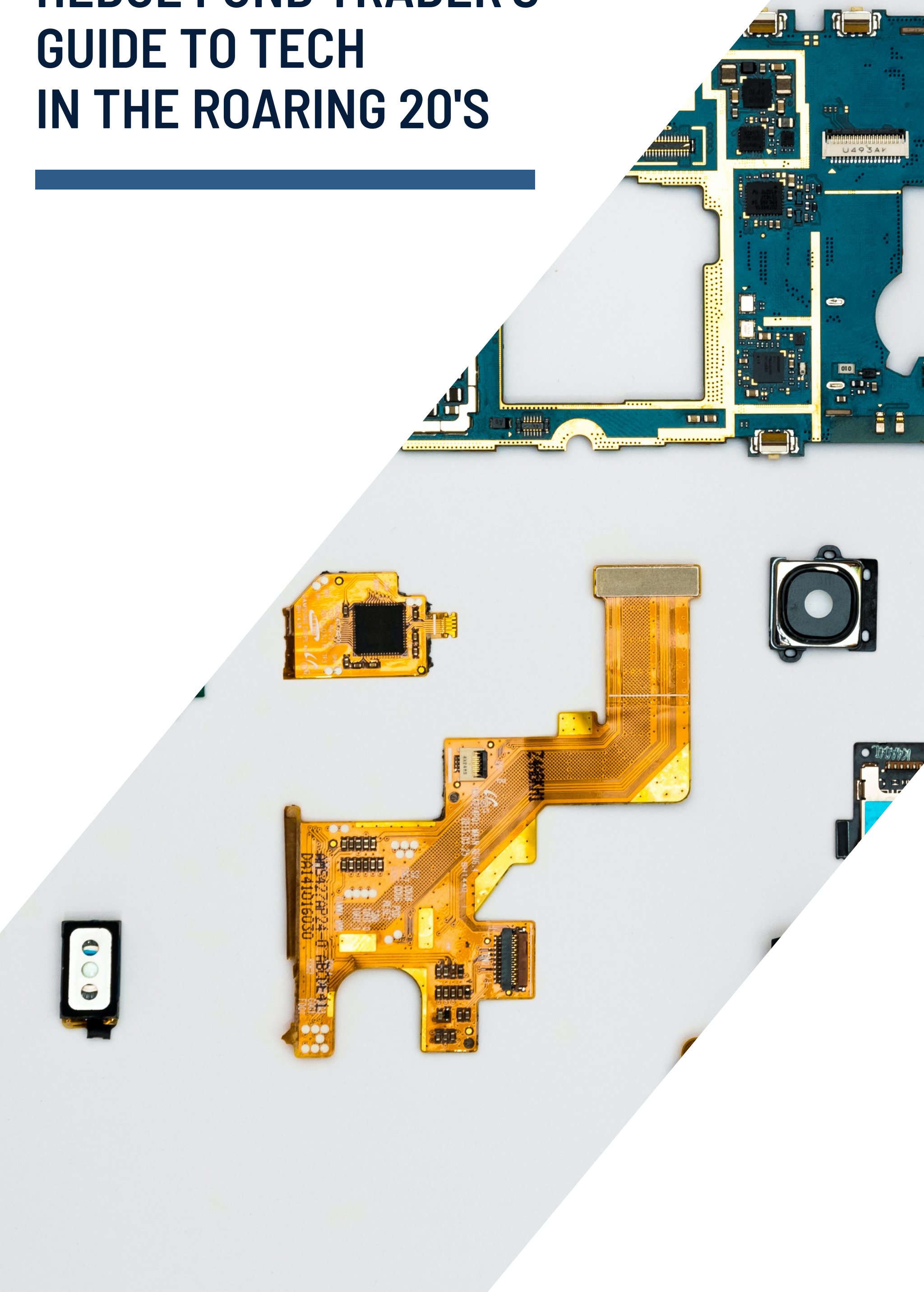
THE MAD HEDGE FUND TRADER'S GUIDE TO TECH IN THE ROARING 20'S



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TECH TRENDS TO WATCH

01

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

The balkanization of the internet is exploding in the short-term, knocking off the aggregated value of U.S. Fortune 500 companies in one fell swoop.

In technology terms, this is frequently referred to as "splinternet."

A quick explanation for the novices can be summed up by saying the splinternet is the fragmenting of the Internet, causing it to divide due to powerful forces such as technology, commerce, politics, nationalism, religion, and interests.

What investors are seeing now is a hard fork of the global tech game into a multi-pronged world of conflicting tech assets sparring for their own digital territory.

The epicenter of balkanization is the division between China and the U.S. tech economy with India as the wild card.

This is fast becoming a winner-take-all affair.

Silicon Valley is winning in India due to border conflicts along the Himalayan Corridor.

India took count of 20 dead Indian soldiers felled by the Chinese Army stoking a wave of national outcry against regional rival China.

The backlash was swift with the Indian government banning 59 premium apps developed by China citing "national security and defense."

The ban included the short-form video platform TikTok, which counts India as its biggest overseas market.

TikTok was projected to easily breeze past 500 million Indian users by the end of 2021 and was clearly hardest hit out of all the apps.

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

India is the second biggest base of global internet users with nearly half of its 1.3 billion population online.

The government rolled out the typical national security playbook saying that the stockpiling of local Indian data in Chinese servers undermines national security.

China's inroads in the Indian tech market are set to wane with recent rulings already impacting roughly one in three smartphone users in India. TikTok, Club Factory, and UC Browser among other apps in aggregate tally more than 500 million monthly active users in May 2020.

Highlighting the magnitude of this purge - 27 of these 59 apps were among the top 1,000 Android apps in India.

China dove headfirst into the Indian market with their smartphones, apps, and an array of hardware equipment. Now, that is all on hold and looks like a terrible mistake.

Chinese smartphone makers command more than 80% of the smartphone market in India, which is the world's second largest.

One of the reasons Apple (AAPL) could never make any headway in China is because they were constantly undercut by predatory Chinese phone makers with stolen technology.

It's also not smooth saying for domestic Chinese tech as Chinese Chairman Xi reign in the private sector with Alibaba's founder Jack Ma's whereabouts unknown as we start the new year.

This is happening on the heels of the Chinese Communist Party thwarting the Alipay IPO in Shenzhen which was posed to become the biggest IPO ever.

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

TikTok is also being eyed-up for bans in Europe and the United States recently as it constantly curries to Beijing's every whim by banning content unfavorable to the Chinese communist party and rerouting data back to servers in China.

Chinese tech is clearly the main loser for their government's "distract its own people at all costs" campaign to shield themselves from the epic contagion of the lingering pandemic.

What does this mean for American tech?

For one, India is strengthening ties with the U.S., being the biggest democracy in Asia, and will be a massive foreign policy loss and loss of face for the Chinese communist regime.

The resulting losses for Chinese tech will usher in a new generation of local Indian tech with Silicon Valley mopping up the leftovers.

Even though the U.S. avoided the carnage from this round of balkanization, the situation in Europe is tenuous, to say the least.

Fault lines will compound the problem of a multinational tech revenue machine and the relationship with France is on the verge of becoming fractious.

The relationship is worsening with the Europeans by a trade deal consummated between the EU and China along with Western European powers such as France, Germany, and Britain looking to add to their tax coffers by taxing big tech companies like Facebook (FB), Twitter (TWTR), Google (GOOGL) in 2021.

This would be a massive blow to not only revenue streams but also global prestige for American tech.

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

Not only do Silicon Valley leaders see a murky future outside its borders, but digital territories are also getting carved out as we speak domestically.

Amazon (AMZN)-owned Twitch and Twitter have clamped down on U.S. President Donald Trump's account.

This could quickly spiral into a left-versus-right war in which there are competing apps for different political beliefs and for every subgenre of apps.

This would effectively mean a balkanization of tech assets within U.S. borders and division in 2021 is set to extend itself.

Silicon Valley wants products sold to the largest addressable market possible and that simply won't happen in 2021.

The balkanization of the internet is now turning into an equally high risk as the antitrust and regulatory issues.

The issues keep piling up, but nothing has been able to topple big tech yet as they lead the broader market out of the pandemic.

Silicon Valley is still subsidized by ultra-low interest rates and quantitative easing by the Fed. If this changes, look for tech to roll over.

Let's hope that never happens.

01 A LOOK AT THE CHARTS

SPLINTERNET GOES FROM BAD TO WORSE IN 2021

AAPL

FB

TWTR

GOOGL

AMZN

02

THE INSATIABLE GROWTH OF THE MOBILE BASE STATION MARKET

THE INSATIABLE GROWTH OF THE MOBILE BASE STATION MARKET

It’s finally time we take a step into the future and move on from this health crisis.

One piece of technology that will help us work from home better or consume data easier on our mobile phone is 5G.

5G is here and tell your friends about it.

There are numerous ways to play this emerging trend but a sensible way to play this faster connection, lower latency, more efficient data transfer, and improved security theme is by buying Marvell Technology Group (MRVL).

This is a company that supplies base station-related infrastructure.

Let's take a closer look under the hood into why the advantage of 5G deployments in 2021 favors MRVL semiconductor firm.

This new era of technology development will be based on a massive buildout, specifically the concentration of physical infrastructure needed for the propagation of network signals.

5G boasts enhanced capabilities when compared to earlier generations of WiFi, it doesn’t even come close and consumers and corporations still have no idea what is about to be unleashed.

It also has one flaw: significantly shorter signal range.

The trade-off means a tower build-out bottleneck en route to full adoption of 5G coverage.

The infrastructure companies are cutting through that bottleneck as we speak.

THE INSATIABLE GROWTH OF THE MOBILE BASE STATION MARKET

Around the world, major cities are putting public 5G systems online, and new smartphone lines are 5G enabled.

And as we head into the 5G future, those companies that are fully invested in the boom will stand to gain.

Fifth-generation wireless finally came to us in 2020 despite the crushing external factors that dragged global growth down.

A third-party report estimates that 113 operators had deployed the next-generation technology in 52 commercial markets across the world by September 2020.

To add a little more color, 35 telecom operators reportedly joined the 5G bandwagon in the first half of 2020, as compared to 21 over the same period in 2019.

The deployment of 5G networks is expected to gather more steam in 2021 as many wireless frequency spectrum auctions by governments had to be delayed because of the pandemic.

As I thought correctly, the 5G base station (cell tower) market is expected to expand at a high compound annual growth rate (CAGR) of 33.7% in the future, even though its revenue more than doubled in 2020 to almost $14 billion.

The global 5G base station market could exceed $179 billion in revenue by 2028 as the service reaches more markets.

Marvell Technology supplies application-specific integrated circuits (ASICs) and embedded processors that are used in 5G base stations.

The chipmaker launched an end-to-end 5G platform at the beginning of 2019 to speed up the deployment of 5G infrastructure that was meant to replace expensive and power-hungry field-programmable gate arrays (FPGAs).

THE INSATIABLE GROWTH OF THE MOBILE BASE STATION MARKET

That move seems to be paying dividends, as its networking business, comprising 59% of the total revenue, has accelerated/

Marvell's networking revenue exploded by 15% year over year in the first quarter of fiscal 2021, followed by a 23% increase in the second quarter, and an even bigger ramp-up of 35% in the third quarter of last year.

The insatiable growth of MRVL's networking business in recent quarters isn't surprising, as the company is supplying its chips to the leading 5G infrastructure OEMs (original equipment manufacturers).

The Korean Chaebol Samsung (KRX: 005930) announced in March 2020 that it is making base station infrastructure based on Marvell's embedded processors. The Finnish telecom Nokia (NOK) announced in March 2020 that it is using Marvell's processors to power its 5G solutions.

Nokia and Samsung are expected to account for just over 30% of the global mobile base station market this year resulting in a massive revenue boost for MRVL.

These deals are just the tip of the iceberg with regional telecom operators looking to deploy 5G networks and select Marvell's industry-leading OCTEON Fusion-based NAND processors to power their new 5G base stations.

The hot demand for 5G base stations is what keeps MRVL afloat, but the stock has run quite ahead of itself with growing over 470% in the past 5 years and doubling over the course of the 2020 pandemic.

Any dip is an opportunity to buy the stock long term.

02 A LOOK AT THE CHARTS

THE INSATIABLE GROWTH OF THE MOBILE BASE STATION MARKET

(NOK)

(MRVL)

03

THE CELL TOWER INDUSTRY IS PRINTING MONEY

THE CELL TOWER INDUSTRY IS PRINTING MONEY

Investors who want to green light capital into this sector should consider American Tower (AMT), Crown Castle (CCI), SBA Communications (SBAC), and Uniti Group (UNIT). Cell towers are the largest property sector by market capitalization making up 18% of the broad-based Vanguard Real Estate ETF (VNQ).

Three disruptive developments started before the pandemic will remain influential from the chronic housing shortage to retail apocalypse, and the migration to digital.

The 2020s will supercharge these three trends and tech investors need to scurry into the intersection of seminal trends to profit from the appreciation taking place in the U.S. economy.

As a 10% pullback in cell tower REITs over the last quarter reared its ugly head, offering a rare entry point into this segment of the U.S. tech ecosystem.

Usage of the cell towers has mushroomed throughout the pandemic. Cellular network capacity has been pushed to the limits as businesses, schools, and individuals take their in-person life and migrate it online.

5G is circling in the skies looking for a soft landing. Phone makers are frantically upgrading their device iterations to accommodate an internet speed that is 100X faster than what we have now.

Any company that flubs the 5G smartphone will be left in the dust.

Cell tower REITs will eventually be the focal point of 5G networks, supported by a network of higher-density small cells. High-power macro towers provide the most economical mix of wide coverage and capacity. Super-fast Wi-Fi speeds will usher in a new era of super apps that will fundamentally disrupt the telecommunications space and deliver cheaper and more efficient apps to the consumer marketplace.

THE CELL TOWER INDUSTRY IS PRINTING MONEY

These super apps will make the apps we use now on our phones seem like a waste of time.

Cell tower REITs continue to benefit from favorable competitive positioning within the telecommunication sector. Scant supply and high demand should translate into continued pricing power for cell tower REITs.

Cell tower REITs are the "landlords" to the United States' four nationwide cellular network operators: AT&T (T), Verizon (VZ), T-Mobile (TMUS), and DISH Network (DISH). These three cell tower REITs own roughly 50-80% of the 100-150k investment-grade macro cell towers in the United States. This favorable competitive positioning has given these REITs substantial pricing power over the last decade amid the roll-out of 3G and 4G networks.

5G is the fifth-generation mobile network that powers mobile broadband, promising far-faster speeds and lower latency than the prior iteration.

5G networks require up to 10 times more physical antennas per tower, and cell tower REITs typically negotiate higher revenue per tower after each incremental equipment upgrade.

Cell tower REITs continue to be one of the few remaining growth engines of the REIT sector, and the health crisis has validated the need for additional network investments.

The dearth of cell tower supply - combined with the absolute necessity of these towers for networks - has given REITs substantial pricing power even as the number of potential tenants has dwindled down to just four national carriers over the last two decades.

High barriers to entry through the local permitting process and due to the economics of mass scaling make competition irrelevant.

THE CELL TOWER INDUSTRY IS PRINTING MONEY

This is a high-margin business with significant operating leverage driven by adding additional multiple tenants to existing towers.

Cell towers aren't going away anytime soon and there is nothing to replace it on the horizon.

Another viable infrastructure play would be Landmark Infrastructure Partners (LMRK), an MLP that owns real property interests that underlie cellular towers, rooftop wireless sites, billboards, and wind turbines.

I would throw Valmont Industries, Inc. (VMI), who manufactures communication infrastructure, into the mix as well.

03 A LOOK AT THE CHARTS

THE CELL TOWER INDUSTRY IS PRINTING MONEY

(AMT)

(CCI)

(SBAC)

(UNIT)

(VNQ)

(T)

03 A LOOK AT THE CHARTS

THE CELL TOWER INDUSTRY IS PRINTING MONEY

(VZ)

(TMUS)

(DISH)

(LMRK)

(VMI)

04

THE RESILIENCE OF TWITTER

THE RESILIENCE OF TWITTER

Twitter's (TWTR) earnings offer a rough snapshot into the health of current internet users and Twitter pulling off a strong quarterly performance is a strong indication of how tech earnings as a whole will pan out.Readers of the Mad Hedge Technology Letter know well that CEO of Twitter Jack Dorsey is one of my favorite tech CEO's in the valley and I believe he should be leading Apple instead of Twitter and Square.

Twitter had an ideal quarter smashing estimates by surpassing every meaningful metric.This company has turned the corner and has become the choir boy of social media in relative terms.Purging the bots in the summer of 2018 was the right move in hindsight, and the performance in the first quarter vindicates Dorsey in making the tough decisions to clean out its system.

As Twitter grows in its Daily Active Usership (DAU), they risk becoming too large to regulate and grabbing back control over their model was the smart thing to do at the time.Twitter has shifted from emphasizing Monthly Active Users (MAUs) to Daily Active Users (DAUs) in a sign of intent preferring to become integrated with users on a daily basis.

Total revenue of $787 million was up 18% YOY batting away any whispers that the company could be decelerating.Another bonus was the diversity in ad revenue with 46% coming from the international segment signaling to investors that Twitter is not over-reliant on American Tweets. American ad revenue rose 26% compared with international ad revenue rising just 10% showing that if you do social media properly instead of hatching cunning plans, it is still a growth business at its core.

The company has started to rev up profitability by reporting first-quarter earnings per share of 37 cents crushing the consensus of 15 cents.

THE RESILIENCE OF TWITTER

The healthy trajectory of the company is summed up by its rise in Daily Active Users to 134 million, an increase of 11% YOY in an environment where Twitter's competitors aren't growing at all.
The concerns that I had about last quarter's tech earnings report had more to do with forward guidance than the past quarter's performance because of the supposed deceleration of the global economy.

Twitter passed with flying colors predicting next quarter's revenue should come in between $770 million to $830 million and operating income between $35 million to $70 million. Dorsey sees no let down in the coming quarters as the domestic economy will attempt to push its way into its 11th year of expansion.Headcount is estimated to rise 16% in 2019 after a 2018 where staff grew by 18%.

Total ad engagements increased 23% resulting from higher ad impressions and improved clickthrough rates (CTR) across most ad formats.Cost per ad engagement (CPE) decreased 4% due to like-for-like price decreases across most ad formats because of an improved CTR which results in advertisers achieving the same number of engagements at a lower price, and a mix shift toward video ad formats that have lower CPEs and higher CTRs.
CPE can differ from one period to another based on geographical performance, ad formats, campaign objectives, and auction dynamics.

Just as important, the customer experience for advertisers is always improving with enhancements to Twitter's ad platform and ad formats.Twitter is committed to delivering better relevance making it simpler for advertisers to declare their objective, initiate a campaign, and measure performance.

The possible destructive black swan strongly hovering over social media and its business model is the threat of data privacy and the subsequent regulation to it.Facebook (FB) and less so Twitter have been dragged into the data privacy debacle, but I believe Twitter has made the moves to get the monkey off their back for at least the next two quarters.

THE RESILIENCE OF TWITTER

They have also benefited from being more conservative in how they handle data and from the bulk of tweets being parts of public discourse instead of personalized baby photos.

The structure of Twitter has led to less chaos than Facebook, and Twitter tightening the amount of acceptable mainstream topics even more will close more loopholes into the extreme parts of society that want to disperse content through Twitter.

Twitter is taking a more proactive approach to reducing abuse on the platform and its effects in 2019 with the aim of reducing the burden on victims of abuse and, where possible, taking action before abuse is reported.

As a result, enhancements in Q1 revolved around proactive detection of rule violations and physical, or off-platform, safety — including making it easier to report tweets that share personal information, helping Twitter remove 2.5 times more of this type of content. Twitter has also deployed upgraded machine-learning models to detect potential policy violations enabling Twitter to pinpoint Tweets to agents for review, proactively.

The result is Twitter removing more abusive content with better efficiency.The data backs up Twitter's abuse prevention initiative with approximately 38% of categorized abuse proactively detected.

Twitter has been profitable for a string of quarters now, responded well to looming regulation fears, and as long as the economy chugs along at its current rate, I believe Twitter will outperform the rest of tech and the domestic economy.

The short-term health of social media also opens the path for Facebook to continue the positive momentum as the summer approaches. Wait for an entry point on the dip to buy Twitter.

04 A LOOK AT THE CHARTS

THE RESILIENCE OF TWITTER

(FB)

(TWTR)

05

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

The 5G bonanza is slithering towards us in a slow yet predictable motion – that was the takeaway from Apple finally conceding that its bargaining positioning was weaker than initially thought. Apple made amends with chipmaker Qualcomm (QCOM) in the nick of time, let me explain.

Qualcomm is the leader of 5G chip technology, and the two firms decided on a six-year pact that will allow Qualcomm to sell patent licensing to Apple while becoming a crucial supplier of 5G modems to the new iPhone that will roll-out to consumers in the back half of 2020.

Envisioning this 2 for 1 special a few weeks ago was impossible as the brouhaha spilled over into the national media with top executives exchanging barbs.

Qualcomm, to its credit, stayed steadfast on its position and was the bigger winner of the spat. The rapid reaction in the stock price has vindicated Qualcomm's initial reluctance to make a cut-price deal with Apple.The new contract locks in Apple at around $9 per phone in licensing fees, almost double what many analysts were predicting.Apple also paid a one-time fee of the backlog of patent usage from the past two years that many specialists estimate to be in the $6 billion range.

Qualcomm has previously stated that Apple owes them $7 billion from the kerfuffle and Apple's refusal to pay stemmed from their belief that Qualcomm was "double dipping" – a claim based on Qualcomm charging a fee for each iPhone using its patents as well as a fee for the technology itself which Apple felt extortionate.

Ultimately, the jousting wasn't worth the trouble as the best-case scenario of Apple saving $1 billion in patent fees was overshadowed by the opportunity cost which was significantly higher.

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

The updated terms see a substantial improvement for Qualcomm over the $7.50 per phone that Apple was paying before.The end of the saga smells of desperation on CEO of Apple Tim Cook's behalf, realizing that time was ticking down and competitors such as Huawei have already launched 5G-supported phones.

Apple is, in fact, late to the party and one of the main root causes was the logjam with Qualcomm.

If Apple didn't come to terms with Qualcomm, suppliers and designers wouldn't have enough time or supply to prepare to meet the fall 2020 deadline causing Apple to delay the new iPhone.The worst-case scenario that became a realistic threat was that the new iPhone wouldn't have been ready until 2021 – Apple shares would have dropped 20% in a heartbeat if this played out. Avoiding this doomsday scenario is a massive bullish signal for Apple shares and brings forward revenue demand into 2020.

The new iPhone with ironically Qualcomm's 5G modem technology is also the selling point for iPhone lovers to upgrade to a newer and faster iPhone iteration.It's a head scratcher that Tim Cook played his cards in the way that he did, another misstep in a long record of fumbles in the red zone.Inevitably, scrunching up the production schedule heaps loads of pressure on the existing engineering teams to produce a flawless iPhone.Apple simply couldn't wait any longer and CEO of Qualcomm Steven Mollenkopf understood that, leading me to solely blame Tim Cook for this calculated error.

Where do the chips lie after this recent shakeout? First, this piece of news is demonstrably bullish for Qualcomm and its business model while backloading around $6 billion or so in revenue onto its balance sheet.

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

In short, Qualcomm hit it out of the park and set itself up for the upcoming insatiable demand for 5G chips while publicly demonstrating they are best in show for 5G infrastructure equipment.

It might turn out to be Qualcomm's best day in the history of the company and one that employees will never forget inside its headquarters.This will embolden Qualcomm in the future to fight for the revenue that is rightfully theirs and they won't be frightened by bigger sharks attempting to persuade them that they should receive a lesser share of the pie.

For Mollenkopf, this is his crowning moment and a pathway to another big-time job, the one day grabbing of the spoils has elevated his reputation.

Apple is a minor winner because of the adequate supply of chips that Qualcomm will provide that guarantees Apple's engineers clarity instead of dragging itself deeper into a courtroom battle with a company that supplies an integral component to their iPhone.

Hours after the news hit the press, Intel (INTC) waived the white flag issuing a short response admitting they are exiting the 5G smartphone business, a bitter pill to swallow for a legacy company finding it difficult to stay with the big boys.And if you remember, Intel was initially thought to be the one to provide memory to the 5G smartphone but now that notion is dead as a doornail.

Intel will hope they can capture a fair share of the 5G PC business to make up for the lost opportunity, but as consumers migrate away from PCs, shareholders could sense Intel could be left holding the bag. Qualcomm has strengthened its stranglehold on the 5G smartphone modem market in an industry that will morph into a worldwide addressable market of $20 billion by 2025.

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

Even though Huawei just announced they would be willing to sell their 5G chips to Apple, Huawei and South Korea's Samsung mainly produce chips for their in-house branded smartphones and shun feeding competitors like Apple who require the same chips.Apple hoped to create some leveraging power to get a better 5G chip deal and loosen the jaws that gave Qualcomm a powerful position over Apple, but Intel quitting this segment left Apple with a series of bad choices and they chose the lesser of the evils.

What does this boil down to?

Qualcomm outmuscled Intel producing faster and better performing chips that supported longer battery life.Qualcomm simply has better engineering talent. Intel had an uphill battle in the first place, but it is clear they cut their losses because the writing was on the wall leaving Qualcomm to reap all the benefits.

05 A LOOK AT THE CHARTS

WHO BEAT WHOM IN THE APPLE/QUALCOMM BATTLE

(QCOM)

(INTC)

06

ELBOWED OUT OF THE WAY BY APPLE

ELBOWED OUT OF THE WAY BY APPLE

I have turned bearish on online music streaming platform Spotify (SPOT) who have grumbled to EU about the charges they must pay Apple for selling through the Apple (AAPL) app store.

The charge reduces to 15% after 1 year but initially start at 30%.These are the perils of not possessing your own proprietary platform, needing to jump through hoops to receive access to the lucrative North American market.

Third party companies must oblige and pay the commissions or seek business elsewhere.If the situation were the other way around, Spotify would charge Apple.

I hardly feel bad for Spotify, but Apple doubling down on the services story spells trouble for Spotify.If they think competition is brutal now, Apple is certain to make life harder to sell through the Apple store when actively promoting a direct competitor through Apple music.Much of the gloss is being rubbed off of Spotify who are trying harder these days just to tread water.

The company reported total Q1 revenue of $1.69 billion (€1.511 billion), eclipsing analysts' expectations of $1.64 billion.

That was the good, now some of the bad. Spotify posted a net loss of $158 million (€142 million), versus a net loss of €169 million ($189 million) in the year-earlier period.The net loss of 88 cents per share (€0.79) missed consensus EPS of 39 cents (€0.35), a wayward miss that epitomizes the inherent problems with this unprofitable business model.

The numbers revealed that Spotify was overextending itself to acquire incremental revenue and is unable to generate the high-quality growth that tech companies relish. According to Spotify, Q1 headwinds consisted of "significantly increased operating expenses" and much of that has to do with the exorbitant royalty expenses doled out to the music industry.

ELBOWED OUT OF THE WAY BY APPLE

When a company goes the route of cheap tricks like nonsensical promotions to boost revenue, there is a material risk that customers won’t retain subscription at higher price points after the promotions drop off.

The EPS miss was horrid, but Spotify did deliver on its growth estimates delivering 26% YOY growth in Monthly Active Users (MAUs) to 217 million, slightly lower than the midpoint of the company’s guidance range of 215-220 million MAU.

Another cavity emitting pain from the mouth was Average Revenue Per User (ARPU) of only EUR4.71, roughly flat from the prior year.Spotify has experienced a deceleration in ARPU due to shifts in product and geographic mix.

The company believes the downward pressure on ARPU has moderated and now hopes ARPU declines through the remainder of the year to be in the low single digits.The inability to accelerate the ARPU tells us that the product’s viability in the lucrative North American market could be waning and thawing out North American revenue drivers won’t automatically guarantee a renaissance in higher ARPU.

This could be the new normal with the company presiding over lower ARPU and a big part of that stems from its penetration into lower-income countries such as India.In February, Spotify launched its service in India and has racked up over 2 million users in the country. The company’s global market footprint now impressively spans 79 countries. Spotify’s key areas of growth during the quarter were measurement and programmatic revenues.Measurement-related revenues doubled from 20% to 40% of total ad revenues year-over-year.

ELBOWED OUT OF THE WAY BY APPLE

Programmatic and Self-Serve grew 53% from last year and now account for 26% of total ad-supported revenue. Premium subscribers increased 32% year-over-year to 100 million, reaching the high end of the 97-100 million guidance.

The outperformance was aided by a better than plan promotion in the US and Canada and continued expansion in Family Plan.For next quarter, Spotify expects revenue to grow 18-35% YOY to EUR1.51 billion to EUR1.71 billion.

Total MAUs are expected to increase 23-27% year-over-year with the premium segment boosted by 29-34% to EUR107-110 million.

“Competition is really not a big factor for us,” CEO Daniel Ek who chimed in on the earnings call.

This couldn’t be further from the truth with Spotify unhappy that Apple is charging them 30% commission to sell from the Apple app store which all boils down to stifling the competition.

Apple has made it clear to investors that ramping up service growth is one of the key pillars to Apple’s story, and music will be a cornerstone of the service transformation.

Competition will heat up creating a more fractious relationship between Apple and penetrating the Android users won’t cut it.Spotify still hasn’t offered investors an intriguing way to put the kibosh on royalty expenses and in the near future, Spotify will need to prove they can increase margins which I believe they won’t.

My bet is that operating margins are squeezed, cash burn increases, EPS goes further south and the stock show softness in the near-term.

06 A LOOK AT THE CHARTS

ELBOWED OUT OF THE WAY BY APPLE

(SPOT)

(AAPL)

07

REACHING PEAK SOCIAL MEDIA

REACHING PEAK SOCIAL MEDIA

America is full – that is what domestic social media growth is telling us.The once mesmerizing service that captured the imagination of the American public has soured in the country that created it.

Online advertising consultant emarketer.com issued a report showing that Snapchat (SNAP), the worst of the top social media outlets, will lose users in 2019.The 77.5 million users forecasted by the end of 2019 represents a 2.8% YOY decrease.

This report differs greatly from the report eMarketer issued just past August showing that Snapchat was preparing for a rise of 6.6% YOY in 2019.The delta, rate of change, represents a massive downshift in expectations and the sentiment stems from the widespread saturation of social media assets.

Market penetration has run its course and the players have run out of bullets mainly targeting Generation Z.These platforms have given up on baby boomers and Snap feels that pursuing the millennial demographic would be an exercise in futility.

Even more disheartening is that between 2020-2023, there will be only a minor uptick of user growth by 600,000 users clamping down on the impetus of a comeback of sorts shackling the business model.

The trend is not mutually exclusive to Snap, Twitter or Facebook, social media as a group will only expand the overall user base by 2.4% in 2020 hardly satisfying the appetite for growth that these companies publicly advertise.

Remember that much of Instagram's growth originates from borrowing Snapchat users by way of copying their best features. Even with this dirty tactic, growth seems to be petering out.

Snap's shares have made a nice double after peaking shortly over $25 after the IPO.

REACHING PEAK SOCIAL MEDIA

But the double was a case of investors believing that management and execution had hit rock bottom – the proverbial dead cat bounce in full effect.Now investors will pause to reassess whether there is another reasonable catalyst to drive the stock higher.

First, investors will need to ask themselves, is Snap in for another double? Absolutely not. So where does Snap go from here?

I believe they will borrow from the playbook of Mark Zuckerberg and attempt to emphasize supercharging average revenue per user (ARPU).

Whether the company arrives at this conclusion by chance or strategy, they must confront the reality that there are almost no other levers to pull if they want to perpetuate this growth story.

M&A is also off the table because the company is burning through cash. Facebook's (ARPU) came in at $7.37 last quarter indicating how Snap needs to make substantial headway in this metric with last quarter's paltry (ARPU) at $2.09.

Essentially, management will conclude that each user isn't absorbing enough ads because of declining user engagement. Snap CEO Evan Spiegel will need to improve the pricing power charging advertisers at higher rates. Obviously, the lack of an attractive platform resulting from poor execution and engineering problems needs a quick turnaround.

It's not all smooth sailing for Facebook either, they keep chopping and reshaping strategy by the day attempting to minimize costs as the regulation burdens rot at the bottom line.On the bright side, regulation hasn't been as bad as initially thought – usership hasn't dropped by orders of magnitudes. In fact, Facebook's users have shown a resurgent indifference to Facebook chopping up their data and repackaging it to 3rd parties, meaning Facebook has come through rather unscathed in the face of a PR storm.

REACHING PEAK SOCIAL MEDIA

There have even been recent reports of Zuckerberg being persuaded to start paying journalists for original content, a vast pivot for his hyped-up propaganda machine of being in the distribution business.

Juicing up (ARPU) is the lowest hanging fruit on offer for Snapchat and Facebook right now, overperforming in this sphere will improve financials and keep the mosquitoes away while affording them time to ponder how to reaccelerate user growth.

One outsized negative trend is that 90% of user growth appears to originate from undeveloped nations with a lack of discretionary spending power showing that this strategy has its limits.

Searching for another tool in its toolkit will redefine Snapchat, Twitter, and Facebook as we know it.I would even classify it as an existential crisis.Instagram have bought Facebook the most time to readjust its future direction highlighting that stealing Snapchat's audience is still effective, expecting user growth to climb to 106.7 million US users, up 6.2% from 2018. Instagram will continue its expansion by adding nearly 19 million new US users by 2023, but as much as it adds to its new social media asset, Facebook will be struggling for new net adds.

Snapchat is in dire straits and the stock market bubble could support the share price for up to another 8-12 months, but when the guillotine drops on Snapchat, the blood will smatter everywhere. The company also plans to introduce a gaming service to take advantage of the popularity with its core users, Generation Z.

This should be the trick that breathes life into operating margins and (ARPU) which is why I believe the stock will hold up for the next period of time.But with the gaming initiatives also comes rampant competition with the likes of Alphabet (GOOGL) and don't forget Fortnite is still the 800-pound gorilla.These trends also bode negatively for Pinterest (PINS) who might be going public as the last shot of tequila is downed at the after party.

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REACHING PEAK SOCIAL MEDIA

(GOOGL)

(SNAP)

(PINS)

08

THE LURKING DANGERS BEHIND FACEBOOK

THE LURKING DANGERS BEHIND FACEBOOK

The current business model of social media is dead, and the future model seems in doubt – that was the take away from world's largest social media platform at F8 that I attended, its annual developer conference.

Co-founder and CEO Facebook (FB) Mark Zuckerberg stated at the event that "in our digital lives, we also need both public and private spaces," an impromptu call to action to migrate users into a new private digital world with Facebook dictating the terms.The sushi must really be hitting the fan for Zuckerberg to announce his future vision of social media, and the writing is on the wall for his current social media experiment, that is, if he continues along at the same rate.

The projected $5 billion fine incurred by Facebook from the Federal Trade Commission over its privacy handling of personal data is peanuts for the social media company, but this could be the first of numerous fines doled out by regional and national regulatory bureaus that span from the Bay Area to Vietnam.

Facebook is a company that made over $55 billion in revenue last year and the $5 billion would amount to less than 10% of annual sales.From that $55 billion, Facebook earned profits of over $22 billion, and this $22 billion is what the regulatory battles are about, along with the co-founder's tenacious defense of deploying his users as free content.The firm has continued to post operating margins of over 40% and delivered margins of 46% last quarter, a sequential rise of 4% in Q4 2018.

The Oracle of Omaha better known as, Warren Buffet cited necessitating accountability for CEOs that drive a company into a government bailout - especially banks.

He advocated that these executives and their spouses should be stripped of their net worth if they damage shareholder value.

THE LURKING DANGERS BEHIND FACEBOOK

The comments were directed at the way Wells Fargo's (WFC) former CEO Tim Sloan crippled Wells Fargo and has since been sidelined during the long bull market in equities.

At some point, Zuckerberg could confront similar ructions because of his efforts at perverting democracy that has caused innumerable damage to American democracy and global society, and I am certain his legion of lawyers are already hatching a plan to tackle this thorny predicament.

If you ponder about his announcement in a zero-sum environment, it makes no sense for Facebook to pivot to "private" messages.

This leads me to believe his words are smoke and mirrors so that Facebook can perpetuate its duopoly and force digital ad players to continue to drink from the same Kool-Aid. As before, Zuckerberg still believes this game of cat and mouse is a half-baked marketing fix.

This is why many of his trusted disciples such as former executive Chris Cox left under a shroud of mystery citing "artistic differences" in terminating his tenure at Facebook.

It is clear to many that Facebook is barreling straight into an even more frightening future.What does the announcement mean from a business perspective? Zuckerberg will continue to purge anyone that disagrees with him, even trusted lieutenants, and continue to integrate the family of apps into one big platform that includes Facebook, Instagram, and WhatsApp messenger.

These three will become one and thus, Zuckerberg's ad machine rolls on like the dystopian action film Mad Max.

THE LURKING DANGERS BEHIND FACEBOOK

Let me remind you, these drastic measures boil down to Facebook doing everything they can to keep content costs down.If they, for example, have to go the same route as Netflix (NFLX) - overpaying for the best actors and directors to generate premium content, the stock would halve the next day.

And that is what Zuckerberg is desperately hoping to avoid after the 30% dip in shares in 2018 because of regulatory headwinds.

Combining the three apps would be impossible to regulate at a time that regulation is rearing its ugly head.Zuckerberg is intentionally upping the ante and accruing more risk in the hope that Facebook can outmuscle its way through in one piece.

The ad industry is crying out for something new, but as long as Zuckerberg's claws are firmly into the meat of the digital ad budgets for most companies, he gets to decide how the industry develops because he knows the ad dollars will stick.

In the future, your private chats won't be private because Zuckerberg will be mining the data for ad dollar revenue.No matter what he says, nothing will change unless Facebook goes in an entirely new direction which would inhibit sales.

Until the finest become material, let's say 70% of annual revenue or something of that nature, a $5 billion hit to the bottom line will not persuade the management to transform their practices.

Expect less privacy, and WhatsApp and Instagram to be heavily monetized through ad promotion and data mining even though Zuckerberg pledging his company won't hold user data "longer than necessary."

As for Facebook itself, Zuckerberg can't throw his baby out with the bathwater and will hope to minimize its deceleration by bundling it with the growth trajectory of WhatsApp and Instagram.

THE LURKING DANGERS BEHIND FACEBOOK

Instead of major structural changes, Zuckerberg continues to beat around the bush saying, “You should expect that we’re not going to store your data in countries where there's weak data protection. ”This is not the crux of the problem and shows Zuckerberg is still paying lip service and not ponying up to reality. Attaching Facebook and its dying model is not an attractive strategy leading to a slew of executive resignations.

I believe this could all end in calamity for Zuckerberg as he figures piling on more risk onto the elevated risk levels is the right decision making Warren Buffet’s point for him about CEO’s accountability. Should Zuckerberg refund shareholders if his flight turns into a suicide mission then claims to be an unwitting victim?

And how does he even refund democracy with his apps causing major unrest to society such as killings that occur because of the distribution of fake news on his platforms?Making a hot potato hotter might work for the short term and if ad dollars stream into WhatsApp and Instagram, Zuckerberg will claim victory. But at some point, the potato will scald his hands so bad that it will drop.

Your private chats will be the content at the fulcrum of his data broker empire since his “digital town square” approach isn’t working anymore.The company is utterly incentivized to figure out how to continue this ad revenue carnival because 93% of total revenue last quarter came from digital ads which is up from the prior year when it constituted 89%.

It all sounds like a big brother apocalyptical novel, which we are in, scarily, in putting out this dialogue before the firestorm starts, Facebook wants to normalize, and front runs the craziness of selling your private chat data before it becomes a national issue.

Will regulators shut this down or will they be naïve and turn a blind eye?

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THE LURKING DANGERS BEHIND FACEBOOK

(FB)

09

FACEBOOK'S NEW PROBLEM

FACEBOOK'S NEW PROBLEM

A major catalyst exacerbating recent tech layoffs has been a decline in referral traffic to news publishers from Facebook (FB).

Blame the algos! Referral traffic is a way of reporting visits coming from a site from sources outside of the original site.

When someone clicks on a hyperlink leading to a different website, data analytics classified this as a referral visit to the second site by tracking mechanisms.The truth is that news publishers have a painfully smaller window to monetize content than ever before and this opinion is echoed by some of big media's stalwarts such as Rupert Murdoch, the chairman of News Corp.

Facebook decided to give preference to content in the news feed that is shared between Facebook users over those by news organizations, ironically, the news is being stripped out of the news feed whether that seems logical or not.

Under the guise of protecting the platform, Facebook is applying this ploy to further cut off users from escaping its walled garden trapping them inside for the purpose of clicking around the Facebook website even more.

As the technology evolves, companies are becoming increasingly pedantic in finding any practical method of allowing users to escape to another part of the internet.Diminishing user time equals fewer clicks followed by reduced digital advertising revenue.Another shift in Facebook rules entails elevating and demoting media outlets by trust levels and credible content that ultimately Facebook makes the decision on.

The algorithms in this case would prop up the more renowned institutions and essentially cut out minnow news organization. Algorithms are inherently biased, and sources of revenue are cut off or opened up by these algorithmic shifts.

FACEBOOK'S NEW PROBLEM

The monopolistic status of Facebook has made it near impossible for stand-alone firms to develop organically and ramping up digitally means leveraging Facebook ads to lure new customers. What does this all mean?News publications are bracing themselves for an atrocious year.

The side effect from recent changes mean that Facebook will ultimately become the God of the news cycle choosing which news populates where on the news feed or if it shows up at all.

Being a left-leaning company, Facebook is likely to anoint left-leaning news organizations as “trustworthy” while demoting more right-wing news feeds pushing them further down the pecking order.

And for marginal start-up news companies praying for any exposure, this is effectively a death sentence because of the lack of footprint inside of Facebook’s current database.Machine learning cannot account for new developments in the system, let alone system altering shifts causing this technology to be defective.

The technology handsomely rewards the entrenched that have cultivated a big footprint inside the database that decisions hinge on.Its backward-looking nature to carry out a business that is forward-looking is utter nonsense. Many third-party businesses attempt to stimulate Facebook users’ appetite in order to bridge them over and act as a stepping stone to their own website.

Small businesses should prepare for an era where this type of digital reach is stunted and at some point, completely disengaged. Effectively, Facebook and the rest of the FANGs will do its best to cut off outside activity preferring to keep usership in-house.

News organizations are feeling the full brunt of these ripple effects with online media firms such as Vox Media and BuzzFeed cutting staff in response to these Facebook algorithm changes.

Which industry will get chopped down next?

FACEBOOK'S NEW PROBLEM

Online travel aggregators.TripAdvisor (TRIP) had a great winter quarter in 2018, but looking down the line, the business model could get bogged down by the algorithm problem.For instance, take the best flight purchase algorithm in the world Google Flights.

The United States Department of Justice Antitrust Division approved Google's $700 million purchase of ITA Software in 2011.

Within a few months, Google bent its algorithm into shape and reformulated it as Google Flights.

How does it stack up? Easy to use, lack of digital ads, best of breed, and innovative are all ways I would describe this service.

That is why consumers prefer Google Flights over any other service. It offers open-ended searches making the traditional flight search software seem pathetic. Simply input the departure location and Google Flights will show the user every price to every location in the world on a visual map. It’s travel transparency at its brightest and users can change trips in an instant if something attractive catches their eye.

The user can mix and match different destinations and dates until an optimal time and place can be calibrated along with a suitable price.

This gives the power back to the consumers. Once in a while, dispersion between the Google Flight price and the official airline site price can be irritating, but the accuracy has improved over time.

Truth be told, it’s a waste of time to use a different flight search engine now after the existence of Google Flights.

Google is able to do this because they are masters at building algorithms and have an army of engineers at their disposal.

FACEBOOK'S NEW PROBLEM

Online flight brokers such as Expedia (EXPE) and TripAdvisor are on a collision course for the beast that is the Google algorithm division.

This dovetails astutely with my overarching theme of technology destroying every broker industry because FANG algorithm teams do a way better job enhancing this segment of business than anyone else.

As you correctly guessed, I am bearish Expedia and TripAdvisor long term.

Travel fare aggregators can’t compete with Google and former CEO of Expedia Dara Khosrowshahi was smart to take the head job at Uber saving him from the future carnage.

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FACEBOOK'S NEW PROBLEM

(FB)

(TRIP)

(EXPE)

10

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

Silicon Valley software companies have access to quinine in a mosquito-infested market – digitally savvy talent.

This talent is the best and brightest the world has to offer, and they want to work for a dominant company that gets it.

Much of this involves companies with bright futures, career opportunities galore, solving deep-rooted problems, all applying a treasure trove of data and a mountain of capital your rich uncle would giggle at. In the short term, I have been succinctly rewarded by my software picks with communication software Twilio (TWLO) rocketing upward 35% intraday at the time of this writing from when I recommended it just a few days ago.

Another Mad Hedge Technology Letter recommendation Zendesk (ZEN), a software company solving customer support tickets across various channels, is up a tame 10% after the election.

All in all, I would desire readers to access due caution as the volatility can bite you badly with crappy entry points, but the upside cannot be denied. The turbocharged price action means the pivot to software with its new best friend, the software as a service (SaaS) pricing model, encapsulates the outsized profits this industry will rake in going forward.

Without further ado, I'd like to slip in two more companies rounding out a robust quintet of software companies – I bring to you Workday (WDAY) and Service Now (NOW). Workday is a software company based on a critical component of every successful company – human resources.

Unsurprisingly, human resources are tardy to this wave of software modernization. Sensibly, companies have chosen short-term software fixes that drive profits with instant success rather than to update its human resource department's processes.

Big mistake.

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

I would argue that getting the right people in the doors is paramount and can save substantial time because of the wasted time rooting out toxic employees who weren't suitable fits.

Ultimately, I have concluded the worst-case scenario entails the enterprise resource planning market stagnating driving minimal growth to the cloud, however, this minimal growth would be substantial enough for Workday to outperform.

The landscape as of now only involves several vendors with a competitive (SaaS) solution auguring well for Workday allowing them to capture a further chunk of market share.

Workday's growth metrics back up my thesis with its businesses posting a 3-year EPS growth rate of 291% and a 3-year sales growth rate of 36%, painting a picture of a company that will turn profitable in the next few years.

They can even showboat their glittering array of heavy-hitting customers who purchase their software that include Walmart (WMT), Target (TGT), and Bank of America (BAC). The one headwind tarnishing these types of software companies is the stock-based compensation awarded to employees.

SBC rose 21% YOY and is slightly worrying in an otherwise stellar company. This method of compensation only works when the stock is rising and is a major issue for new Facebook (FB) hires who will prefer cash over its burnt-out share price.

If Workday doesn't whet your appetite, then how about sampling a main dish of ServiceNow.This company completes technology service management tasks offering a centralized service catalog for workers to request technology services or information about applications and processes that are being used in the system. Admirably, this software helps IT workers fix IT system problems which in this day and age is useful considering the bottleneck of chaos many tech and non-tech companies face.

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

And more often than not, the chaos inundates the in-house IT departments causing the whole business to go offline.

Putting out digital fires is a perpetual business that will never flame out. As websites and enterprise systems become more complicated, a bombardment of errors are prone to crop up and instant remedies are crucial to carrying out businesses in a time sensitive manner.

Even ask the best tech company in the universe Amazon (AMZN), whose move off Oracle's (ORCL) database software was the ultimate reason for a serious outage in one of its biggest warehouses on this past Amazon Prime Day, according to Amazon's internal documents.

The faux paux underscores the hurdles Amazon and other companies could face as they seek to move completely off the Oracle legacy database software whose development has stayed relatively stagnant for a generation.The slip-up was minutes and snowballed into excruciating hours on Amazon Prime Day resulting in over 15,000 delayed packages and roughly $90,000 in wasted labor costs.Crikey!These numbers didn't even consider the wasted man-hours spent by developers troubleshooting and solving the errors or any potential lost sales.

When these mammoth tech giants are running at an incredible scale, a small blip can result in job losses, lost revenue, lost time, a slew of IT engineer sackings, and for some smaller companies, an existential crisis.The large-scale acts as a powerful multiplier to the lost resources and cost, and as you can see with the Amazon debacle, a few hours can make or break a developer's career.

Fortunately, IT budgets are higher up the food chain than human resource budgets while more than inching up every year.

This is the main reason why I believe ServiceNow will outperform Workday.The proof is in the pudding and when I scrutinize various metrics, the truth is filtered out.

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

ServiceNow's quarterly growth rate is 35% which is higher than Workday's who slipped back to 28% last quarter even though the 3-year growth rate is in the mid-30%. Put mildly, accelerating sales growth is better than decelerating sales growth.Both companies have a market cap in the low $30 billion and almost identical annual sales in the $2 billion range.However, ServiceNow presides over significantly higher quarterly profit margins than Workday and will achieve profitability sooner than Workday.

In short, Workday loses more money than ServiceNow.I believe in the underlying thesis of HR modernization underpinning Workday's rapidly growing revenue and this secular trend is here to stay.

But I much rather put my hard-earned money on a company tied to IT modernization which is imminent and harder to put on the backburner because of its strategic position at the forefront of the tech curve.HR CAN be put on the backburner and kept analog longer, and as the economy inches closer to a recession, this expense will be shifted further away from greener pastures supported by the fact that companies decelerate hiring new talent in poor economic environments.

To wrap it up, I do believe ServiceNow is the Burmese python consuming a cow, but that doesn't mean I am bearish on Workday.Workday will flourish, just not as much on a relative basis as ServiceNow.Effectively, these stocks are well placed to move higher even after the violent moves upward this year.

As the economic cycle moves further into the late innings, the importance of cloud-based software companies will become magnified further.As for the software week at the Mad Hedge Technology letter, these solid five picks will offer deep insight into one of the most compelling parts of the internet sector. As many observers have found out, not all tech firms are created equal and that is made even trickier with the existence of the vaunted FANGs who are the real Burmese python in the current tech landscape.

10 A LOOK AT THE CHARTS

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

(TWLO)

(NOW)

(ZEN)

(WMT)

(WDAY)

(TGT)

10 A LOOK AT THE CHARTS

IT'S ALL ABOUT SOFTWARE, SOFTWARE, SOFTWARE

(BAC)

(FB)

(AMZN)

(ORCL)

11

LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

Buy and hold domestic software companies for dear life because that is what the market is giving you.Take them with both hands.

These revenue models should revolve around developing the lucrative North American digital consumer markets.Tech is all about giving you pockets of dispersion and my job is to herd you into these pockets of opportunity created by pockets of dispersion.

We have once again been delivered a few more poignant indicators allowing us to gauge the market appetite for certain tech barometers. Incandescent as can be, recent news of hardware companies planning to bring exorbitant foldable phones to market has me profusely shaking my head.

Huawei announced plans to debut the Mate X foldable 5G smartphone with a price tag of a staggering $2,600. This followed an announcement by Korean behemoth Samsung to roll out the Samsung's Galaxy Fold and the Koreans plan to sell this luxury product for $1,980.

Chinese Huawei Mate X is 5G-supported and can simply fold into a slimmer 6.6-inch smartphone or unfold into an 8-inch tablet.This is another case of smart manufacturers overreaching for a market that doesn't exist and shouldn't exist.

I believe the demand for screen-related smart products at this price point is scant at best.If you compare foldable phones to a $600 high-tier Samsung Android smartphone with a 6-inch screen, Samsung and Huawei would need to convince consumers the extra $1,500 or in Samsung's case, $2,200 is worth the extra relative wad of cash.

My bet is that these foldable phones aren't worth even $300 more of aggregated incremental value let alone $500 and for many consumers like me, it's worth zilch.

LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

In no way, aside from the gimmick of buying one of these novelties, does buying a foldable phone justify the price. This is another example of the common-sense factor that has been completely absent from a product cycle.

Product viability and product desirability do not walk hand in hand.The screen-related smart device market is saturated, evident by the elongated refresh cycle in smartphone usership.

Blame the expensive price tags of over $1,000 and the removal of carrier subsidies that have caused the upgrade cycle to skyrocket from 2.39 years in 2016 to 2.83 years in late 2018.Then there is the touchy issue of cannibalizing other hardware product lines as many of the potential foldable phone customers might interchange the foldable phone with normal smartphones.

This all screams bad strategy with companies saddled in a glut of inventory.It takes R&D years to follow through and develop the technology to bring it to market, and it is entirely conceivable this could become a big write-off.If price cuts happen shortly after the debut, prospects look bleak. In general, consumer sentiment has soured for more of this type of tech.

Many people are just exhausted from screen time and the cycle of the newest hardware screens is failing to excite existing customers bases.The only conclusion I can make is that tech today is about software, software, and particularly domestic software.If you compare software to hardware head to head now, software functionality is still increasing 15% YOY juicing up efficiency and productivity.

What will foldable phones offer a digital nomad or working professional? Not much. It highlights the absence of a productivity or functionality boost that digital device users are scouring for now.Stay away from hardware.Why is domestic software preferred over international software that scales the earth five times around? Regulation.It has reared its ugly head again.

LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

The avalanche of negative headlines applied to American big tech is finally becoming a self-fulfilling prophecy.

It was only a matter of time until someone took note, and in this case, various Asian governments have taken note. In a bid to blunt American tech's first mover advantage, the Indian government has written up a draft of regulatory measures in order to make the Indian tech landscape a fairer playground.

This will have the intended effect of creating a national powerhouse of tech firms employing local people.

India has effectively taken a page out of China's playbook using home-field advantage to nurture homegrown talent.

Large American tech companies have made India a playground of binge investments lately with Amazon (AMZN) shelling out $5 billion and Walmart (WMT) brazenly pouring $15 billion into e-commerce heartthrob Flipkart.This is awful news for them.

They will have to adjust to India's new-found zeal for digital regulation and a heavy restructuring of the business model could be in the cards in 2019 along with higher costs of running these businesses. India has followed China in its footsteps demanding data to be localized meaning data centers won't be able to run and store Indian data abroad.

American participants will have no other choice but to pony up the extra costs. Readers might forget that India is the current battleground of global tech growth and Amazon will not have unfettered market access like they did breaking into Europe and dominating e-commerce from the start.

Amazon and Walmart can thank Facebook (FB) which has been the main culprit in bringing wave after monstrous wave of heavy criticism on a whole industry.

LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

Facebook has effectively brought forward the regulatory storm that otherwise would have happened a few years later down the road.

In any case, this makes life harder for data-oriented companies who wish to navigate hazardous foreign tech climates.

Domestic angst against local tech has given the rubber stamp for full-on data government mandates abroad from India to Vietnam.

What does this all mean?In 2019, data regulation could shrink expected growth levers while hardware companies are becoming even more desperate as these Hail Marys could quickly turn into liabilities.

I nailed software picks Zendesk (ZEN) and Twilio (TWLO) amongst others from a strong group of enterprise software stocks.Twilio's performance could potentially become my best pick of 2019, it's on a straight line up even with all this clutter and chaos around the world.

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LATE STAGE CYCLE & WHAT TO BUY // WHY THE BIG PLAY IS IN SOFTWARE

(AMZN)

(ZEN)

(WMT)

(TWLO)

(FB)

12

ADOBE - THE LEGACY TECH COMPANY THAT'S WORTH BUYING NOW

ADOBE - THE LEGACY TECH COMPANY THAT'S WORTH BUYING NOW

I Adobe (ADBE) will muscle through the upcoming earnings recession.Tech profits are facing a stiff profit contraction leading to a potential drop of 0.75% next earnings season. The bulk of the softness will come from, you guessed it, Apple's (AAPL) debacle selling iPhones in China, alerting investors to take waning sentiment into consideration.

Adobe is one of your safest bets in 2019 that will experience market dispersion due to the decelerating nature of the global economy.

I feel like a broken record saying the best tech companies to own at this point in the economic cycle are enterprise software stocks benefitting from the migration to digital with bullet-proof balance sheets.

But it must be said. Shantanu Narayen, President and CEO of Adobe, brilliantly summed up the effects of Adobe's software by saying, "Adobe is fueling the creative economy, driving the paper-to-digital revolution and enabling businesses to transform through our leadership in customer experience management."

Adobe, headquartered in San Jose, California, epitomizes the type of software company lapping it up as smaller companies understand the only means of survival is violently pulling the technology lever, particularly juicing up revenue through applying enhanced software.Shares have exploded over 350% in the past 5 years as small businesses are blown away by Adobe's dizzying array of creative, marketing, and analytics software, just to name a few.

Adobe shares still have more room to run as the economic cycle has been effectively extended through external macro forces.A few weeks ago, Adobe reported weak guidance cushioning forecasts down a half notch. Investors need to understand that the market is grappling with a potential earnings recession on the horizon possibly smothering a large swath of the economy.

ADOBE - THE LEGACY TECH COMPANY THAT'S WORTH BUYING NOW

Instead of throttling shares on next quarter's earnings, Adobe felt it was prudent to front run the earnings weakness inherently found in their own model and guide down now.

For the year 2019, Adobe forecasted earnings of $7.80 a share on sales of $11.15B with Digital Media Annual Recurring Revenue (ARR) of approximately $1.5B.The street forecasts earnings per share of $7.77 on sales of $11.16 billion this year.

The guides weren't venomous by a long shot and will have no material effect, just a small blip on the radar making Adobe a great bet for beating next quarter's earnings if they maintain the planned trajectory of expected growth.Shares have made back up the $10 drop from the subsequent consolidation after the Q1 report, and I suspect that Adobe will run away to new highs going into next quarters earnings report.

It helps that Adobe is blowing away revenue records left and right and announced an audacious project to partner up with Microsoft (MSFT) to mutually bolster sales and marketing software capabilities to take on Salesforce (CRM). LinkedIn integration will allow Adobe customers to find potential customers for business goods.If the LinkedIn ad campaign flourishes, the customer will be able to use Microsoft's Dynamics 365 sales software to close the deals.

The precursor to this initiative was Adobe acquiring B2B software firm Marketo for $4.75B last year laying the groundwork for the LinkedIn partnership.Integrating Magento within the existing Experience Cloud accounts was a meaningful contributor, and Marketo delivered solid results in their full quarter debut under the Adobe portfolio of assets.

In Q1, Adobe pocketed $2.6B in revenue, a 25% improvement YOY resulting in $1.01B of cash flow from operations.

ADOBE - THE LEGACY TECH COMPANY THAT'S WORTH BUYING NOW

About 91% of revenue stemmed from a recurring source, and Adobe's biggest division, the Creative division, grew to $1.49B, a 22% YOY improvement.The $1.49B contributed by the Creative segment comprised of about 2/3 of total quarterly revenue.

The achievement was attributed to new net adds across all offerings, along all geographical fronts, and a ramp-up in subscription-based packages. Other catalysts were average revenue per user (ARPU) increases, particularly in markets where price optimizations were introduced last year and service adoption including continued momentum with Adobe Stock, which again achieved greater than 20% YOY revenue growth.

The impact of lost deferred revenue stemming from the acquisitions of Magento and Marketo will absorb itself throughout the year creating a tailwind resulting in quarterly operating margins increasing in the second half of the year.

Adobe and Microsoft have proved that dangling useful legacy products such as Adobe's PDF viewer and Microsoft Office have been perfect gateways into other software upsells like Adobe's Photoshop and Microsoft's Azure cloud products.

They have effectively harnessed the same road map to achieve success and don't apologize for it. Adobe didn't have to reset expectations last quarter, but with their highest-grade software growing in the mid-20% and a chance to guide down because of the expected earnings recession, why not take the carrot offered to you?

The software firm is optimally positioned to over perform for the rest of the year, every selloff should be met with furious dip buying for this best of breed software.I am bullish Adobe.

A LOOK AT THE CHARTS

ADOBE - THE LEGACY TECH COMPANY THAT'S WORTH BUYING NOW

(CRM)

(ADBE)

(AAPL)

(MSFT)

13

PAYPAL GOES FROM STRENGTH TO STRENGTH

PAYPAL GOES FROM STRENGTH TO STRENGTH

It's time to revisit one of my favorite tech picks for 2019 that is a constant trade alert candidate. The attention is warranted with the stock performance delivering a tidal wave of euphoria rising around 30% in the first half of 2019.

I expected PayPal to have a great year, but I didn't expect them to perform better than Square who are growing from a lower install base. PayPal's over performance signals to the wider business establishment how important a broad install base can be that can tap the network effect to reel in profits.This is how once legacy dinosaurs can reinvent themselves in months. The lack of entry points is a concern prodding investors to chase the stock if they want a piece of the action.

This is one of the drastic side effects of PayPal's meteoric rise that has been buttressed by dovish Fed policy. Investors are literally praying to the skies for any softness in tech earnings reports because for the best of the bunch, there have been no moderate pullbacks of note since last winter. PayPal did offer a slight data point that might be construed as disappointing when total payment volume (TPV) of $161 billion was slightly lower than the consensus of $163 million for the quarter.

It's slim pickings for the bear camp with not much to feast on in an otherwise pretty solid earnings report. As PayPal expanded by 9.3 million new active accounts, bringing its total up to 277 million, management has super charged this legacy fintech company into an outright renaissance.

Doing even more to shed the tag of a legacy company, PayPal invested half a billion dollars at $47 per share into the upcoming Uber IPO signaling possibilities that their payment software could at some point integrate into Uber's network down the road.

PAYPAL GOES FROM STRENGTH TO STRENGTH

Alphabet (GOOGL) has shown that if you get in early with these Silicon Valley unicorns, synergistic effects are plenty with Alphabet lapping up revenue charging Lyft (LYFT) for providing digital ad capabilities on top of the appreciating value of their investment stake.

And if you remember that way back, PayPal was tied to eBay before it was spun out. Better to attach future hopes and dreams to a leading visionary and innovator instead of a legacy e-commerce platform.

Illustrating the tough task of turning around eBay, eBay clocked in negative TPV growth of 4% in the past quarter.PayPal offered us more detail into active-account numbers for its Venmo peer-to-peer service with more than 40 million people using Venmo for at least one transaction in the last 12 months.

Venmo processed $21 billion in TPV last quarter, mushrooming by 73%, while the core PayPal platform's TPV grew 41% to $42 billion.

The success paved the way to raise its full-year EPS outlook from $2.94 to $3.01 ensuring that its prior forecast on revenue and TPV will be met. PayPal previously guided lower with an expected $2.84 to $2.91 in adjusted EPS and $17.75 billion to $18.1 billion in revenue.

When we tally up all the positive points, it's hard to ignore the 12% YOY increase in revenue to $4.13B and the more impressive 37% YOY rise in EPS growth signaling the company is applying its giant scale to maximum effect.

Customer engagement of 37.9 payment transactions per active account rose 9% YOY while the TPV which came in lower than consensus was still growth of 22% YOY.

I love that PayPal has migrated towards the heart of innovation while being a legacy fintech company.

PAYPAL GOES FROM STRENGTH TO STRENGTH

Venmo and the Venmo card are rapidly infiltrating the center of consumer's daily financial lives wielded for groceries, gas, and restaurants.In February, PayPal introduced a limited-edition rainbow card which became the fastest adopted Venmo card.

I want to reiterate how the proof is in the pudding with Venmo volume increasing 73% to approximately $21B in the quarter.

Not only does this legacy fintech have super growth drivers, they have become quasi venture capitalists applying a horde of capital to snap up attractive assets.

An example is a $750 million investment in the e-commerce and payments leader in Latin America called MercadoLibre which creates a network effect to PayPal's core business in the region.

If the steady drip of news wasn't good enough, PayPal announced a partnership with Instagram to process payments when customers are shopping on Instagram in the U.S.Management is convincingly delivering the goods with 110 basis points of operating margin expansion.

PayPal's flawless performance is a great model in how to survive the volatile times of rapid tech shifts, and the best way to alter a model to reduce existential threats.The company has growth drivers, have migrated capital into growth tech, are innovating with the best of them, and management is executing surgically taking advantage of a massive install base.Buy on any weakness, entry points are few and far between.

13 A LOOK AT THE CHARTS

PAYPAL GOES FROM STRENGTH TO STRENGTH

(GOOGL)

(LYFT)

14

THE FINTECH COMPANY YOU'VE NEVER HEARD OF

THE FINTECH COMPANY YOU'VE NEVER HEARD OF

Here's a company for you involved in technology's tectonic shift towards FinTech in 2019.They aren't new, but you've probably never heard of them. It's Fiserv Inc. (FISV) which sells financial technology and can include customers such as banks, credit unions, securities broker-dealers, leasing, and finance companies.

An inflection point is occurring within the global business and that is financial technology and the rapid integration of it.Financial institutions are building products around this concept and Fiserv has a head start on the others with more than 30 years of experience in aiding banks, thrifts, and credit unions, managing cash and processing payments, loans, and account services.

The Wisconsin-based company constructed an unstoppable machine leveraging its time-honored relationships and expertise to bring banking to all the screens that pervade daily life."Innovation, Integration and Scale" has been the motto that has served this company well for so long.

The company cut its teeth in the trenches helping banks move money long before it became the next big thing.Five years ago, under the leadership of CEO Jeff Yabuki, there was a corporate flashpoint with upper management realizing they needed to evolve or die.Yabuki anticipated a near future fueled by mobile wallets and changing consumer expectations - an always-on, never-off connected world.

An environment where consumers want what they want when they want it. There has been no letup in this trend.Silicon Valley companies were always the 800-pound gorilla in the room and Fiserv didn't want to become sideswiped by them.And in 2014, at the Money 20/20 conference in Las Vegas, Yabuki set out his vision that continues to prevail today.

THE FINTECH COMPANY YOU'VE NEVER HEARD OF

The financial services industry had become obsessed with point-of-sale transactions. And at $200 billion in annual domestic sales, it was a business that resonated to all corners of the FinTech world. It was sensical to persuade consumers to use branded credit or debit cards to pay for stuff in stores and online. At the time, that was bread-and-butter banking.

To the banks' chagrin, Silicon Valley has gotten in on the act with the likes of Apple (AAPL), Alphabet (GOOGL), PayPal (PYPL), Square (SQ) firing warning shots.They formulated products of their own, whipped up the necessary scale and maximized the reverberating network effects.

Yabuki urged financiers at the conference to double down on what they did best while looking to grab low-hanging fruits in the short-term.The business beyond point-of-sale was theirs waiting on a decorative platter – the opportunity was a $55 billion behemoth consisting of consumer-to-consumer, business-to-business and consumer-to-business transactions.

Embracing FinTech translated into massive speed advantages, stauncher security-laced products while offering traditional bank customers higher quality service at their convenience. Fiserv erected a platform to help financial institutions focus on payments beyond POS called Network for Our World.The goal of this NOW Network was to help customers' flow of money by paying bills and getting paid.These entrepreneurs are looking for more efficient ways to collect money owed - they are a lucrative addressable audience for bankers.

The Fiserv sales pitch is working wonders according to the data. The company has 12,000 clients worldwide, with 85 million online banking end-users.It has rolled out innovative products for payments, processing, risk and compliance, customer service and optimization.

THE FINTECH COMPANY YOU'VE NEVER HEARD OF

The company has become ever so profitable with a 3-year EPS growth rate of just 15%, but in the last quarter, this metric surged to 23% and projected to rise. Fiserv also dabbled with some M&A hauling in debit-based assets of Elan Financial Services.

The stellar acquisition, with annual revenue of over $170 million, extends Fiserv's leadership in payments, broadens client reach and scale, and provides new solutions to enhance the value proposition of the existing 3,000 debit solutions clients.

The deal also gave Fiserv ownership of Money Pass, the second largest surcharge-free ATM network in the U.S., with over 33,000 in-network ATMs.They also added other major pieces with the purchase of First Data Corp (FDC).The maneuver is strategically solid, and Fiserv will benefit from a parlay of idiosyncratic opportunities from the combined synergies.Fiserv will be able to refer First Data's merchant-acquiring services to the banks it currently works with.

I predict cost savings of $1 billion from the deal and potential upside from platform rationalization, which has not yet been included in synergies.There will be significant upside potential from interest expense savings given refinancing FDC's debt at investment-grade.

Dipping your toe into this name before its multiple inevitable expands is a good long-term strategy.Profitability is increasing while management has made moves that will fatten its top line business from the 5% internal growth today.

All these growth levers will push up revenues in the upcoming quarters - Fiserv happens to be the right company in the right industry at the perfect time in the technology cycle.The stock is up over 1,000% in 10 years. In February 2009, the stock was meddling around $8 and the $83 it trades at today demonstrates the potency of FinTech and the strength in their underlying business model.

I would wait for a sell-off to get into this one, but it's a keeper.

14 A LOOK AT THE CHARTS

THE FINTECH COMPANY YOU'VE NEVER HEARD OF

(FISV)

(AAPL)

(GOOGL)

(PYPL)

(SQ)

15

CHINA'S COUNTERATTACK

CHINA'S COUNTERATTACK

Ratcheting up the trade tensions, China is pulling the trigger on retaliatory tariffs on $60 billion worth of U.S. goods, just days after the American administration said it would levy higher tariffs on $200 billion in Chinese goods.

Bellicose confrontations have been a symbol of the new way of doing business around the world. Former American President Donald Trump accused China of reneging on a "great deal."

The mushrooming friction between the two superpowers gives even more credence to my premise that hardware stocks should be avoided like the plague, but that has all changed now that the pandemic has triggered a surge in device consumption and the semiconductor industry doesn't have enough capacity now to satisfy demand.Now, software and hardware stocks are on a tear.

Don't forget that since 2018, I have stood out on my perch and urged the masses to buy software stocks and if you need one name to hide out in then I would confidently choose Microsoft (MSFT).Microsoft has little exposure to China and will be rewarded the most on a relative basis constantly over performing relative to peers.

Investor won't get caught out by migrating to hardware stocks and won't be collateral damage like the airplane manufacturer Boeing became in the health crisis.Remember that 20% of Apple's revenue comes from China and Apple bet big to solidify a complex supply chain through Foxconn Technology Group in China.

When history is recorded, CEO of Apple Tim Cook not hedging his bets exposing Apple's revenue machine could go down as one of the best ever managerial decisions by tech management. The forced intellectual property transfers in China from western corporations was the worst kept secret in corporate America and Apple was able to overcome that by schmoozing up to Chinese politicians.

Now 20 million Americans are licking their wounds and waiting for the US economy to show signs of life again.

CHINA'S COUNTERATTACK

Baidu (BIDU) is a company that I am flat out bearish on because of a weakening strategic position versus Alibaba and Tencent in China. Even with no trade war, I would tell investors to short Baidu, and the chart is nothing short of disgusting.

Wei Jianguo, a former vice-minister at the Chinese Ministry of Commerce who handled foreign trade, said to the South China Morning Post that “China will not only act as a kung fu master in response to U.S. tricks but also as an experienced boxer and can deliver a deadly punch at the end."

It is clear that any goodwill between the two heavyweight powers has evaporated and the hardliners inside the communist party pulled all the levers possible to back out at the last second.

Many of us do not understand, but there is a complicated political game perpetuating inside the Chinese communist regime pitting reformists against staunch traditionalists.This is not only Chairman Xi Jin Ping’s decision and appearing weak on the global stage is the last concession the communist government will subscribe to.Along with the iPhone company, semiconductor stocks are at the beginning of another boom as 5G comes online.

Chip companies leveraged the most to Chinese revenue as a proportion of total sales make up many semiconductor lists. Qualcomm (QCOM) with 65% of revenue in China, Micron (MU) who has 57% of sales in China, Qorvo who has half of sales from China, Broadcom who has 48% of sales from China, and Texas Instruments rounding out the list with 43% of total revenue from China.

The first 5 months of the year saw constant chatter that the two sides would kiss and makeup and chip stocks benefitted from that tsunami of positive momentum.

CHINA'S COUNTERATTACK

A gut-wrenching Trump administration is replaced by a Joe Biden who is perceived as soft on China and the two sides won't drift further apart. After Microsoft, other software names I would take comfort in with the added bonus of strong balance sheets are
Veeva Systems (VEEV), PayPal (PYPL), and Adobe (ADBE).

The new tariffs will burden American households to up to $2 billion per month going forward, and new purchases for discretionary items like extra diapers will be put on the back burner while consumers choose to a refresh cycle of more electronics during the pandemic.

Hardware companies are running out of inventory as we speak.

Buy software and hardware companies on the dip.

15 A LOOK AT THE CHARTS

CHINA'S COUNTERATTACK

(BIDU)

(MU)

(VEEV)

(QCOM)

(PYPL)

(ADBE)

(MSFT)

16

TRUE COST OF THE CHINA TRADE WAR

TRUE COST OF THE CHINA TRADE WAR

As the trade misunderstanding escalates to a new stratum of ferociousness, certain parts of the economy are ripe to be battered.

Tourism and in particular, international travel, will be one of the first luxuries to be sliced off consumers' list.China’s most popular online travel agent Ctrip.com (TCOM) has suffered a damaging drop in demand from would-be international travelers.

Jonathan Grella, spokesman at the US Travel Association said, “The US runs a US$28 billion travel and tourism trade surplus with China” and preliminary numbers appear that Chinese travel to the US in the past year has dropped around 20%.

Compounding the woes is the weakening of the Chinese yuan which could become collateral damage from the trade negotiations if American and Chinese corporations repurpose supply chains to other countries and stop sending dollars to the mainland.

The ball is already rolling with 93 percent of Chinese companies considering making some changes to their supply chains to mitigate the effects of trade tariffs in an ingenious way to circumvent extra costs.Of these, 18% are open to a complete supply chain remake and production transformation, with 58% making meaningful changes. A further 17% plan to make minor tweaks in response to the trade war, with only 7% making no changes at all.

Chinese and American companies are reconsidering their Chinese manufacturing bases to avoid the tariffs placed on US $250 billion of Chinese exports by US President Donald Trump.

The unintended consequence will be a powerful surge in economic activity in South East Asia with also India benefitting from the chaos. Apart from the supply chain complexities, the worsening of Chinese yuan strength could put a massive damper on Chinese international travel plans.

TRUE COST OF THE CHINA TRADE WAR

The annual Chinese international travel growth rate of 5.5% would be in dire straits translating into current travel demand rerouted to lower margin Asian countries such as Thailand, Vietnam, and Malaysia which are quite popular for budget travelers.

If lower sales do not manifest itself because tourists opt to forego expensive western countries, this demand will correlate into fewer dollars per traveler because of cheaper destinations which might force companies to double down on promotions to lure higher volume.The same goes for American consumers who will be on the hook for the tariff-loaded consumer items that trickle onto our shores.

Decaying relations have already poisoned the US tourism sector that's seen its growth flatline for the first time in 10 years. And while only a small percentage of the 80 million visitors to the US in 2018 were Chinese, the potential for that segment's growth remains robust.Only 6 percent of Chinese citizens have passports signaling an imminent rise in outbound Chinese tourists that will reach 220 million by 2025.

The opportunity cost of these dollars migrating to other locations will be a kick in the teeth.I reiterate my negative call for American online travel companies with recent damage control coming from TripAdvisor for last quarter's debacle when the company reported dismal top-line results combined with a drop in monthly average unique visitors.

The company's first-quarter revenues of $376 million missed badly up against the consensus forecast of $386.8 million. TripAdvisor's quarterly revenues fell 1% YOY as a result of the core hotel business underperforming and revenues from TripAdvisor's Hotels, Media & Platform (or HM&P) showing zero growth at $254 million. Revenues from its fringe businesses, which includes rentals, Flights/Cruise, SmarterTravel, and Travel China, plunged 33% to $42.The proof is in the pudding with the company's falling unique visitor count putting the kibosh on TripAdvisor's growth prospects.

Alphabet will also repurpose more travel data on Google Maps, and integrate hotel and restaurant reservations for customers who are logged on.

Linking the Google travel and map functions seem like a no brainer to me and will be the precursor before the company starts selling ads on Google Maps including travel ads.

Google's pivot into online travel marks an existential crisis for the incumbents and will strengthen its position in travel by driving further searches and potential higher-qualified leads for its partner companies, such as airlines and hotels.

Consumers have already recognized Google as the go-to place where to do travel research.In a zero-sum game, Expedia (EXPE) and TripAdvisor (TRIP) will directly lose out.Highlighting the erosion was Expedia's super growth asset Vrbo whose gross bookings totaled $4.16 billion, up a paltry 5 percent from a year earlier.

The growth rate was less than half of the main online travel agency business which should sound off alarm bells.As it stands now, Google generates referral traffic although it does process some bookings on its own site for other travel merchants.Unlike travel agencies such as Expedia or Priceline, Google doesn't directly sell travel products such as hotel rooms or airline tickets but that could change quickly.

This ties back to my continuing thesis of the low-value proposition of broker apps in the tech ecosystem, either there will be one with a monopoly, or a bigger fish will hijack their business model and become the new monopolistic dominator.

Such is the high stakes of Silicon Valley in 2019.

16 A LOOK AT THE CHARTS

TRUE COST OF THE CHINA TRADE WAR

(TCOM)

(EXPE)

(TRIP)

17

WHY YOU SHOULD AVOID INTEL

WHY YOU SHOULD AVOID INTEL

In the most recent investor day, current CEO of Intel (INTC) Bob Swan dived into the asphalt of failure below confessing that the company would have to guide down $2.5 billion next quarter, 25 cents, and operating margins would shrink by 2 points.

This is exactly the playbook of what you shouldn't be doing as a company, but I would argue that Intel is a byproduct of larger macro forces combined with poor execution performance.

Nonetheless, failure is failure even if macro forces put a choke hold on a profit model. Swan admitted to investors his failure saying "we let you down. We let ourselves down."

This type of defeatist attitude is the last thing you want to hear from the head honcho who should be brimming with confidence no matter if it rains, shines, or if a once in a lifetime monsoon is about to uproot your existence. In Swan's spiffy presentation at Intel's investors day, the second bullet point on his 2nd slide called for Intel to "lead the AI, 5G, and Autonomous Revolution."

But when the company just announces that its 5G smartphone products are a no go, investors might have asked him what he actually meant by using this sentence in his presentation.

The vicious cycle of underperformance leads back to Intel seriously losing the battle of hiring top talent, and purging important divisions is indicative of the inability to compete with the likes of Qualcomm (QCOM). Assuaging smartphone chip revenue isn't the only slice of revenue cut from the chip industry, but to take a samurai sword and gut the insides of this division as a result of being uncompetitive means losing out on one of the major money makers in the chip industry.

Then if you predicted that the PC chip revenue would save their bacon, you are duly wrong, with global PC sales falling 4.6% in the first quarter, after a similar decline in the fourth quarter of 2018, according to analyst Gartner Inc.

WHY YOU SHOULD AVOID INTEL

The broad-based weakness means that revenue from Intel's main PC processor business will decline or be unchanged during the next three years, which leads me to question leadership in why they did not bet the ranch on smartphone chips when the trend of mobile replacing desktop is an entrenched trend that a 2-year old could
have identified.

The cocktail of underperformance stems from slipping demand which in turn destroys profitability mixed with intensifying competition and the ineptitude of its execution in manufacturing.

In fact, the guide down at investor day was the second time the company guided down in a month, forcing investors to scratch their heads thinking if the company is fast-tracked to a one-way path to obsoletion. If Intel is reliant on its data centers and PC chip business to drag them through hard times, they might as well pack up and go home.

Missing the smartphone chip business is painful, but if Intel dare misses the boat for the IoT revolution that promises to install sensors and chips in and around every consumer product, then that would be checkmate.

Adding benzine to the flames, Intel's enterprise and government revenue saw the steepest slide falling 21% while the communications service provider segment declined 4%.

The super growth asset is the cloud and with Intel's cloud segment only expanding 5%, Intel has managed to turn a high growth area into an anemic, stale business.

Then if you stepped back a few meters and understood that going forward Intel will have to operate in the face of a hotter than hot trade war between China and America, then investors have scarce meaningful catalysts to hang their hat on.

WHY YOU SHOULD AVOID INTEL

Swan said the company saw "greater than expected weakness in China during the fourth quarter" boding ill for the future considering Intel derives 24% of total revenue from China.

Investors are fearing that Intel could turn into additional collateral damage to the trade war that has no end in sight, and chips are at the vanguard of contested products that China and America are squabbling over.

Oracle (ORCL), without notice, shuttered their China research and development center laying off 900 Chinese workers in one fell swoop, and Intel could also be forced to cut off limbs to save the body as well.The narrative coming out of both countries will not offer investors peace of mind, and a primary reason why the Mad Hedge Technology Letter has avoided the chip space in 2019.

It's hard to trade around the most volatile area in tech whose global revenue is becoming less and less certain because of two governments that have deep-rooted structural problems with each other's trade policies.

I'm issuing yet another rallying cry for buying software companies with zero exposure to China in order to shelter capital from the draconian stances of two tech sectors that are at odds with each other. Let me remind you that Intel and Western Digital (WDC) were on my list of five tech stocks to avoid this year, and those calls that I made 6 months before are looking great in hindsight.

17 A LOOK AT THE CHARTS

WHY YOU SHOULD AVOID INTEL

(INTC)

(QCOM)

(ORCL)

(WDC)

18

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

If you ask me what you should sample at a Starbucks in China - I would say nothing. Starbucks has become successful on the back of selling bad tasting coffee to the Chinese.

Even more peculiar, the CEO of Starbucks Kevin Johnson has been captaining the ship since 2017. After watching Johnson's interview with Bloomberg, I fully believe he is not adequately prepared for what the future beholds.

Let me explain why.Johnson started at IBM (IBM) in the 80s as an engineer, but he hasn't been an engineer for the last 20 odd years. In the early 2000s, he became a salesman at Microsoft (MSFT), and his interview revealed that he is still a salesman at heart.

He continued to refer back to his engineering background, yet the know-how he accumulated in the 80s at IBM has little relevance to the "move fast and break things" environment of today.

Johnson was groomed under the tutelage of Microsoft's Steve Ballmer at Microsoft, a salesman, who almost sunk Microsoft during his tenure.Anyone who trained under Steve Ballmer is someone that would need to walk across fiery embers to prove his or her viability. The interview with Bloomberg felt like an inauthentic marketing video, with Johnson regurgitating salesman rhetoric with little substance.

As Starbucks shreds the bear story of naysayers to make new all-time highs, there are serious icebergs ahead because of disruptive technological start-ups.Starbucks has relied on emerging markets as its growth engine inaugurating 612 stores in China last year, and another 600 will come online before 2022.

Selling bad coffee to Chinese will be more difficult going forward.The prominent tea drinking nation had no idea what good coffee tasted like 10 years ago.

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

Even recently, many Chinese thought instant coffee packaged in those convenient stick-shaped packets was high-grade coffee. The last five years has seen an unmitigated onslaught of Chinese international tourism mainly flowing to Europe, Canada, Australia, and America.

Not only did Chinese shop until their panties dropped, but they began to become more inclined to understand culinary and cultural aspects of foreign cultures like, for instance, how good coffee should taste among other cultural trappings. Five years ago, Chinese also went to Starbucks to sample the coffee.

Now, they go to Starbucks because the interiors are comfortable making it a plausible place for an impromptu business meeting in a downtown or business district location. Let's remember that Starbucks could never crack the Italian market because teaching Italians how to make coffee doesn't sell in Italy.It took until last September to open the first Starbucks in the cultural center of Milan, Italy, and I can tell you that it's not a regular, cookie cutter Starbucks.

The Milan Starbucks is billed as a "Reserve Roastery" with marble finishes contributed from the supplier that up until now was only used to build the famed Duomo of Milan and buildings in the surrounding Piazza.

To say this Starbucks is posh is an understatement. The 25,000-square-foot coffee shop delivers small-batch roastings of exotic coffees from more than 30 countries, and artisanal food from the local culinary rock star, Rocco Princi. In fact, Starbucks built it into a four-star restaurant with expensive cocktails and the whole shebang.

Understandably, the average revenue per user (ARPU) at the Italian roastery earns 400% more than the average American Starbucks shop.

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

This is what Starbucks had to do to get their first footprint into Italy, while coffee know-how isn't up to that level in China, differentiating variables will be harder to discover moving forward as Chinese customers look to handcrafted, artisanal options demanding a superior customer experience.

The generic Starbucks in China sells mediocre black coffee made from inferior beans for $5 per cup, a far cry from the reserve roastery in Milan.If you get into the creamier, frothy types of drinks, then price points shoot up to $6 or $7.

Meet the current tech disruptor of coffee business in China, Luckin Coffee headed by Chinese tech entrepreneur Qian Zhiya. Her impressive resume spans from COO of Shenzhou, a car rental app and website, to Co-founder of UCAR, a ride-hailing service spun off from Shenzhou.During the Bloomberg interview, Kevin Johnson bragged that Starbucks is opening a new Chinese Starbucks every 15 hours.

He forgot to mention Starbucks' local competitor opens a new Luckin Coffee every 8 hours amounting to about 3 per day. Luckin Coffee's plan is to open 1,950 more stores in the next 18 months.This has the inklings of a dogfight down to zero with a local upstart, and ask how that turned out for Facebook, Google, or even Amazon in China.

Every FANG except Apple (AAPL) cease to exist in China now, and brewing bad coffee doesn't create the positive network effect that Apple has in China, effectively delivering an additional 4 million ancillary jobs connected to the iOS system.

The entrenched nature of Apple in China means they cannot be removed without catastrophic job losses to local Chinese triggering massive social unrest.In the case of Starbucks, every location that folds, employees can walk across the street to join a Luckin Coffee franchise, such is an environment in a zero-sum game.

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

Qian envisions coffee shops like a tech empire because of her background, and has earmarked fresh capital for product R&D, technology innovation, and business development.

Luckin is hellbent on capturing young office workers with its locations, delivery services, and low prices, operating a no-frills type of Starbucks alternative.They have undercut Starbucks pricing by offering the same cup of Americano $5 coffee for $3.15.How about their expansion plans? Locations will explode to 4,500 by the end of 2019 which will eclipse the number of Chinese Starbucks in mid-2019. The company has relied on technology, over half of the locations lack physical seating, shrinking space by way of applying kiosk structures as a coffee preparation station before customers access delivery orders through the smartphone app.

Digital payments are common via WeChat or Luckin’s own “coffee wallet,” and over 70% of digital customers are under 30.Luckin's strategy is a far cry from the plush sofas of Starbucks' home away from home strategy. Distinctively, Luckin does not want customers to lounge around and talk business.

The rise of Luckin Coffee coincides with hamstringing Starbucks' comparable-store sales growth rising just 1%, with a 2% decline in transactions, down from 6% sales growth the prior Q1.CFO Patrick Grismer did what CEO Kevin Johnson could not, admitting, “we have to acknowledge that competition is intensifying.”Luckin Coffee burned through more than $100 million in cash in 2018, and like the prototypical tech company, will burn more cash to intensify competition with Starbucks.

I predict they will head further into deeper coffee discounts to snatch market share.Other possible pain points for Starbucks that Qian could exploit are more subsidized deliveries which could continue for another “3-5 years” but could be extended if need be.Qian is content with her model, stating she is “in no rush to make a profit,” signaling convenient access to a trove of generous debt instruments.

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

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The best-case scenario in 2019 is that Starbucks' profit margins shrink or stagnate in China, the worst case, they lose significant Chinese market share and tier 1 city franchises continue to cannibalize revenue.Starbucks' golden years in China are over and you can thank technology for offering a model to compete with them.If Starbucks' shares continue moving up, it won't be for much longer.

18 A LOOK AT THE CHARTS

CHINA IS FOR CHINESE COMPANIES // THE BATTLE FOR COFFEE IN CHINA

(IBM)

(MSFT)

(AAPL)

19

THE MEANS TO A FRIGHTENING END // THE BIG KEEP GETTING BETTER

THE MEANS TO A FRIGHTENING END // THE BIG KEEP GETTING BETTER

I love doing presentations to small businesses in my free time, partly to stay in touch with the pulse of the "David's" who have the unenviable task of fighting uphill against the "Goliath's".

It's bad enough that the tech giants have scaled locally turning one's local playground into a disadvantage. The presentation is aptly titled "Content is King... But Only Through One's Ownership" where the same parallels are explored and unpacked for my audience.

Proprietary Content – must be yours and you must own it on your own turf - your blog, your vlog, your app, and so on, it goes for everything. Repurposing content on other platforms as a supplement to your own is one thing, but the moment you adopt an enemy platform as your main platform, that's your coup de grâce.

SME's (small businesses enterprise) believe it's plausible to work with the higher ups, but don't forget they have every incentive to cut you off from the fountain of youth. One could say the best skill big tech has today is undermining their competition.

Facebook doesn't allow posting content that criticizes Facebook, have you ever wondered why? Website innovation has ground to a halt because of the PageRank algorithm from Google, everybody is making websites the same, a top navigation menu, descriptive text, a smattering of images and a handful of other elements arranged similarly. Google's algorithms and the self-regulating nature of their ecosystem have perverted the chance to have a unique online experience. Most internet users have probably discovered that most websites don't work well and the execution of them is lousy.

Many companies are not contributing enough resources to build out their site properly, or just don't have the cash to fund it or a mix of the two.About 95% of customer service calls originate from the company's webpage because of payment problems, disfunction, misleading content, or simply because the website is down.

THE MEANS TO A FRIGHTENING END // THE BIG KEEP GETTING BETTER

Ask any small business and they will tell you they deal with their domain being down for hours at a time because of some unknown server problem. Not only is capitalism only working for a small group of Americans, but so are websites, such as massive companies like Amazon.com who have worked wonders with its e-commerce site.

Because the internet and namely websites are the key to building businesses, Silicon Valley is now using the concept of websites and their position as de-facto moderators to prevent others from developing proper websites, killing off the competition.

Alphabet is notorious for ranking their own products at the top of page one of any Google search.Amazon has followed the same practice by sticking their in-house brands at the top of any Amazon search on Amazon.com.And remember that none of this can be called “antitrust” because these borderline tactics offer consumers lower prices but that is only because consumers are brainwashed to believe Amazon offers the lowest price.

What if the same products are available for half of Amazon’s in-house brands, would Amazon volunteer to post their in-house brands on the second page, the graveyard of search results?I would guess no. Websites used to give businesses a chance, remember in the mid-90s when a website of any ilk was impressive as if someone was walking on water.

What can we expect next? Amazon, Google, and Apple are taking their shows to artificial intelligence voice platforms.SMEs could at least throw hail Mary's on standard internet searches with visual screens, but once content migrates over to voice platforms owned by Silicon Valley, then its game, set, and match. For instance, a local business such as Joe’s Furniture Moving Business who, with the internet and visual screens, is searchable through search engines and can be even located on Google Maps with a concrete address.

THE MEANS TO A FRIGHTENING END // THE BIG KEEP GETTING BETTER

Once we migrate the lion's share of content to voice platforms over the next 15 years, Google Home, Apple HomePod, or Amazon Alexa could easily choose to remove Joe’s Furniture Moving Business information because they make more money offering you information of a moving service they own or have a stake in.

The advent of 5G will refine the voice technology and enhance the machine learning techniques needed to complete the migration of content. Once the world crosses an inflection point where the technology and volume of content on smart speakers outweigh the hassle to use a keyboard or mobile screen, this effectively makes these smart speaker manufacture Gods of the World because they will own the voice-based internet.

They will be the gatekeepers of all global information, business, and development in the world and we will need to satisfy their algorithms to get our own content uploaded on their voice platforms.

And because of the nature of voice, users cannot see what else is out there, users will only hear what these companies tell us offering an outsized opportunity to manipulate the user experience generating more dollars for these powerful platforms.

By the end of 2019, 74 million Americans will be using smart speakers, giving these smart speaker firms adequate data to fine tune their products.Eventually, all Americans will be forced to use it or will not be able to function, similar to the effects of a laptop, email, and smartphone combination now.

Once these voice platforms become ubiquitous, websites will be deemed irrelevant – consumers will simply have a choice of Google Home, Amazon Alexa, and Apple HomePod and blindly trust what they tell you is in your best interests. Pick your poison.

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THE ALPHABET NO-BRAINER

THE ALPHABET NO-BRAINER

Buy Alphabet (GOOGL).That is the obvious takeaway from the European Union disciplining Alphabet. EU regulators levied a $1.7 billion fine because of breaches of anti-trust law.It's the third time the company has been caught out over unfair practices, but let's be honest about it, the internet is a dirty game and rife with firms cutting corners wherever they can get an edge.

Google search is incentivized to thwart third-party companies hoping to carve out ad revenue on the back of Google's assets. I commend the EU for stepping up and scolding these big tech companies when stateside they have been allowed to run riot doing whatever they please.It's gotten to the point where these companies are larger than governments themselves and hold enough power to crush small countries in its wake.

The pitiful thing about this whole ordeal is that it shows how little sway governments hold on these monster tech companies now.Not only are they too big to fail, but too big to regulate. Google will keep doing what it does, raking in ad revenue because of the stranglehold they have on global eyeballs.So let's diagnose this for what it is - a slight slap on the wrist.

There will be many more fines down the road, but who cares, Alphabet will just cut them a check.A fine of $1.7 billion is chump change if you consider they pulled in over $32 billion in digital advertising last quarter alone.Google was penalized for initially forcing websites to sign exclusivity contracts promising flourishing websites not to work with other search engines. In 2009, Google upped the ante by paying off these popular third-party websites to not allow alternative search engines to display their website in searches.Expectedly, these websites lapped up the extra revenue and had no complaints.

The last thing a dominant website wants to do is to irate Google who they are reliant on for the bulk of revenue. Protecting your customers and shielding them from outside competition is nothing new. This sort of business practice has been going on since the beginning of time.

THE ALPHABET NO-BRAINER

Google has no incentive to change its business model to accommodate EU law because retrospective fines of this paltry amount will not force them to substantially transform their ad business.

Heftier fines could come its way in the EU as the Europeans are intent on tackling digital privacy, but the push hardly disrupts Google and the direction they are headed in.

The Android platform and Google's bundle of apps are monopolies that command 80% of the European market share on consumer devices.Google claims that it stopped this illegal, underhanded practice in 2016. However, in the bigger scheme of things, Google will, by default, benefit naturally from the strategic position they hold in the tech ecosystem.

Therefore, this convoluted regulatory cat-and-mouse game with the European Commission will continue because at the end of the day, Google's positive network effect becomes stronger with age and assets under its umbrella of services are inclined to possess an advantage over companies that aren't linked with Google in a financially incentivized way.

This issue seeps deeper with Stadia, Google’s new attempt at revolutionizing gaming with native cloud-based gaming.If Google directly connects with gamers via Google Chrome and is incentivized to push in-house gaming ad revenue through this platform, then why would Google search ever allow outside consumers to be able to find relevant search results about other gaming companies if they aren’t profiting directly.

It's a conflict of interest that Google will find itself knee-deep in.For your information, Stadia will initially only be available on Google Chrome and on Android devices, you’re out of luck if you use Safari.And what if a company such as Nintendo wants to post ads on Google Stadia via Google Chrome, can Google just say no because they don’t want to feed the enemy?

THE ALPHABET NO-BRAINER

Google is on record for saying that it will give companies a fair shot to market different search engines and even give more clout to third-party shopping networks.But by no means does this mean Google will voluntarily give up their cash cow.

Any change would be ornamental at best, and at the worst, Google would just stonewall the initiative and kick the can down the road eventually hoping the EU fine will be less than the last one.

For any small company, this would be disastrous, but Google is no peon.Shares rose on the news of the EU fine as investors cheered from the sidelines that this chapter in Google's penalties and fines ledger is temporarily over. It's funny to say that a $1.7 billion fine effectively meant Google came away from the situation unscathed, but that is where we are at with this type of company at this point in history.

This year is shaping up to be an overly positive year for Alphabet as they venture into gaming and have an interesting mix of high growth divisions such as YouTube.They have even started to sell its self-driving sensors through its Waymo division.

I almost feel my spine tingle as I say this, but Google might be the most innovative company of 2019 following in the footsteps of Amazon’s innovative rampage in 2018. Alphabet can't stay out of the news and being berated for being too dominant in Europe is a problem that many smaller companies wish they could have.

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THE ALPHABET NO-BRAINER

(GOOGL)

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ALPHABET DOMINATES WITH GOOGLE MAPS

ALPHABET DOMINATES WITH GOOGLE MAPS

Remember Google Maps? Google will start monetizing it, let me tell you about it.The web mapping service developed by Google gifting access to satellite imagery, aerial photography, street maps, 360° panoramic views of streets has been around since the beginning of this generation of big tech and is what I would consider legacy technology.

Legacy technology is often associated with failure as the out of date nature isn't applicable to the tech scene and the commercialization of it today. In a candid letter, Jeff Bezos wrote to shareholders that Amazon will "occasionally have multibillion-dollar failures."

Silicon Valley tech will have its share of implosions stemming from ill-fated industry decisions correlating to heavy losses. Google Maps won't be one of these slip-ups. However, a whole catalog of instances can be chronicled from Microsoft's purchase of Nokia's handset division to Google's social media foray in Google Plus.

It hasn't gone all pear-shaped for Alphabet in 2019. I strongly believe they are one of the companies of the year harnessing YouTube in ways consumers never imagined. Adding color to the story, any remnant of apprehension to any bearish feelings about Alphabet should vanish once investors understand how lucrative Google Maps will become.

Google has spent decades and billions of capital honing the application and in terms of market share they have cultivated a monopoly.Uber's S-1 filing shined some light on Google Maps characterizing it as a must-have input into their business saying, "We do not believe that an alternative mapping solution exists that can provide the global functionality that we require to offer our platform in all of the markets in which we operate."

ALPHABET DOMINATES WITH GOOGLE MAPS

Uber sunk $58 million integrating Google Maps into its services from 2016-2018 along with continuous payments to its Google Cloud arm to host Uber's data.

The strong relationship with Uber shows how Alphabet is adept at milking 3rd party apps for what they are worth.Alphabet's stake in Uber is projected to be $5 billion from the $250 million investment in Uber in 2013. The party doesn't stop there with Uber paying Alphabet $631 million from 2016-2018 in digital marketing services and another $70 million for technology infrastructure.

To say that Google firmly has its tribal marks tattooed into Uber's skin is an understatement.Almost 80% of smartphone users regularly use navigation apps. Google Maps is the most popular navigation app by a country mile with 67% of market share.One billion people consistently use Google Maps.

It is the go-to navigation app for nearly 6x more people compared to the runner up app Waze with 12% market share.The superior performance of the app has allowed it to branch off into a Yelp-like hybrid app accumulating reviews of businesses and institutions that are conveniently dotted around its map. Multi-functional terrain was integrated to make the maps more 3D and route navigation from point A to B routes has steadily improved since its inception.

The increasing detail showing even roofs of sheds and the Google street view offering a point of view vantage point boosting the reliability of the app.The result of making the app better is that navigators can easily discern locations and follow routes clearly. Most would concede that they use the app to look up specific street routes.

By implementing digital ads into the experience, product and service offers will possibly populate in real time as the user glances at the app's directions.

ALPHABET DOMINATES WITH GOOGLE MAPS

A vast amount of services such from food to personal grooming to even cannabis club ads could be applicable and ad companies will pay top dollar to post on Google Maps.Google could also offer personalized recommendations to users and collect an affiliate fee if the user clicks on an attached link transferring the customer to a 3rd party landing page.They already benefit from this strategy on Google Flights.

Google might even be tempted to implement a Groupon model with group discounts on services positioned on Google Maps.Google Maps is hands down the most underappreciated app and most under monetized tech asset in the world. Another possible revenue generation avenue would be the advent of Google Maps voice ads en route to a destination that would promote a 5 or 10 second voice commercial of a businesses that the user is physically passing by.

The unintended effects of Google's audacious transformation of their proprietary Map service spells doom for Yelp's business model.Google's move into digital ads of maps effectively means that Yelp will be relegated to an inferior version of Google Maps without the map technology.

Google has accumulated enough personal data to draw up any type of profile for particularly Android users voraciously consuming data on Gmail, Google Maps, Google Search and Google Chrome.

These four data generators will allow Google to formulate a shadow profile based on individual tastes with daily use of these four Google properties. Alphabet has a time-honored model of building assets that become utilities and once they monopolize the utility, they sprinkle the digital ad pixie-dust effectively monetizing the asset that was once free of charge.

They have followed the same road map for Gmail, Google Search, YouTube, and if Waymo can become a utility, prepare from Google digital ads inside the screens of Waymo autonomous cars.

ALPHABET DOMINATES WITH GOOGLE MAPS

When many sulked that this could be one of those billion-dollar failures that Bezos whined about, Google has decided to supercharge Google Maps by cross-pollinating the power of Google maps with its digital advertising knowhow.

This powerful cocktail of forces working in tandem will accelerate its revenue growth along with the resurgence of its YouTube digital ad revenue.I believe this new lever of revenue growth isn’t priced into Alphabet shares yet, and withstanding any random black swan shocks to the broader economy, Alphabet is poised to outperform the rest of the trading year.

Short Yelp on any and every rally - Google has made their business model redundant.

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ALPHABET DOMINATES WITH GOOGLE MAPS

(GOOGL)

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AMAZON'S NEW GAME CHANGER

AMAZON'S NEW GAME CHANGER

Amazon’s free 2-day shipping for Prime Customers is on the verge of becoming free 1-day shipping after the company recently announced this new wrinkle to their business model.

Amazon’s competitors should be shivering in their wake.But it’s not all doom and gloom for the other e-commerce giants, hardly so, the gap up in the fierce competition will do what General Data Protection Regulation (GDPR) rules in Europe did to competition – enclose the existing players off from the smaller fish.In examining who will be the last man standing, I have come to the conclusion that it will not just be one or two grinding it out in a vacuum, but more like several winners that will all benefit to certain degrees.

The outsized denominating factor in the e-commerce wars is logistics and who can best put this segment together. E-commerce companies are being bullied into leaner models because of the premium on heavy scaling that will pile on added costs to make 1-day free shipping a reality.

This isn’t selling lemonade on your driveway, getting 1-day shipping to work will be a tough nut to crack.The result will be the imminent deterioration of FedEx (FDX) and United Parcel Service (UPS) on the expectation that Amazon will crowd them out.It could be the case that Amazon improves its logistical capabilities to the point that FedEx and UPS will have to sell itself off or risk death by a thousand cuts.

There looks like no navigational path ahead for these two legacy logistic companies because of the nature of being lower down on the value chain.The only other choice is if FedEx or UPS is able to jump into the e-commerce business themselves by buying a Kroger to maneuver into the integration process through the other side.Either way, acquiring a supermarket is no guarantee of future success considering the stakes are about to become higher and higher.

AMAZON'S NEW GAME CHANGER

I believe that Walmart will respond to Amazon by rolling out free 1-day shipping with no membership fee, boosting its customer experience while attracting and retaining customers. Walmart is in this fight until the bitter end and they have invested heavily in improving the technological aspects of the company.Where does this end?

Logistics will perpetually improve as companies drain more money into logistics, and customers will eventually receive their e-commerce packages in a drone less than 1-hour after payment. Amazon CFO Brian Olsavsky told investors that Amazon is plunking down $800 million over the quarter in its fulfillment network and that number should rise every year as Amazon has targeted logistics as a huge competitive advantage that they must capitalize on and thrive in.

Amazon already has the option for 1-day free shipping in the European Union and Japan where the delivery distances are truncated.America poses geographical challenges that will cost more to solve and will rely on the deregulation of future drone flights and cooperation with Amazon sellers to deliver this big step up in customer experience.

The constant iteration upgrades in logistics for the past 20 years have made this possible, and I believe Amazon would be well served to bite the bullet and splurge for UPS or FedEx to make it easier on themselves.It is not shocking there is a scarcity value of logistic carriers and e-commerce giants will need more logistical capacity to execute free 1-day shipping and eventually free 1-hour shopping.Amazon hasn’t figured out how to transport physical goods through a computer yet, but I am certain, if there was the technology, they would spend unlimited amounts to get it to that point.

The most ironic aspect of the e-commerce wars is that supermarkets, being a part of e-commerce and the logistics behind it, is the most innovative part of technology at this moment.

AMAZON'S NEW GAME CHANGER

Tech companies have identified that customers need to eat three times per day as paramount and are sizzling through cash to build this unfathomable logistics system - effectively working miracles and becoming whirling dervishes to seize this part of the economy.

I would probably label automobiles and the self-driving autonomous technology behind logistics as the second most innovative part of technology at this moment.As for Amazon’s earnings report, it was a mixed bag, but the good in the bag was astounding. Profitability boosts through the scaling and efficiency savings inflated the bottom line with EPS in Q1 at $7.09 compared to expectations of $4.72.

Amazon Web Services (AWS) is still commanding enormous growth rates which is miraculous for a division its size, the cloud unit grew 41% YOY which is down from 49% last year.On the negative side, the advertising business experienced a sharp slow down growing only 34% YOY to $2.7 billion. Remember that ad sales were expanding over 100% YOY in prior quarters.

Total Revenue only grew 16.9% which shows how difficult it is to grow at Amazon’s size and brings down the digital ad growth rate almost on par with Facebook. Walmart and Target will be forced to compete with free 1-day shipping, and this will make their services better as well.The question is how much pain can investors handle in terms of capital investments?

I believe substantially more.Walmart and Target shares are poised to move higher on the news because the improvements in their logistical services will widen the gap between the haves and have nots. These companies are in the midst of persuading investors they should be revalued as tech companies and duly receive growth multiples.

They are doing a great job and imagine how badly this news feels for medium-tier grocers with a minimal digital footprint.Investors will come to grips that Amazon, Walmart, and Target will pull away from the pack and trade blows with each other. This time it's Amazon, but it's not the last laugh. Where does this all lead?

AMAZON'S NEW GAME CHANGER

The end game is voice-triggering smart speakers where Amazon and its Echo speaker have a distinctive lead and a market share of around 70%.Graphic interfaces will exist in only voice-activated form and content will be bundled into voice technology where even managing a Walmart order will require Amazon Echo to register sales.

That type of future is still a way off, but these are the next baby steps in that direction.In short, revelations of free 1-day shipping to Amazon prime customers is convincingly bullish for Amazon, quite bullish for Walmart, Target, and a death knell for smaller e-commerce platforms and logistic dinosaurs.

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AMAZON'S NEW GAME CHANGER

(UPS)

(FDX)

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WHY ALPHABET IS THE BEST FANG TO BUY NOW

WHY ALPHABET IS THE BEST FANG TO BUY NOW

Why am I bullish on Alphabet (GOOGL) short-term?Video has muscled its way to the peak of the digital content value chain.If you don't have video streaming, then you are significantly depriving yourself of the necessary ammunition capable of battling against legitimate content originators.

The optimal type of content is short form yet engaging.Interesting enough, the format method integrated into systems of Facebook (FB) and Twitter (TWTR) has experienced unrivaled success.They have been leaning on this model as growth levers that will take them to the next stage of revenue acceleration and rightly so.This has seen smartphone apps such as Instagram become game-changing revenue machines destroying all types of competition.

The x-factor that stands out in Instagram's, Facebook's, YouTube's model is that it's free and they do not absorb heavy expenses from content creation. It's certainly cheap when the user is the product. Google's YouTube service has morphed into something of a phenomenon. Its interface is easy to use, and followers have a simple time navigating around its platform.

Familiar news outlets such as Sky News, Bloomberg News, and even CNBC news have recently installed their live feeds on YouTube's main platform scared of losing aggregate eyeballs. And even more intriguing is that YouTube has become a legitimate competitor to Netflix's (NFLX) online video streaming platform.

YouTube has sensed the outsized pivot to their free platform and has double down hard by installing 5-second ads at the front end and middle of videos. Of Alphabet's total $39.3 billion revenue pocketed in Q4 2018, ads constituted 83% or an astounding $32.6 billion. I feel that Alphabet shares are currently undervalued, and I believe that we will see outperformance from Alphabet shares for the rest of 2019 based on YouTube's performance relative to expectation.

WHY ALPHABET IS THE BEST FANG TO BUY NOW

YouTube’s ever-growing presence showing up in the top line will offer the growth investors desire to pile into these shares as the company wrestles with future projects such as Waymo.

That's not to say that their traditional advertisement business of Google Search is failing. Investors can expect continuous 20% to 25% growth in this cash cow business, but the reason why Alphabet share has not been able to break out is that investors have baked this into the pie.Therefore, YouTube is really the X Factor and will take them to this new promised land with shares surging past the $1,250 mark and more importantly, staying at that level.

YouTube brought in about $15 billion in 2018 and that consisted of about 10% of Alphabet’s total annual revenue. However, the company is just scratching its surface of what it can accomplish with this fast-growing revenue driver and I can extrapolate this growth segment turning into 20% or 25% of the company’s annual revenue in the next few years.

Google does not strip out YouTube revenue in its reporting, therefore, it's difficult to put my finger on exactly how much YouTube is carving out in terms of revenue. I can also assume that if Netflix continues to raise the cost of monthly subscription, this strategy will directly hurt its revenue acceleration ability as it relates to competing with Google's YouTube because YouTube's free service is demonstrably attractive to viewers hoping to discover high-quality content relative to a $20 per month Netflix subscription.

I do agree that Netflix is a great company and a great stock, but as they slowly raise the price of content, this will gift YouTube a huge chunk of Netflix’s marginal audience freeing itself from the shackles of Netflix’s price rises. At some point, online video streaming will become as expensive as the cable bundles now, and at that point, we know that saturation is imminent boding negative for Netflix.

WHY ALPHABET IS THE BEST FANG TO BUY NOW

What I do envision in the short-term future are consumers in America will pay into several unique bundles such as Netflix, maybe Disney (DIS), ESPN and merely stick with these as their base content generators as more consumers cut their cord and hard pivot from traditional cable packages that are becoming less appealing by the day.

And don't forget that at some point, Netflix will have to demonstrate profitability and the huge cash burn that permeates throughout the business will be exposed when subscription growth starts to fade away.

In every possible variant, YouTube will become an outsized winner in the media wars because the quality of the free content keeps improving, the cost for consumers stays at 0, and their best of breed ad tech migrating from their Google search into YouTube just keeps getting more surgical and efficient.

Not only are the positive synergies from the best of breed ad tech aiding YouTube's model, but just think about YouTube having access to the Google cloud and saving expenses by accessing this function to store data onto the Google Cloud. If this was a standalone service, they would have to subcontract cloud storage functions to third-party cloud company causing the content service to spend millions and millions of dollars per year in expenses.This would have the potential of crushing the bottom line.

That is just one example of the synergies that Google can take advantage of with YouTube under its umbrella of assets.And think about self-driving vehicles, Google could potentially equip YouTube as a pre-programmed application inside of autonomous vehicle platform tech with YouTube popping up on the multiple screens.

I assume that there will be multiple screens inside of cars with self-phone driving technology because of the lack of driving required.

WHY ALPHABET IS THE BEST FANG TO BUY NOW

The worst maneuver that Alphabet could do right now is spinoff YouTube into its own company, and if that happens, YouTube won't be able to take advantage of the various synergies and benefits of being an Alphabet asset.

We are just scratching the surface of what YouTube can accomplish, and I believe this upcoming over performance isn't in the price of the stock yet.If the Fed continues its "patient" strategy towards interest rates at a macro level, Alphabet will easily soar past $1,250 and it can easily gain another 10% in 2019.If any "regulation" risk as a result of extremist content rears its ugly head, buy shares on the dips because the algorithms are in place to eradicate this material and any fine will be manageable.

23 A LOOK AT THE CHARTS

WHY ALPHABET IS THE BEST FANG TO BUY NOW

(GOOGL)

(TWTR)

(FB)

(NFLX)

(DIS)

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GOOGLE'S AGGRESSIVE MOVE INTO GAMING

GOOGLE'S AGGRESSIVE MOVE INTO GAMING

The saturation of tech is upon us.That is the takeaway from Google's (GOOGL) hard pivot into gaming.The goal of their new gaming service is to become the Netflix (NFLX) of gaming allowing gamers to skip purchasing third-party consoles and playing games directly from an Android-based Google device.

Middlemen in the broad economy are getting killed and this is the beginning. What we are really seeing is a last-ditch effort to protect gaming consoles - these devices will become extinct in less than 20 years boding ill for companies such as Sony and Nintendo.

The cloud is still all the rage and companies such as Microsoft (MSFT), Alphabet (GOOGL), and Apple (AAPL) have the natural infrastructure in place to offer cloud-based gaming solutions. Phenomenons such as the popular internet game, Fortnite, have shown that consoles are outdated and relying on the cloud as a fulcrum to extract gaming revenue by way of add-ons and in-game enhancements will be the way forward.

Another key takeaway from this development is that passive investment is dead, even more so in tech, where these big tech companies are starting to bleed over into each other's territory. This dispersion will create opportunity and pockets of weakness.

I blame this on a lack of innovation with companies still trying to extract as much as they can from the current smartphone-based status quo which has pretty much run its course.Technology is itching for something revolutionary and we still have no idea what that new idea or device will be.The rollout of 5G is promising and companies will need some time to adapt to this super-fast connection speed.

In either case, I can tell you the revolution won't include foldable smartphones.In 2018, the gaming industry flourished on accelerating momentum by registering over $136 billion in sales, and the revenue growth rate is already about 15% and increasing.

GOOGLE'S AGGRESSIVE MOVE INTO GAMING

Naturally, companies such as Amazon and Google want a piece of this action and are hellbent on making inroads in the gaming environment such as Amazon's ownership of Twitch, which is a game streaming service where viewers can watch live tournament-style competitions proving extremely popular with Generation Z.

I applaud this move by Google because they already have proved they can execute on certain mature assets such as YouTube which has become the Netflix replacement of 2019. Doubling down in the gaming sector would be a bonus as they search a second accelerating revenue driver that will dovetail nicely with the overperformance in YouTube this year.

It's even possible that YouTube could be modified to support live stream gaming, certainly various synergistic dynamics are at play here.Even if they fail - it's worth the risk. Revenue extraction will be painful for certain companies like Facebook (FB) in this new environment, who has seen a horde of top executives abort after the company drastically changed directions, believing the company is on a suicide mission to fines and more regulatory penalties.

I've mentioned in the past that Facebook no longer commands the same type of employee brand recognition they once cultivated. Facebook will find a tougher time to find the right people they need to execute their private chat plan, by linking the likes of WhatsApp, Instagram, and Facebook Messenger.

This is a high-risk high-reward proposition that could end up with Facebook's co-founder Mark Zuckerberg in tears if regulators give him the cold shoulder, and that is why many executives who are risk-adverse want to cash in now because they sink with the Titanic.

Not only are gaming assets becoming saturated, but the general online streaming environment is attracting a tsunami of supply all at one time. Online content is already veering into the same type of pricing structures that cable offered traditional customers.

GOOGLE'S AGGRESSIVE MOVE INTO GAMING

Investors will have to ask themselves, how much will the average consumer spend in content-based entertainment per month?My guess is not more than $100 per month.

The saturation will cause tech companies to become even more draconian. Be prepared for some more epic in-fighting until a new gateway of internet monetization opens up.There has never been a better time to be a tactical and active investor in tech.

The Fang trade has splintered off with each company facing unpredictable futures. Unearthing value will become more difficult because these traditional bellwether tech stocks have decoupled and aren't going straight up anymore.Those zigs and zags will still be buttressed by a secular tailwind of the migration to digital, but there are certain winners and losers that will result of this.

Apple announcing a new streaming product is proof that these Silicon Valley tech firms are desperate for new profit drivers as the wood chips that fuel the fire start to run noticeably short on supply.

At the bare minimum, this looks disastrous for the traditional gaming companies of Electronic Arts (EA), Take-Two Interactive (TTWO), and Activision (ATVI) whose shares have been effectively shelved due to the Fortnite revolution.

EA has fought back with their own Fortnite lookalike called Apex Legends which showed a Fortnite-like trajectory sucking in 10 million players in the first 72 hours.The stock exploded 16%, signaling this is the new way forward for gaming companies.As a whole, these traditional gaming studios simply don't have the firepower to compete with the big boys, let alone possess a strong cloud infrastructure.

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GOOGLE'S AGGRESSIVE MOVE INTO GAMING

(GOOGL)

(NFLX)

(MSFT)

(AAPL)

(FB)

(EA)

24 A LOOK AT THE CHARTS

GOOGLE'S AGGRESSIVE MOVE INTO GAMING

(ATVI)

(TTWO)

TECH TRENDS TO WATCH