

---

**Preview:**

- Following a brief summary of general market thoughts, we will be looking at tickers TDOC, TTWO, BYND, and MC recommending long positions in TTWO and MC respectively.
- Our stock selection process occurred on 2 fronts, the first being derived from a trading system, whereby we allocate capital to 10 stocks on the basis of value and momentum. The initial period for the backtest of this system began on Jan 1 2003, and we continue to monitor results through present day. The names that we have listed are what the system would be long as of 1/28/20. In this particular system we assign higher ratings to those securities that show a *lower* EV/EBITDA ratio, essentially testing it as a value factor.
- The second of our processes is discretionary in nature, involving the screening of stocks on the basis of revenue growth and debt, while including the crossing of the 10 and 100 day moving averages as a “long” signal. The signal is also contingent on the 14 period RSI moving in conjunction with prices.
- You’ll find the listing and rankings (on the basis of momentum and volatility) on page 2, with a brief discussion of TDOC (ranked #1 on the basis of momentum) on page 3
- Our discretionary based ideas are spoken about on pages 4, 5 and 6 respectively
- Finally, individual charts and general market data begins on page 7

**Market Thoughts:**

- On a macro level, our market regime filter (i.e. the SPXT) remains above its 200 day moving average, and as such we feel comfortable recommending certain long positions at this time. We do however note what we would consider to be a flattening in recent momentum. We contend that any prolonged divergence between price and momentum would signal a potential downturn. At that point we would likely be looking to reduce exposure on the long side, and begin looking for short opportunities
- Market breadth indicates continued strength when looking at the advance decline lines for the NYSE as well as the S&P 500 index. Of note is the 85% of S&P 500 names trading within 20% of their respective 52 week highs, reaching levels similar to those reached in January of 2018 and March 2017.
- Notably, markets during that time period continued to trade higher. In short, while we would anticipate an *eventual* decline in markets, current strength in and of itself, is not a reason to expect weakness today, in our view.
- From the vantage point of “headline risk”, the biggest issue appears to be uncertainty surrounding the Coronavirus and its continued spread in China. Were it to continue, we would be leery of emerging market stocks, while gaining a potential interest in both Healthcare and Consumer Staples names.

## Weekly Market Note

---

**Algorithmic/Systematic Rankings:** *The following stocks represent the 10 securities that our factor based system would be signaling to go long as of 1/28/20. The system itself incorporates EV/EBITDA as a value factor, along with the 126 day price change as a momentum factor, programmed using the Python coding language. While the names themselves operate within a system, we like to look at them on an individualized basis for our readers, evaluating quantitative, technical, and fundamental factors*

### System: EV/EBITDA

			Close Price	Debt to Cap	EV/EBITDA	PE Ratio	Revenue Growth
MU US Equity	MU	MICRON TECHNOLOGY INC	\$55.30	13.7%	5.35	16.1	-23%
JWN US Equity	JWN	NORDSTROM INC	\$38.52	75.5%	5.83	10.0	2%
MS US Equity	MS	MORGAN STANLEY	\$53.68	81.6%	7.14	10.3	7%
URI US Equity	URI	UNITED RENTALS INC	\$152.26	77.5%	5.01	9.3	16%
JPM US Equity	JPM	JPMORGAN CHASE & CO	\$134.23	70.0%	N/A	12.9	8%
WU US Equity	WU	WESTERN UNION CO	\$27.51	109.9%	9.14	15.0	1%
RF US Equity	RF	REGIONS FINANCIAL CORP	\$15.40	37.9%	N/A	10.0	5%
WPX US Equity	WPX	WPX ENERGY INC	\$12.06	36.6%	3.80	48.1	90%
TDOC US Equit	TDOC	TELADOC HEALTH INC	\$103.48	29.0%	N/A	N/A	79%

When ranking the above stocks on the basis of their 126 day momentum we arrive at the following:

20 Day Momentum Rank		
TDOC	TELADOC HEALTH INC	19.0%
MS	MORGAN STANLEY	10.0%
MU	MICRON TECHNOLOGY INC	8.2%
WU	WESTERN UNION CO	0.6%
JPM	JPMORGAN CHASE & CO	0.2%
JWN	NORDSTROM INC	-2.6%
WPX	WPX ENERGY INC	-5.2%
RF	REGIONS FINANCIAL CORP	-5.9%
URI	UNITED RENTALS INC	-6.4%

When ranking the selected stocks on the basis of recent volatility, we arrive at the following:

20 Day Volatility Rank		
WU	WESTERN UNION CO	0.78
JPM	JPMORGAN CHASE & CO	0.89
MS	MORGAN STANLEY	1.08
RF	REGIONS FINANCIAL CORP	1.23
JWN	NORDSTROM INC	1.61
URI	UNITED RENTALS INC	1.91
WPX	WPX ENERGY INC	1.96
TDOC	TELADOC HEALTH INC	2.11
MU	MICRON TECHNOLOGY INC	2.24

### Individual Outlook *(brief summary of TDOC as we currently see it)*

#### Teladoc Health Inc (TDOC) \$103.48

- Healthcare services company, \$7.5 billion market capitalization that provides diagnosis, treatment, and prescriptions via phone and video consultations.
- Shares of TDOC are up 23.6% year to date and sits 1% shy of its 52 week high of \$104.17.
- From a fundamental perspective, the last 12 months of revenue are up 24% in comparison to year end 2018. On a sequential basis, last quarter showed a 5.9% move higher, not as strong as we would like to see, but in the right direction nonetheless.
- Total debt to capital sitting at 32% is within our comfort zone (which in general is sub 50% for long ideas). Given that they have yet to generate positive EBITDA, we have concerns as it relates to interest coverage (or lack thereof), but overall the balance sheet doesn't appear to be problematic.
- In recent quarters, the company has also managed to spend within operating cash flows, which should diminish the need for TDOC to add to debt levels and/or dilute current shareholders with issuances of additional equity.
- Another point that we find interesting is the high levels of short interest (30%), along with the 16.4 days to cover. In our view, this illustrates a bearish position that is potentially overcrowded. As such, a move higher in TDOC prices has a decent chance of being accelerated by short covering.
- From a technical perspective (chart on pg 9), the 10 day Simple Moving Average remains above the 100 day SMA, with the most recent cross occurring on Dec 16 2019. Since that time, prices have increased 32.3%.
- Additionally, the most recent push higher (when measuring from 9/30/2019 to 1/27/2020, comes in conjunction with increased momentum as well (using a 14 period RSI)
- We also applied an anchored volume weighted average price indicator, anchoring from the 3 most recent earnings releases. In doing so we found potential support points at \$83.44, \$74.22, and \$70.51 per share. In short, we use AVWAP to give insight into the average entry price of all long positions from a given/specific point in time. As current prices exceed those AVWAP levels, we surmise that the average investor (from that point in time), has realized positive gains, which we view as a positive for current share prices.
- From the basis of our system and its rules, our entry point would have occurred on 10/31/2019 at \$76.59. Moreover while we would still be long shares, our system would not yet have generated a signal to add additional shares, or liquidate the current position for that matter. It is for that reason that we would not be recommending the initiation of a long position in TDOC today, despite what we like about it.

### Screen Based Trade Ideas: \*TTWO, BYND, MC

#### Trade idea 1 (Screen 3: High Sequential Revenue Growth, Low Debt to Capital):

- Take Two Interactive (**TTWO**-\$125.91). **Potential long candidate**
- Develops, markets, and distributes interactive entertainment games, software, and accessories.
- TTWO has a \$14.2 billion market cap, along with 113.3 million shares outstanding (111.7 mm float)
- The company is currently 7% off of its 52 week high of \$135.70 per share.
- The technical set up for TTWO is as follows:
  - Moving average crossover between the 10 and the 100 period MA's occurred on 1/9/20, with prices contracting 1.6% since that time.
  - Additionally, the momentum for TTWO (via the 14 period RSI), was confirming the move higher, in our view.
  - The prior decline (between Sept 2019 and Nov 2019), showed signs of momentum diverging from the move down (which we like to see as well). In short, what we like to see is bullish divergence on the prior decline, leading into bullish confirmation on the subsequent move higher.
  - As stated prior, we like to look at the anchored volume weighted moving average, to get an idea of which price points have seen significant investor activity. When anchoring from the 3 most recent earnings releases, I find AVWAP prices of \$124.38, \$123, and \$119.62. As such this tells me that the average investor who has gotten long AVWAP shares over the last 3 earnings reports, is in a positive position (and thus less likely to put downward pressure on the stock). In short, I think TTWO is trading above support levels, which I view as a positive.
- On a fundamental basis, I think TTWO stands to benefit from the increased prevalence of "E-Sports" both domestically and abroad.
- According to Newzoo's 2019 Global E-Sports Market Report, there are currently 201 million E-Sports enthusiasts, with expectations that its audience would reach 454 million in 2019.
- Expected revenues for E-Sports are expected to have reached \$1.1 billion in 2019 (a 26.7% increase), with estimates of \$1.8 billion in 2022 (63% higher)
- Casinos have also begun to position E-Sports as a revenue driver, targeting E-Sports enthusiasts to play competitively, and (I would assume), encouraging the E-Sports audience to wager on those competitions. Of note is that MGM Luxor has partnered with Allied E-Sports to open an E-Sports arena in former nightclub space.
- Also worth noting is recent introduction of video game ETF's such as ETF Manager Groups' GAMR (launched in 2016), and Van Eck's ESPO (launched in October of 2018). I've included charts for each on pages 11 and 12.
- As far as TTWO's revenue is concerned, 2019 saw the company's revenue increase 48.8%. The most recent quarter saw revenues grow 74.12%, on the heels of a 39.30% increase in the prior quarter.
- In looking to the balance sheet, TTWO currently has a total debt to capital ratio of 6.07%.
- As far as risk management is concerned, we would recommend exiting initial positions at \$121.71 should our thesis prove incorrect. This equates to a maximum loss threshold of 3.3% (a figure that we recommend be set as a trailing stop), and equivalent to 1.5x the current Average True Range (ATR).

### Trade idea 2 (Screen 3: High Sequential Revenue Growth, Low Debt to Capital):

- Beyond Meat (**BYND**-\$114.88). **HOLD**
- BYND provides plant based food products (i.e. burgers, sausage, etc) in the United States.
- The company has a \$7.1 billion market cap, 61.5 million shares outstanding (39.9 million float, and is trading at 48% of its 52 week high of \$239.71.
- The technical condition for BYND is as follows:
  - Moving average crossover between the 10 and the 100 period MA's occurred on 1/17/20, with prices moving an additional 8.9% since that time.
  - Additionally, the momentum for BYND (via the 14 period RSI), is moving higher simultaneously during the aforementioned increase in price.
  - Notably there was also a bullish divergence in the period prior to the move (11/1/19 to 1/6/20) as momentum increased despite BYND shares trading down 9%
  - When looking at AVWAP and anchoring from the Q1 and Q2 earnings releases, we actually note the potential for overhead resistance, which would be problematic. As it stands, BYND is trading below the AVWAP price points of \$118.11 and \$131.38. Should the investors who averaged either of these price points look to exit positions once made whole, it would be a headwind for any long thesis. A conservative approach would be to initiate a long position following a breach of \$132 per share.
- On a fundamental basis, BYND has seen a 36.7% increase in revenues on a sequential/quarterly basis, with annualized growth in excess of 160%.
- As far as the balance sheet is concerned, BYND has a total debt to capital ratio of 6.5% along with interest coverage of 6.5x, both of which we are comfortable with.
- The growth story for BYND will center around its continued partnering with fast food franchises, which will extend the brand, and add to revenue in our view.
- We do note however that the stock has come under recent pressure, on the heels of a recent ruling specific to a lawsuit between Beyond Meat, and Don Lee Farms. In said lawsuit, Don Lee Farms has accused Beyond Meat of breaching the exclusive manufacturing agreement that existed between the 2 entities. On 1/27/20 a judge ruled in favor of Don Lee Farms on the matter. Moreover, Don Lee has accused Beyond Meat of misappropriating trade secrets as well.
- In our view, the legal issues surrounding BYND are undoubtedly the biggest overhang on share prices. Additionally, the recent uptick in volatility is concerning as well. As such, risk management specific to BYND is paramount, in our view. Were investors to be interested in establishing a long positions in BYND shares, we would recommend waiting until if and when it breaches overhead resistance. While the technical set up is sound, and the fundamentals solid, the litigation risk that seemingly increased this week is enough to give us pause.

### Trade idea 3 (Screen 3: High Sequential Revenue Growth, Low Debt to Capital):

- Moelis & Co (MC-\$36.11). **Potential long candidate**
- MC is an investment bank that “provides financial advisory and capital raising solutions to clients in connection with mergers, acquisitions, recapitalizations and restructuring (Source: Bloomberg).
- Additionally, MC has a \$2.2 billion market cap, 49.3 million shares outstanding, along with 2.9 million shares held short. It is currently trading at a 24% discount to its 52 week high of \$47.36 per share.
- The technical set up for MC is as follows:
  - Moving average crossover between the 10 and the 100 period MA’s occurred on 1/17/20 at \$34.99, with prices advancing 3.2% following the cross.
  - Shares have traded between a range of \$30.90 and \$35.06 per share (between May 2019 and January 2020), but have recently moved higher. That, in conjunction with the increase in momentum serves as an additional bullish indicator, in our view.
  - Additionally, anchored VWAP indicates levels of support between \$33 and \$34 per share.
- Fundamentally, MC generated a 51% increase in quarterly revenue on a sequential basis, and 11% higher in comparison to the same quarter a year prior. 100% of the firm’s revenues comes via its investment banking activities. Recent activities include its participation in the The Walt Disney Corporation’s \$85.1 billion acquisition of 21<sup>st</sup> Century Fox, along with CBS and Viacom’s \$48 billion all stock merger.
- MC currently pays a \$0.50 quarterly dividend, with an indicated yield of 5.52%
- In looking to MC’s balance sheet it’s worth noting that the company carries zero debt at this time.
- MC currently has \$93.5 million remaining under a \$100 million share repurchase plan authorized in February of 2019. Our contention is that this would serve as an additional measure that would “protect” MC share prices in the event of sharp decline.
- From a risk management vantage point, we would be looking to exit MC shares at \$34.18, should our thesis prove incorrect. This would amount to a 4.5% loss and equivalent to 1.87x the 20 period ATR of .87.

## Weekly Market Note

### Global Market Performance:

Indexes	Price	1 Day Change	1 Week Change	Futures
S&P 500 INDEX	3,273.40	-0.09%	-0.67%	-0.46%
NASDAQ COMPOSITE INDEX	9,275.16	0.06%	-0.43%	-0.34%
DOW JONES INDUS. AVG	28,734.45	0.04%	-0.88%	-0.73%
NIKKEI 225	23,013.60	-1.56%	-3.41%	-1.41%
FTSE 100 INDEX	7,483.57	0.04%	-1.35%	-0.61%

  

Currencies				
USD-JPY X-RATE	108.90	0.11%	0.35%	0.01%
EUR-USD X-RATE	1.10	0.02%	-0.12%	-0.09%
GBP-USD X-RATE	1.30	-0.03%	-0.43%	-0.03%
AUD-USD X-RATE	0.67	-0.28%	-1.42%	-0.28%

  

Energy				
US Crude Oil WTI Cushing OK	53.33	-0.28%	-1.46%	-0.99%
European Crude Dated Brent :	58.31	-0.82%	-2.83%	-0.94%
Henry Hub Natural Gas Spot P	1.94	-2.02%	1.04%	0.43%

  

Metals				
Generic 2nd 'HG' Future	2.55	-0.41%	-5.31%	-0.41%
Gold Spot \$/Oz	1,579.95	0.20%	0.54%	0.54%
SILVER FUTURE Mar20	17.58	0.50%	-2.97%	0.25%
PLATINUM SPOT \$/OZ	974.71	-0.26%	-3.15%	0.17%
PALLADIUM FUTURE Mar20	2,217.50	0.69%	-4.27%	-0.12%

  

Agriculture				
SOYBEAN FUTURE Mar20	8.92	-0.11%	-1.11%	-0.11%
SOYBEAN OIL FUTR Mar20	0.31	-0.48%	-2.03%	-0.48%
WHEAT FUTURE(CBT) Mar20	5.62	0.00%	-1.96%	0.00%
CORN FUTURE Mar20	3.85	0.13%	-0.65%	0.13%

### Current sector rotation (RRG), relative to the S&P 500:

Ticker	Sector	Quadrant
XLK	Technology	Leading
XLU	Utilities	Leading
XLRE	Real Estate	Leading
XHB	Homebuilders	Leading
XLV	Healthcare	Improving
XLP	Consumer Staples	Improving
XLB	Materials	Improving
XLI	Industrials	Lagging
XLY	Consumer Discretionary	Lagging
XOP	E&P	Lagging
XLE	Energy	Lagging
XRT	Retail	Lagging
XLF	Financials	Lagging

### Trade System/Screen Descriptions\*

- **System 1:** Momentum ranking while accounting for volatility. Basket of stocks are ranked based on their momentum over the last 90 days (using the exponential regression). That number is annualized and then subsequently multiplied by the R2 (coefficient of determination), in order to penalize stocks for excessive volatility. Goal is to locate stocks with strong, steady momentum
- **System 2:** Retracement while in a primary trend. For long ideas, the goal is to identify names that have been moving higher, but have recently pulled back slightly. I look for stocks whose current price likes below the 20 day moving average, but above the 50 day moving average, while momentum (14 period RSI), is pointing higher as well.
- **Screen 3:** Moving average crossover. Basic system attempting to capture a stock poised to breakout. Can use a 10 day MA crossover above the 100 day MA, 20 above the 50, 50 above the 200, etc... depending on risk tolerance.
- **Screen 4-** Basket of stocks whose most recent quarterly revenue exceeds 25% while its total debt to equity is less than 20%. In turn, this basket of stocks would have seen a recent crossover of its 10 period moving average above its 100 period moving average, in conjunction with rising momentum.



Weekly Market Note



Weekly Market Note



Weekly Market Note



Weekly Market Note





Weekly Market Note



Weekly Market Note

