trades:

Long Murata Manufacturing (6981 JP)

- **Entry:** 9284 Yen
- **Stop:** 8300 Yen
- **At-Risk:** 50bps

Long St. Joe Company (JOE)

- **Entry:** \$45.50
- **Stop:** \$39.70
- **At-Risk:** 50bps

Long Square, Inc (SQ)

- **Entry:** \$282.00



- **Stop:** \$243.00
- **At-Risk:** 75bps

We continue to run our active bull campaign in the Nasdaq futures and added our most recent long layer to the trade yesterday while bringing up stops to recent lows. We're discussing and alerting changes to this position in the Trade Alert channel in the slack.

I'm currently visiting family in Utah for the next few days so I won't be as active as usual. But I've got a few reports I'm working on that I plan to get out to the group within the coming week.

Until then, stay safe and keep your head on a swivel!

Your Macro Operator,

Alex

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