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OCCASIO PARTNERS LLC

San Francisco, CA

More of the Same: We have spent a good chunk of the past two months trying to decipher how the market's characteristics have changed and just what was the root cause of these changes. Also, as frustrating and confusing as it has been, we are still in the camp that this is one of the best trading environments ever and will continue to be as time goes on - almost by default. This month's return of the Wall Street Bets crowd only reinforces that mantra and has provided some good trading opportunities in AMC, LIZI, and GameStop, among others. Let's try and dig deeper and see what's going on underneath the hood in these crazy days:

First, with regard to why the markets have become so confusing, particularly the violent rotations we are seeing on daily basis versus tech and growth. As we have chronicled in the past updates, there has been a concerted effort to rid all portfolios of any high-multiple tech, particularly software and communication stocks. The moves down have been violent, swift and generally lack any significant bounces. It has been some of the most aggressive selling we have seen since the depths of the pandemic approximately a year ago. There also has been hardline rotation into more value-oriented names highlighted by the banks, airlines, transports, and to a lesser extent healthcare.

We have never been through this before. Meaning, we have never had to rebound from a global pandemic and deal with the fallout, both good and bad. The economy is rebounding swiftly from the depths of last year for sure. But how much of this is already priced in and to what extent is it just a "sugar high" that once completed will revert back to steady, but unspectacular growth as seen pre-pandemically.

We are going through a period where forecasts will be pretty meaningless because there's no precedent for what's happening. There's nothing to build a model from. We've never reopened from a global pandemic after temporarily conducting the majority of culture in cyberspace – Real Money.

To make matters even more perplexing, we have a new administration to deal with (higher taxes?), global supply chain issues that are affecting nearly every industry, inflation concerns (transitory or trending?) continuing tensions with China, and a crypto market whose volatility now spills into mainstream equities.

Also, under consideration is how the health of the country will fare once we totally re-open this summer. Will vaccination rates continue to rise, or have we plateaued? Will any of the variants that are in India and parts of Asia work their way to the US, and will the current vaccines be enough to stave them off? And will our country become even more divided as the vax and anti-vax debate strengthens the left versus right chasm that is sadly so prevalent in America right now?

When you look at all the above inputs and reiterate the fact that these are conditions that no one currently alive has ever had to deal with it lends credence to why the environment has become so confusing/frustrating. Throw in the fact that much of the current trading is driven by algorithmic programs and social media influences and you can see how the frustration continues to build within the trading community.

But with uncertainty and frustration come opportunity. This is the theme of our fund; we would be remiss to not embrace these strange times and unearth opportunities. And that is exactly what we have done in the past month focusing hard on the commodity sector and Chinese tech names that provided lucrative entry points and fruitful short-term trading.

Turning to the current administration, it's no secret that President Biden is keen on flooding the country with "free" money in the forms of personal stimulus payments and a massive infrastructure bill that will be so laden with pork we can't even fathom how much of it will go to inane projects. His current budget is set to be in the $6 trillion range if it can pass through Congress.

It's not outlandish to say that the current President is likely to serve only a one-term. He is an older gentleman and ran mainly because no one else seemed capable of defeating President Trump. So, he is determined to leave his mark quickly and has a unique opportunity given the Covid rebuilding of the economy and the fact that President Trump cut taxes for the wealthy and now President Biden can establish programs to benefit the "other classes". Throw in the fact that the current environment we live in not only accepts, but now expects the easy money conditions, and accepts that that has become the norm under the current world central banks policies.

Wall Street may not like what is coming from the Biden administration, but they are thinking long-term and know they may have less than two years before the mid-terms to get their agenda accomplished. The ramifications of all these programs will be dealt with at a different time and by different leadership. You may not agree or approve of the agenda, but it's coming.

Joe Biden has been in Washington for 48 years; he has served many roles and surely knows the history of the office of the President. This is literally his last chance to leave a mark after nearly 50 years of service. He likely has less than four years remaining and maybe less than two with any real power if the Democrats lose the mid-terms. History and current circumstances are in his favor, and he is well aware of it. Again, you may not agree or may not have voted for him, but it's his party now. We all need to adjust our thinking to embrace the change, not fight it.

We have taken a long position in Viacom. The stock has been a victim to the Archipaelgo mess from weeks back that saw the price drop from $108 to $38 - mainly the result of massive margin calls. Viacom sports a deep library of over 140,000 TV episodes and 3,600 films.

They reported earnings on May 6th and handily beat estimates by $0.37 while beating on revenues as well. With a current market cap of $27 billion and a copious library of content, it's not unreasonable to see them being a takeover target from the likes of Apple, Amazon, Disney or even Netflix. This would require approval from majority owner Shari Redstone, who in the past has not shown any interest in selling, but current market dynamics combined with a generous bid could quickly change that.

The stock trades at only 10x forward earnings and has a market cap of $27 billion. Comcast, a direct competitor has a market cap of $249 billion by comparison.

Another addition to the portfolio this month was Nokia. This out-of-favor telecom provider has a bright future in our opinion, not only with the 5G build-out but more and more as a growing player in the cloud. They reported a solid quarter on the last day of April that produced an 8% gap up and the stock has held above those levels for the month of May – a good sign technically.

At a shade over $5, it's hardly a volatile stock, but we see it as a steady safe access to both the 5G build-out that is underway, a cloud play, and also, they recently announced the launch of Nokia Data Marketplace as a service to facilitate secure sharing of data and AI models - two areas with tremendous growth opportunities.

We view it as a pseudo call option on some technology that will continue to garner robust demand. Combine that with a globally recognized brand name and the opportunity to participate in a turnaround story and we love the risk-reward set-up here.

It was quite a month for Bitcoin to put it mildly. May brought some of the most intense selling in the crypto space for quite some time and took a toll on our performance unfortunately. There are many reasons for the sudden burst in volatility – in an arena that is already laden with volatility. Let's go through a few and try and decipher exactly what is going and what it means for the future of this interesting area:

1) China is cracking down on Bitcoin mining and payments – China has been warning of cryptocurrency restrictions since 2017, so this is nothing new. China desperately tries to control their population and it should come as no surprise that they aren't thrilled with alternative forms of unregulated digital assets. But for whatever the reason, the space was sold down hard on this reiteration of news on May 21st.
2) The IRS is looking to increase scrutiny on crypto trading and gains over $10,000. This also shouldn't come as a surprise. Did anyone really think that this area was a tax haven? Of course not. In fact, that the IRS is acknowledging the crypto space as a certifiable asset class actually brings credence to the sector.

3) Elon Musk and Tesla have stopped accepting Bitcoin for payment (but aren't selling any from their balance sheet) due to the fact that it uses too much energy and is environmentally unsound. Where to start?! First, Musk is a bit of a loose cannon, even his biggest fans would concede that, and the truth is that over 80% of the energy used to mine Bitcoin is renewable. Also, Mr. Musk has been promoting Doge Coin for months now and there is talk he is looking to introduce a Tesla-type coin soon. Furthermore, Bitcoin uses the same energy it did six months ago when we purchased $1.5 billion worth for Tesla – we are confident he knew that back then. This latest missive by him feels like he is more concerned with Bitcoin and the accounting issues it leaves than the coin itself.

4) A massive number of margin calls were triggered in May. This also shouldn't be a total shock to anyone. Cryptocurrency trading is overloaded with high-margin players that are engaging in a high degree of speculation- that's a given. This latest round of selling was mainly triggered by over-levered players. This is a common trait in speculative sectors; we have seen it with tech stocks time and time again and in commodities to a lesser extent. Human psychology still rules in markets and the fact that crypto currencies have lent themselves to high degrees of greed and speculation doesn't dissuade us from future gains. In fact, washing out the margin players allows for a more stable (i.e., institution) base to come in and hopefully add stability.

We had a lot of success this month shorting both Coinbase and Riot Blockchain in an effort to help stop the hemorrhaging from the fall in Bitcoin. Coinbase was particularly lucrative. That direct listing which debuted on April 14th has been nothing less than a disaster - seeing as it has lost a quarter of its value in just a shade over five weeks.

Coinbase is a good company with a solid platform. But at the end of the day, they are a broker and one with plenty of competition and likely shrinking margins. Throw in the fact that there has been massive insider selling since day one and we feel that Coinbase has became the de facto stock to use as an effective way to mitigate losses in our Bitcoin Trust position.

"We are exploring opportunities around blockchain technology and its transformative and disruptive capabilities," the firm said in a letter to investors seen by Bloomberg. "We would be remiss to ignore a now $2 trillion crypto currency market." – Dan Loeb, Third Point

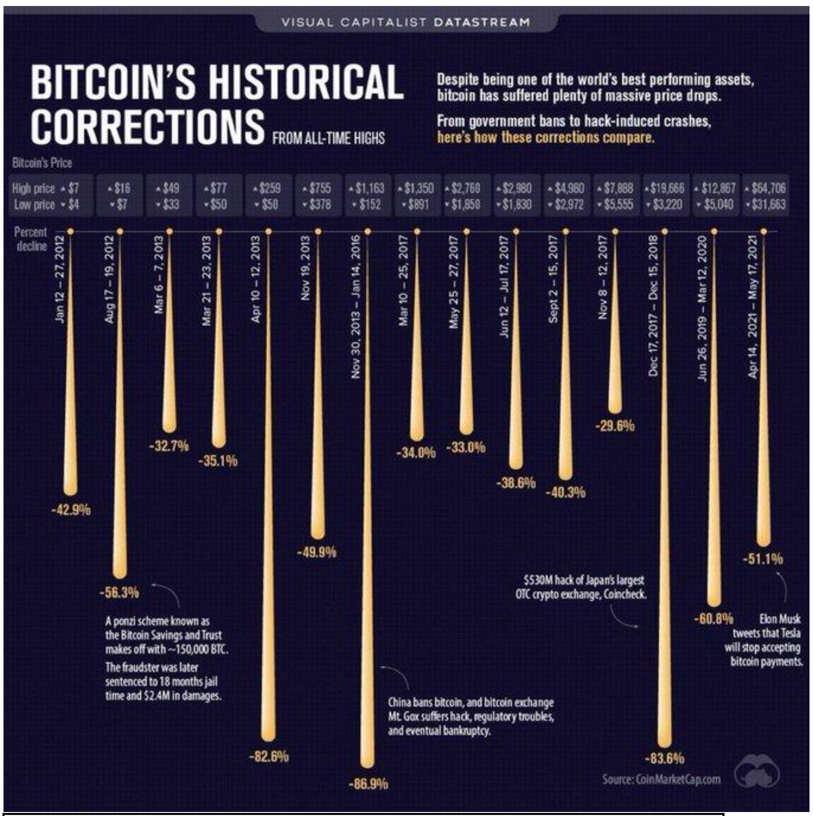
"I think it's durable. I think it will be part of the investment arena for years to come ... but these challenges are real. They will be overcome over time." – Rick Reider – Blackrock

"Crypto has come from nowhere to be a force in the market…it's here to stay. Cryptocurrency is not going away. The idea that the government is going to stop cryptocurrency from being something investors want is unrealistic." – David Rubenstein, Carlyle Partners

"Personally. I'd rather have Bitcoin than a bond" – Ray Dalio, Bridgewater Associates

We don't mean to sound to pollyannish toward crypto and we certainly recognize the risk involved. But we just want to stress once again, this is a small percentage of our portfolio and one that has performed *quite* well the past couple years, May be damned. To not have *some* exposure in a sector that *could* be a once-in-a-generation opportunity seems crazy to us. Oh, and by the way, Goldman Sachs, Blackrock, JP Morgan, Guggenheim, Bank of New York, Fidelity, Tesla, Square, PayPal, and eBay…to name just a few, also think so.

The above quotes are all attributed to very influential players in finance. It doesn't necessarily mean they are right, but after an almost $8 billion of margin liquidation in May, we are in the camp that the weaker hands (leveraged margin players) are transferring assets to the stronger hands (institutions, hedge funds). This has led to some ugly short-term pain for sure, but it has also laid a foundation for sounder markets long-term and eventually for lesser degrees of volatility.



This graph is a bit abstract, but the overriding point is simply a visual representation of how volatile Bitcoin has been since its inception. Major drawdowns are nothing new, as unpleasant as they are.

This type of graph would also apply to such once-in-a-generation companies like Amazon and Apple.

Looking Forward and Other Market Commentary: We switch our focus back to the macro side in June as we will hear from seven developed-nation central banks. The highlight will be the Fed on June 16th and the ECB on the 10th. With inflation the official buzzword for 2021 these meetings and the verbiage that they emit from them will be as important as ever.

As we have mentioned the transitory versus permanent camps are at war and it will take some time before the dust settles. For the first time since 2017 there is the real possibility that a tapering of the massive balance sheet could commence sooner rather than later. Some feel that the Jackson Hole Summit in August will be the beginning of "tough talk" There are others that feel the Fed is trapped and any talk of tapering will commence the decimation of assets and cause them to take back their strategy swiftly. There is some precedent for this seeing as the SP-500 fell almost 8% in a matter of days when back in 2017 Jerome Powell raised rates and said, "we aren't near equilibrium."

We have spilled a lot of ink on these pages discussing the Fed and its machinations. Too much really, but with the Covid re-build and "roaring 20's" economy combined with some of the highest level of input prices seen in years we are certain that the Fed's words and possible measures haven't had as much weight as they will in the remaining months of 2021.

"A number of participants suggested that if the economy continued to make rapid progress toward the committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." – Fed Minutes, May 19th

"If my expectations about economic growth, employment, and inflation over the coming months are borne out, it will become important for the FOMC to begin discussing our plans to adjust the pace of asset purchases at upcoming meetings…" Fed Vice Chair – Randy Quarles 5/26

Both South Korea's central banks and the BOJ this month made slight gestures indicating that they were ready to begin removing policy accommodations in their upcoming reviews. We would take that all with a grain of salt, especially considering the BOJ. But the point being that we are at least beginning to sense a tone of restraint from various central bankers and that is something we feel the market is simply refusing to believe at the moment.

The jobs report in May was an awful miss; in fact, it was the biggest miss since 1998. We would expect that would not be the case for the June report out on the 4th. The yield on the 10-year note has been range bound for weeks now, hovering between 1.70% and 1.55%. It should be noted that there are currently record shorts in the bond market which is likely why we are not seeing movement over 2% - despite the threat of inflation and tapering being the current narrative.

After a minor temper tantrum in late April, stocks have seemingly forgotten, or are just choosing to ignore the fact that higher corporate and personal taxes are still on the table. We were reminded of this on May 21st, when treasury secretary Janet Yellen had this to say:

"We are confident that the investments and tax proposals in the jobs plan, taken as a package, will enhance the net profitability of our corporations and improve their global competitiveness."

"We believe the corporate sector can contribute to this effort by bearing its fair share. At the same time, we want to eliminate incentives that reward corporations for moving their operations overseas and shifting profits to low-tax countries."

It's laughable to think that corporate America is going to kowtow to higher tax rates without any serious repercussions to consumers and shareholders. It's just not in their DNA, especially after enjoying tax breaks from the Trump administration for the past four years. It's also interesting that the equity markets are not paying more attention to this narrative, seeing how crucial it is to earnings and consequently valuations. Which, makes us think that the current administration's threat to instill higher taxes is more hearsay than actual bite – and apparently the SP-500 agrees with that sentiment as it has barely budged off its all-time highs during this year of tough talk from the Biden camp, and to a much lesser extent the Fed. The rest of 2021 is sure to be interesting.

Finally, there has been much focus this year on Cathie Wood and her ARK fund. The fund is a no-holds-barred approach to investing in technology, biotech's, and crypto currencies. She has become the pied piper amongst the younger set and is unapologetic about her vision and confidence for what the future holds.

She has had a tough year thus far and finds her funds down 35% plus after a stellar 2021. She is routinely mocked now for being too bullish on speculative plays without strong fundamentals and has been called irresponsible after some outlandish TV interviews laden with bold claims and aggressive price targets (Bitcoin $500,000 being the boldest)

But we have to wonder if she would be the victim of so much scrutiny and be disregarded as a visionary if she wasn't a woman? It's funny how Elon Musk can continually repeat outlandish views, and he is hailed as a genius while Ms. Wood takes it to a broader level, and she is quickly dismissed as crazy or out-of-touch.

It certainly feels like social media is rooting against her and we have to believe a lot of that hatred is rooted in jealousy. Not many have the gumption to bet it all on the future and with ideas that will need years to mature into real businesses' – if they ever do - but that, if successful will pay off in spades.

It's a pretty sad commentary on us as a society that in 2021 we still have problems with women being successful – especially in a traditionally male dominated field such as Wall Street. The better the ARK funds perform the more Ms. Wood will be vilified, and if they continue to falter in 2021, the told-you so crowd will only get louder. She can’t win this battle, but she doesn’t care. She’s too busy betting on the future, not worrying about the present, and that’s what makes her so tough.

To her growing number of critics, she has certainly “manned up.”

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