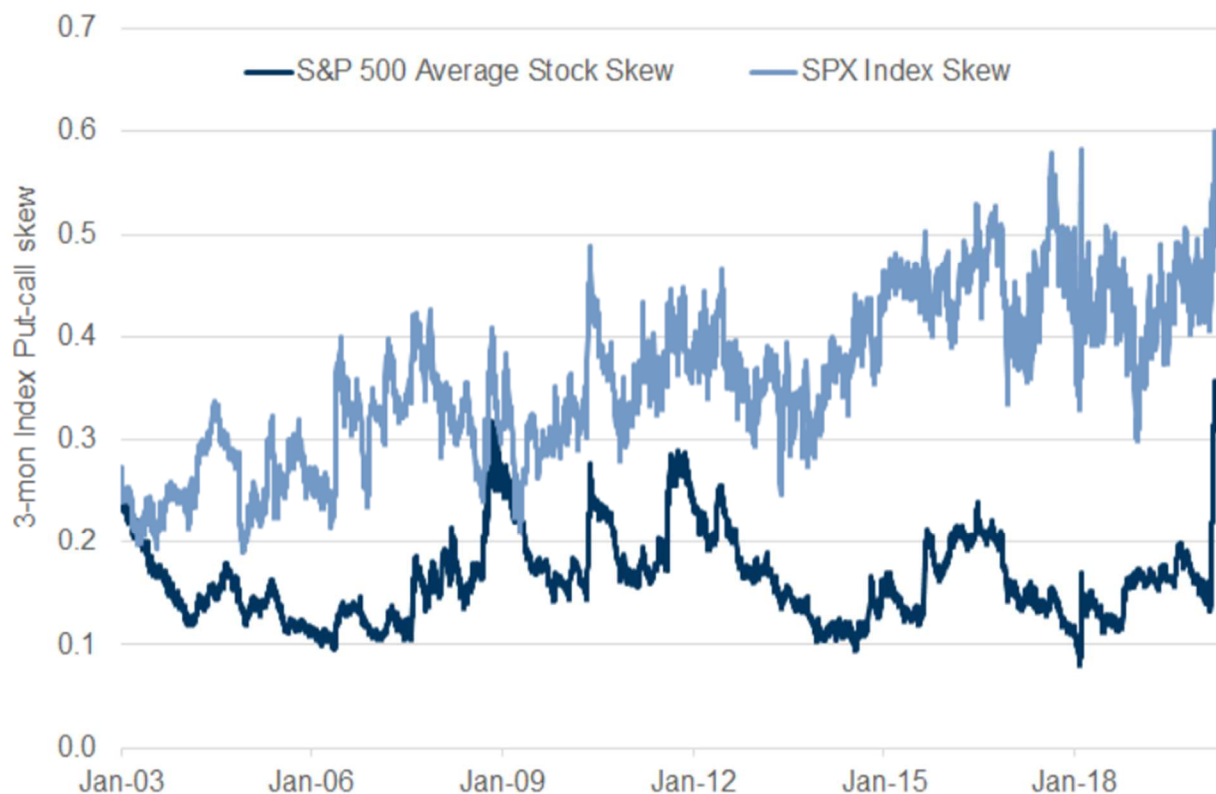


Bear Market Panic, Opportunities in Elevated Volatility/Skew

The recent plunge in global markets has been historic in velocity and the magnitude already approaching one of the worst in the history of markets. We have seen volatility rise to historic levels and single-stock skew is hitting record levels, so puts are pricing in extremes at the tails (chart below via Goldman Sachs). There has been a rush to liquidity where everything is being sold indiscriminately to raise funds. We are hitting a period of extremes in terms of oversold, sentiment, and positioning which historically has led to some great opportunities. Although I continue to see another 10-15% downside for markets as I have been targeting a move back to 2016 levels in the 2030/2100 range, it is time to be preparing via fundamental to research to identify some opportunities. We are heading into a recession and the bottoming process and calming of volatility tends to take time, 12-18 months on the former, and 3-6 months the latter.



One way to take advantage of current market dynamics is via longer-dated put sales in names one is willing to own, so cash-secured put sales. This allows you to define the exact level you are willing to own a stock while the goal being for that stock to not be at that level come expiration, and be well above, so you collect the full premium, benefitting from both a rebound in shares and a decline in implied volatility.

I have identified 25 companies that are high quality, have healthy balance sheets, solid growth opportunities, and relative attractive valuation to its peer group. With the economy coming to a sudden halt it is very important to focus on companies with little debt and strong balance sheets. The names mostly have a more modest impact from COVID-19 as well, so I avoided Banks, Energy, and Travel though did include two Retail names as that group can quickly normalize with things re-open. As previously noted these names could have further downside near-term and patience may be required in order to get even better value out of put sales but now is the time to start identifying the opportunities. If not comfortable with put sales, these are names one could also look to be buying equity at one-quarter increments. Some key metrics are included below:

Tickers	Company	EV to EBITDA	Net Income CAGR	P/E	EV/FCF	Revenue CAGR	EBITDA Margins	FCF Yield	FCF to Debt	Debt to EBITDA	EBITDA Interest Coverage	Debt to OCF	Current Ratio
AME	AMETEK, Inc.	12.6x	12%	15.12x	17.2x	4%	27.36%	6.74%	0.38	1.9x	16.0x	2.4x	1.4x
ANET	Arista Networks, Inc.	11.4x	5%	20.23x	11.4x	8%	39.08%	6.99%	22.79	0.0x		0.0x	5.8x
ATVI	Activision Blizzard, Inc.	17.5x	-2%	22.69x	23.0x	0%	37.42%	4.02%	0.73	1.1x	25.8x	1.5x	2.5x
BABA	Alibaba Group Holding Ltd	20.8x	21%	24.97x	16.4x	36%	32.36%	5.91%	8.81	1.1x	23.5x	0.1x	1.3x
CERN	Cerner Corporation	11.4x	9%	19.01x	36.4x	5%	30.56%	2.82%	2.18	0.4x	120.2x	0.6x	2.0x
FTNT	Fortinet, Inc.	19.1x	24%	28.10x	15.5x	18%	27.40%	5.44%		0.0x		0.0x	1.9x
GNRC	Generac Holdings Inc.	13.8x	7%	16.86x	24.9x	8%	20.38%	4.48%	0.31	2.0x	10.8x	3.0x	2.4x
GOOGL	Alphabet Inc	10.8x	10%	20.23x	20.7x	17%	35.10%	4.10%	9.29	0.1x	568.1x	0.1x	3.4x
KEYS	Keysight Technologies Inc	12.8x	25%	16.01x	19.4x	8%	31.26%	5.18%	0.50	1.3x	16.8x	1.8x	3.2x
LHX	L3Harris Technologies Inc	14.6x	18%		16.7x	8%	20.70%	7.01%	0.67	2.6x	8.3x	3.1x	1.1x
LIN	Linde PLC	11.9x	13%	19.19x	39.1x	27%	28.97%	2.98%	0.22	1.8x	33.2x	2.4x	0.9x
LULU	Lululemon Athletica Inc	18.0x	35%	28.69x	48.3x	20%	25.19%	2.01%		0.0x		0.0x	2.9x
MDT	Medtronic plc	11.3x	8%	13.22x	17.1x	3%	31.96%	6.67%	0.30	2.6x	10.2x	3.6x	2.6x
PYPL	Paypal Holdings Inc	21.0x	18%	26.53x	26.3x	17%	27.19%	3.59%	2.32	0.7x	42.0x	0.8x	1.4x
ROST	ROSS STORES, INC.	8.4x	5%	12.19x	12.9x	6%	15.57%	7.38%	4.24	0.1x		0.1x	1.3x
SPOT	Spotify Technology SA	1,382.5x	68%	(84.94x)	43.6x	21%	0.21%	2.17%		22.5x	0.4x	0.6x	0.9x
SWKS	Skyworks Solutions Inc	7.6x	-10%	11.41x	13.6x	0%	44.23%	6.61%		0.0x		0.0x	6.0x
TDY	Teledyne Tech	13.3x	13%	17.79x	20.3x	7%	19.08%	5.36%	0.59	1.3x	27.4x	1.7x	1.7x
TROW	Price T Rowe	9.5x	9%	12.20x	18.9x	7%	47.45%	5.14%		0.0x		0.0x	
TSM	Taiwan Semi	9.7x	6%	15.50x	43.6x	12%	59.68%	2.16%		0.3x	196.4x	0.0x	1.4x
TTD	Trade Desk, Inc.	29.6x	18%	38.44x	314.3x	32%	32.36%	0.31%		0.0x		0.0x	1.6x
TWTR	TWITTER, INC.	10.8x	3%	24.66x	17.0x	14%	34.97%	4.47%	0.18	2.2x	8.8x	2.0x	9.2x
VMC	Vulcan Materials CO	10.0x	17%	13.78x	21.1x	9%	25.77%	5.92%	0.22	2.2x	9.8x	2.9x	2.6x
VRTX	Vertex Pharmaceuticals	27.5x	37%	27.70x	34.6x	28%	45.47%	2.72%		0.3x	32.4x	0.4x	3.6x
YNDX	Yandex N.V.	13.4x	16%	18.46x	28.4x	20%	29.09%	3.35%		0.0x	689.4x	0.0x	3.1x

I compiled this list on 3/18 after the close and unfortunately a number of the names jumped 10-20% on 3/19 which we tend to see in bear market rallies, but expect further market weakness will cause these names to come back lower and IV to rise once again, so I am adding a "Stock Level Trigger" column and estimating the price of the puts for those wanting to be more patient. The table below breaks down the contract and also worthwhile looking at net credit if construction a portfolio of this strategy. With the example below a cash-secured portfolio would need \$366,700 to cover the max stock assigned while collecting \$48,175 in credit.

Company	Ticker	Sector	Market		Stock Level		Target		Breakeven vs. Current	Stock on 1		Max Stock Assigned	
			Cap	IV90	Trigger	Month and Strike	Put Sale Price	Break-Even		Contracts	Net Credit		
AMETEK	AME	Industrial	\$17B	83.85%	\$60.00	September \$50	\$9.50	\$40.50	-41.30%	\$5,000.00	2	\$1,900.00	\$10,000.00
Arista Network	ANET	Tech	\$15B	80.20%	\$170.00	January \$100	\$13.00	\$87.00	-51.09%	\$10,000.00	1	\$1,300.00	\$10,000.00
ActiVision	ATVI	Tech	\$46B	57.25%	\$47.50	January \$40	\$7.00	\$33.00	-39.04%	\$4,000.00	3	\$2,100.00	\$12,000.00
Alibaba	BABA	Tech	\$515B	49.75%	\$172.00	January \$130	\$13.00	\$117.00	-35.32%	\$13,000.00	1	\$1,300.00	\$13,000.00
Cerner	CERN	Tech	\$19.7B	52.20%	\$57.50	January \$50	\$6.50	\$43.50	-26.89%	\$5,000.00	2	\$1,300.00	\$10,000.00
Fortinet	FTNT	Tech	\$15.3B	73.20%	\$78.00	January \$60	\$11.50	\$66.50	-22.82%	\$6,000.00	2	\$2,300.00	\$12,000.00
Generac	GNRC	Industrial	\$6B	80.20%	\$77.00	December \$65	\$12.50	\$52.50	-40.74%	\$6,500.00	2	\$2,500.00	\$13,000.00
Google	GOOGL	Tech	\$818.5B	54.85%	\$1,060.00	January \$700	\$47.50	\$652.50	-41.27%	\$70,000.00	1	\$4,750.00	\$70,000.00
KeySight Tech	KEYS	Tech	\$17.5B	69.20%	\$75.00	January \$65	\$11.00	\$54.00	-37.21%	\$6,500.00	2	\$2,200.00	\$13,000.00
L3 Harris	LHX	Defense	\$41B	71.25%	\$155.00	December \$100	\$10.00	\$90.00	-43.75%	\$10,000.00	1	\$1,000.00	\$10,000.00
Linde	LIN	Basic Materials	\$92B	57.60%	\$140.00	January \$110	\$12.00	\$98.00	-36.36%	\$11,000.00	1	\$1,200.00	\$11,000.00
Lululemon	LULU	Consumer Goods	\$21B	91.85%	\$140.00	January \$85	\$13.50	\$71.50	-53.83%	\$8,500.00	1	\$1,350.00	\$8,500.00
Medtronic	MDT	Med-Tech	\$109B	65.40%	\$77.00	January \$60	\$9.00	\$51.00	-35.61%	\$6,000.00	2	\$1,800.00	\$12,000.00
PayPal	PYPL	Financial	\$115B	65.60%	\$80.00	January \$65	\$9.00	\$56.00	-40.23%	\$6,500.00	2	\$1,800.00	\$13,000.00
Ross Stores	ROST	Retail	\$23B	76.70%	\$59.00	January \$50	\$9.00	\$41.00	-36.92%	\$5,000.00	2	\$1,800.00	\$10,000.00
Spotify	SPOT	Tech	\$23B	68.80%	\$115.00	January \$80	\$9.00	\$71.00	-45.00%	\$8,000.00	2	\$1,800.00	\$16,000.00
Skyworks	SWKS	Tech	\$13.5B	84.75%	\$72.00	January \$50	\$8.25	\$41.75	-45.99%	\$5,000.00	3	\$2,475.00	\$15,000.00
TeleDyne	TDY	Tech	\$8B	81.00%	\$205.00	December \$130	\$16.50	\$113.50	-49.83%	\$13,000.00	1	\$1,650.00	\$13,000.00
T Rowe Price	TROW	Financial	\$29B	92.60%	\$85.00	October \$50	\$7.50	\$42.50	-58.58%	\$5,000.00	2	\$1,500.00	\$10,000.00
Taiwan Semi	TSM	Tech	\$238B	64.25%	\$40.00	January \$35	\$5.50	\$29.50	-32.80%	\$3,500.00	4	\$2,200.00	\$14,000.00
Trade Desk	TTD	Tech	\$7.65B	97.00%	\$145.00	January \$80	\$11.00	\$69.00	-58.79%	\$8,000.00	2	\$2,200.00	\$16,000.00
Twitter	TWTR	Tech	\$20B	93.30%	\$21.00	January \$18	\$4.00	\$14.00	-41.91%	\$1,800.00	8	\$3,200.00	\$14,400.00
Vulcan	VMC	Materials	\$11B	67.85%	\$85.00	January \$65	\$7.00	\$58.00	-35.70%	\$6,500.00	2	\$1,400.00	\$13,000.00
Vertex Pharma	VRTX	Biotech	\$59.5B	59.50%	\$200.00	January \$140	\$9.00	\$131.00	-39.27%	\$14,000.00	1	\$900.00	\$14,000.00
Yandex	YNDX	Tech	\$10.6B	73.20%	\$79.50	January \$23	\$3.75	\$19.25	-37.09%	\$2,300.00	6	\$2,250.00	\$13,800.00