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"When I see a bubble I run toward it" – George Soros

The word "bubble" has become the word *de jour* since 2001 when there really was a bubble and, boy, did it really pop (Nasdaq dropped nearly 80%). Bubble became all the rage again after the housing bubble and subsequent crisis in 2008. Nowadays everyone loves to call everything a bubble. Try and watch CNBC for 30 minutes without hearing the word uttered.

We will readily admit that there are bubble-like conditions in certain areas and the euphoria vastly outweighs the fear, but is that really a bad thing? Sure, at some point a serious correction will occur and wring out those who were late to the party, were overleveraged, or who failed to practice any sort of prudent risk management. But in the interim, this market, sane or not, is presenting those with open minds and tight attention spans some great trading opportunities.

We would even go as far to say that this is the best trading environment we have seen since that late 1990s and the weeks after 9/11. Again, you don't have to agree with the backdrop or believe in the narrative, but you can certainly maneuver through it with an open mind. Suffice to say, we are delighted with the environment thus far in 2021 and can only hope that it is the norm for months to come.

Is all this bad in the bigger picture? Depends on whom you ask. For asset owners and market speculators it's nirvana. For lower-income folks with tight budgets the inflation that has arrived it could make survival now a coin flip. Hopefully, you are on the former side and say your prayers if on the latter.

With all that being said, as it pertains to markets, Soros has it right. These are fertile market conditions for trading, probably not a great spot to commit some long-term capital, but certainly an environment for funds like ours to prosper. We'll leave the bubble conversations for the bars if they ever re-open. But for now, it's time to run toward the action and take advantage of the environment that has been presented, because it won't last forever.

Much of the increased levels of volatility this month can be directly attributed to the rise in rates. We saw a dramatic move in the long end of the curve in the last few days of the month as the 10-year yield spiked up to 1.61% - a big move considering it started the year below 1%. There has long been a bearish narrative that higher rates would be a negative for stocks -especially growth as valuations get a re-set and bond yields suddenly become more attractive as steady income.

We saw a flash of that this month and have to believe more of this type of action is on the way. As much as the Fed love to promise low rates forever, they are suddenly being tested on that thesis. They may be able to control the short end of the curve, but the market controls the long end, and the long end is where rates affect consumers the most.

Some point to the rise in inflation as the catalyst for the rise, despite the Fed's claims that they have it under control and it won't be a problem, as the catalyst for the rise. Others point to the early stages of an economic re-opening across the country and the coming boom for the rise in rates to reflect it.

No matter the reason, rates are higher and are back to the pre-pandemic. To those who say higher rates are just a reflection of a good economy, we would have to push back and argue that the Fed's manipulation of the bond market since the 2008 financial crisis has perverted the bond markets and taken away the traditional signals it gives.

If that is different now, and the bond vigilantes are finally having their day in the sun, then that sets up the rest of 2021 with a fascinating scenario. Can the Fed maintain control of the rate markets and keep with their promise of low rates until "at least 2023" - or have the markets decided to take control and dictate the terms going forward?

The Fed Funds futures were pricing in a 0% chance of a rise in 2021 back at the start of the year. Now that number stands at 13%. Granted, still very low, but a change in personality for sure.

Also, with all the debt we have created and the trillions now sitting on the Fed's balance sheet, a small rise in rates, even from historically low levels has a much greater impact than ever before. For example:

*A 50-basis point rise in interest expense to the government is equal to the entire annual budget for the US Navy. A 30-basis point increase is the entire annual budget for the US Marine Corps.

*A normalization of rates to pre-2008 levels would cause US Corporate Profits to collapse by 50% due to increased interest payments alone.

It should also be noted that on February 24th, the government held a 7-year note auction and the resulting demand was some of the worst on record. That was also the cause of the 10-year to briefly spike over 1.6%. In the coming weeks we will have more auctions for the 5, 10, and 30-year bonds. The outcome will likely have a dramatic effect on rates – which is a change in character from previous auctions. We are sure the Fed will be paying very close attention to this.

"I really do not expect we'll be in a situation where inflation rises to troublesome levels" – Fed Chairman Jerome Powell in testimony to Congress 2/23

Let's keep that comment in our back pocket and revisit it at Christmas time.

It has been quite a year for Bitcoin and the whole crypto currency space thus far. Despite all the talk of bubbles and excessive froth, all of which have some merit, the push higher seems almost self-fulfilling. In February, Bitcoin traded near $59,000 and now is hovering around $48,500.

This year we have seen more and more institutional involvement, something we have been hinting at in our updates for well over a year now. This month it was announced that BNY Mellon, the nation's oldest bank, would begin financing Bitcoin and other digital currencies. This follows the news that Blackrock said they would start to "dabble" in cryptocurrencies and JP Morgan was looking to develop a fund that would participate in this space as well.

But the news that really got Bitcoin moving through $50,000 was the announcement by Tesla that they purchased $1.5 billion worth of Bitcoin (through soon-to-be-public Coinbase) for their balance sheet. That sent shockwaves through the crypto community and further strengthened the argument for Bitcoin serving as a currency or an alternative store of value.

A recent CNBC survey of Fortune 500 CEOs indicated that over 5% were willing to add Bitcoin to their balance sheets in the same vein that Tesla did. Five percent may seem like a small number but remember that the supply of Bitcoins is pre-determined and even 5% would shift the supply/demand scales dramatically.

Also, this month we saw MicroStrategy do a $900 million convertible offering with the goal of using all the proceeds to buy more Bitcoin and bolster their balance sheet even more. They had no trouble finding buyers for their offering, despite the near *zero yield* offered. Just another sign of the incessant thirst for cryptos right now.

There was, however, *some* cold water thrown on the mania this month when Treasury Secretary Janet Yellen said the "misuse" of cryptocurrencies such as Bitcoin is a "growing problem" and the scrutiny is increasing from policymakers, including the treasury and the Fed. Longtime Bitcoin bears have warned that regulatory oversight will be the undoing of cryptocurrencies; they reason (again with some merit) that the government isn't going to sit by and let their currency be overtaken by a new-fangled digital creation.

That argument held a lot more water say 3-4 years ago. But now with the continued adaption by bigger and bigger institutions along with the fact that various central banks, namely the PBOC, are studying digital currencies and will likely launch some variation of them in the coming year(s).

Whenever a new asset class comes into prominence, there are always ways to try and discredit it. Especially when it is on a global macro scale. Bitcoin is a very volatile asset right now as it tries to find its footing and role in the world. The swings are as extreme as any asset on the planet. We are trying to ignore the noise and focus on the long-term for once. But it is and will be a bumpy ride as February has proved.

Marijuana stocks caught a bid early this month, likely on the heels of the Robinhood crowd who consistently have cannabis names in the top 20 names they trade. Another big boost has been the Democratic sweep which has already produced promises of comprehensive marijuana reform legislation.

But what some are overlooking is that the Biden administration have only thus far agreed to decriminalize marijuana as opposed to legalizing it on a federal level - a task that would be hard pressed to accomplish right now even with control of all three branches.

The cannabis industry is still a tricky place to tread. For one, there still is no access to federal banks - even though the companies are legitimate US businesses. Second, all Canadian cannabis companies are forbidden to sell in the US, which makes their companies banned to hold in any American listed ETFs. And even as we continue to legalize marijuana state-by-state, it is still federally illegal in the US.

We should also point out that at the end of the day cannabis is a crop; it's called weed for a reason. Crops are commodities and are subject to the vagaries that go along with crop production. The barrier to entries is minimal and the supply by any account is plentiful.

Medical uses are the future in our opinion, and we were painfully reminded of that this month when a name we used to own, GW Pharma, was bought out at nice premium by Jazz Pharmaceuticals. For now, marijuana names are just another category to actively trade, something we embrace. But to be long-term holders of names in the space seems a bit risky in our opinion given the political backdrop and (lack of) barriers to entry.

It has been a nice year for Twitter in 2021, the stock traded an all-time high on February 19th when it nearly hit $75 per share. It has been a long time coming for Twitter bulls to finally be rewarded, especially when we had to watch both Facebook and Snap zoom past them market-cap wise. Ironically, it took the absence of its most famous user, Donald Trump, to help spark the rally that shot the name up 41.3% YTD.

On February 9th, Twitter reported their Q4 results. The social media giant beat estimates by $0.07 while reporting revenues of $1.29 billion against estimates of $1.19 billion. Overall, it was a solid quarter, the only blemish was the slight guide down of Q1 profits and a small miss of daily active users (DAU). However, Average Monetizable Daily Active Usage (mDAU) grew a robust 27% to 192 million and that number is expected to grow in coming quarters.

We are used to seeing the market react poorly to Twitter's earnings releases. But were pleasantly surprised to see the stock move up on the number after-hours and continue the trend on the 10th – tacking on over 11% that day. The stock has hardly looked back since and is now trading at all-time highs. We still think higher prices are ahead and would not be surprised to see it trade par ($100) in 2021.

Much of our enthusiasm revolves around the fact they are finally doing a better job at monetizing their users and are still mulling over a subscription model, something we think will be a game changer for the company and skyrocket them to better profitability increased market cap. That theory was validated on the 25th during their analyst day presentations when they unveiled their Super Follows feature that will be a paid service to showcase various communities, it is akin to Facebook's Groups feature.

Based on Twitter's daily monetizable active users, the **6%** that they say they are willing to pay adds up to a minimum of $1.4 billion.

This is likely just the first rollout of some paid services to be offered by Twitter. If successful, this will pave the road for a $100+ stock price.

This month we added some performance points shorting Tesla on and off in February. We remain short via puts at the time of this writing. There were/are two factors that led to us focusing on Tesla. First, after their purchase of $1.5 billion worth of Bitcoin, and the fact that our attempted shorting of MicroStrategy purely as a hedge against our Bitcoin holdings failed miserably so far in 2021, we now think Tesla has become a better proxy for Bitcoin and intend to use it going forward for that purpose.

In addition, there are some increasing fundamental factors that increasingly are making it look like Tesla's next big move will be lower, not higher. They include:

1) A so-so quarter reported in late January.
2) More and more erratic behavior from Elon Musk. He is now being investigated again by the SEC for comments surrounding Dodgecoin.
3) Increasing competition. This has been cited for years now and has not hurt the stock price one bit. But the push for EV vehicles has never been as intense as right now and it is coming from China (Nio), Germany, Norway, Saudi Arabia's Lucid, and even Apple. All with their sights set on Tesla's admittedly large lead thus far.
4) Price reductions in the Model 3 and Model Y. Also Model 3 production was halted for two weeks at the California plant.
5) Becoming more of a Bitcoin proxy than a cutting-edge car company?
6) Short interest has practically gone away, and the index addition trade is over with. Who is left to buy now?

With all that, we feel that a Tesla short is now like a "2-for-1" special. Meaning, we can use it as a way to hedge Bitcoin and also take advantage of the slowly deteriorating bull case. The stock fell 19.6% in February and is now below the price it traded when added to the SP-500.

Our biggest negative drag on performance for 2021, and also the latter part of 2020 has been the precious metals. We have tried to continually talk ourselves into believing that they were due for a sharp bounce, using completely reckless monetary policy as our guiding light. Well, that has been embarrassingly wrong thus far as gold and to a much lesser extent silver have languished near their lows and have shown little to no interest in participating in the commodity reflation trade that is underway in copper, lumber, cotton, coffee, soybeans, platinum, and a large swath of cryptocurrencies.

Why that is is the subject of much debate and becomes even murkier when you consider that the dollar has shown no signs of life and has broken many key technical levels – all of which have been ignored by the metals. But there has certainly been a pattern of relative outperformance for silver versus gold. Some will cite the fact that silver is also an industrial metal and therefore may follow copper's lead more so than gold. Others cite the Wall Street bets crowd that is under the notion that silver is heavily shorted and therefore subject to a massive, short squeeze - a notion that has failed to pan out thus far.

We've taken a long position in the silver ETF (SLV) and will stick with it as long is holds up technically, which is another way of saying as long as it holds above $23.50 (currently $24.22)

As much as it pains the gold bugs to hear this, as if they aren't already in enough pain this year, it does appear thus far in 2021 that gold has an inverse correlation with Bitcoin. That makes the "Digital Gold" Bitcoin crowd super happy while causing gold bugs even more consternation. Why this phenomenon is occurring is unclear. Maybe the relationship breaks as the year wears on, but so far it has not and has been a clue to key when trading this area.

Another long position we added in February was our first venture into the world of SPACs. SPAC stands for Special Purpose Acquisition Company, also commonly referred to as "blank check" companies. They were created for the sole purpose of raising funds to acquire an existing company and go public with it. They have become quite the rage in the past 6 months and the enthusiasm for them shows no signs of stopping.

Some recent examples include Nikola Motors, Draft Kings, Metro Mile, and Virgin Galactic. It has been the hottest space in the market for the past six months and there are now over 275 listed SPACs in the market. However, after the 28% plunge in Churchill Capital, whose company was Lucid Motors, there has been a definite chill in the air for SPAC enthusiasm in the last week of the month.

We have added Bridgetown Holdings, a Hong Kong based asset acquisition company that is rumored to announce (very soon?) that they are a company that is attempting to replicate the Amazon delivery business in India. Details are vague so far - like all SPACs waiting to announce their acquisitions. But we are happy holding this name as we wait the announcement, knowing that our risk is limited based on the terms set by SPACs.

We understand that it sounds a bit confusing and vague. And we would be lying if we claimed to be experts in this arena. But there are opportunities in this area for sure and we would be remiss if we just ignored them because they seemed too murky to figure out. We will be sure to keep everyone updated on this new position going forward.

2021 has been a very unpleasant year for bondholders - of any ilk. Due to the Fed policies of the past 10 years income from holding bonds has been very meager – to put it mildly. Bond ETFs have become quite popular in recent years as they provide easy, liquid access for individual investors to garner bond exposure as they attempt to balance their portfolios. And for years now it has been a low volatility strategy that has produced small, steady returns with minimal, if any, capital loss. But those tranquil waters have succumbed to quite a storm in recent weeks. Government, municipal, and corporate bonds have been smacked hard in 2021: Here are some stats:

1) iShares 20+ Year Treasury ETF: -9.1%
2) iShares S&P Municipal Bond ETF: -1.4%
3) iShares Investcorp Bond ETF: -4.3%

Pretty ugly action for a section of portfolios that is supposed to provide stability to counteract other levels of exposure. In our 2021 preview we opined that volatility in the bond markets would surface in 2021 and in the years ahead. So far, that has played out and we do not really see a scenario where it changes given the macro backdrop and increasingly dangerous levels of money printing and overwhelming levels of debt. For pension planners, risk-parity funds, and everyday folks trying to run a balanced portfolio -it is becoming a real problem. But we on the other hand, we forecasted the change in character and welcome the volatility. Maybe this year we can finally show some gains in the bond trading ledger. For as many know, we have been woefully lacking in that department in recent years.

Looking Forward and Other Market Commentary: We will get a reprieve from the vast majority of corporate earnings this month but will turn our attention more to the macro world. Most of the attention will re-focus on the central bankers as there are five scheduled meetings on tap. The Fed meets on the 17th and that will, as always be the highlight. We will also hear from the ECB (11th), BOE (18th), Bank of Canada (10th) and the Bank of Japan on the 19th. Normally, we wouldn't pay much attention to all these meetings, they have been "status quo" for years now. But, in 2021 there has been a marked increase in interest rates, granted from uber-low levels, across the globe, and it will be interesting to see the commentary from various banks on their rationale for the sudden rises.

And if you think that the heads of these central banks aren't growing concerned about the sudden rise in rates, we will point to a Bloomberg article on the 23rd which claimed that ECB president Christine Lagarde was "closely monitoring" government debt yields. Also, the Bank of Korea said they would intervene if borrowing costs continued to rise and the Bank of Australia and New Zealand both said they were ready to prolong economic stimulus for the foreseeable future if yields continued to rise. And the Bank of

Japan, as always, has said they will be quick to add to their asset purchasing program as needed to maintain low rates. No surprise there.

Also, on March 4th-5th OPEC will hold its Spring meeting. Oil prices have steadily climbed along with many other commodity prices and are now over $60 for WTI. OPEC has lost a lot of shine recently and the world seems to not wait on their every word like they used to, but we still need to keep our ears peeled for any change in verbiage seeing how high the price of oil has climbed already this year and the increasing chatter of $100 oil in 2021 - something the Fed does not want to deal with.

The markets seem to have lost interest in Covid for some time now, they are trading like it's in the rear-view mirror, and hopefully it is. March should bring us a strong month of vaccinations and begin to allow those 65-and under to start and get at least their first shots. Also, in March we know that Johnson and Johnson will roll out their single-shot vaccines which have a 72% efficacy rate in the US and 85% prevention rate for death.

All good things for society, and they have been reflected quite handsomely in shares of airlines, theme parks, and travel websites. We do have to begin to wonder if the re-opening trade has been a bit overpriced so far in 2021. When we notice that the major cruise liners now sport an enterprise value *higher* than it was before the pandemic shutdown began it's a bit of a head scratcher. The same could be said for Disney, although their subscription service has been a smashing success; Expedia and Booking.com are also trading above levels seen before the pandemic and with a year of severely limited revenue gone by.

It's understandable that there is optimism for an economic surge. All signs point to it. But to assume it will go the way of the Roaring 20's - as many are saying, seems too priced for perfection in our opinion. It's discounting a jump in wholesale prices, rates and the possibility the mutant strains of this virus become more prevalent. Something we all hope proves to be false.

One additional point. Here in California, we have been essentially locked-down for a year, so the need to get out and be normal is going to happen in a big way. But much of the country has been "open" for some time now, and parts never really closed. So, we have to determine the difference in demand from those sections of the country as opposed to severely locked down areas - and is that factored in the grand reopening?

Earnings season is just about over aside from a few stragglers left to report. Snowflake in the 3rd is one report we are very interested in, but that's about it for March. Overall, it has been a great kick-off to 2021 earnings wise, granted expectations were reduced due to the pandemic, but still corporate America sure looks and sounds pretty healthy right now.

- With 92% of S&P 500 companies having reported, Q4 earnings season is close to or at record levels in terms of surprise percentages.
- Some 78 % of companies beat revenue expectations, only 1% point away from the all-time record of 79% in Q3 2020. This resulted in good operating leverage with

80% of companies beating by an aggregate +15% vs. analysts' estimates. Both are the third-highest levels dating back to 2008.
- This also means that Q4 2020 saw both revenue and earnings growth, at 2.8% and 2.9% respectively. While that may not look like a lot of leverage, it does set up Q1 2021 to show more: 5.6% revenue growth should translate into 21.2% earnings growth if the analysts have it right.

Since the start of 2021 analysts have raised their estimates for Q3 and Q4 2021 by 4% to a combined $92.77/share. Q4 2021 estimates are up to $47.64/share, getting close to the $50/share number that many are assuming will be hit this year.

Next quarter will be a bit more telling for the health of the economy and the estimates are going to be ratcheted up, but just think back to one-year ago and imagine seeing these types of numbers posted as we stared into a pandemic abyss.

Finally, despite having a new regime in Washington, we sadly saw the same display of ineptness on February 18th when the Senate Finance committee decided that despite a pandemic, an overwhelming need to vaccinate the entire country, and the fact that Texas and other parts of the southwest were freezing and without power for days. That they would instead focus on….Gamestop.

The Senate finance committee, headed by the utterly clueless Maxine Waters, both of whom have no idea what margin, payment for order flow, naked shorting, or Redit are, put all that aside and spent a few hours grilling various players in the short-lived Gamestop saga from January.

Think we are being too harsh? Here is an actual question from that day:

"Why aren't customers entitled to a refund when they lose money on stocks?" – Maxine Waters 2/18

Yes, some people got burned (long and short) in a name that went crazy. Happens all the time to some degree, granted Gamestop was a hyper example. But players in the game assume risk when they enter the fray. That's the deal. You may make a small fortune or get your face ripped off. Best of luck - but don't complain either way. Yes, sometimes it's not "fair" - but no one promised it would be.

"irrational behavior can last longer than you can remain solvent" is a paraphrase of a famous quote by Kenneth Galbraith. The market handled Gamestop just fine, some lost-some won. Move on.

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