

Market SitRep

Tech Shenanigans

Macro Update

- The dollar rally is on hold for now.
- It is going to remain range bound and consolidate until the big central bank meetings in mid march.

The Dollar



Best House On A Bad Block

- Post mid march meetings we think USD will start to rally due to increasing monetary policy divergence.
- BOJ and ECB will be forced to go nuclear to promote inflation. They got nothing going for them right now.

Best House On A Bad Block

- Japan already has negative interest rates, but it's not working.
- Outside of the US current monetary policy is not proving to be effective.

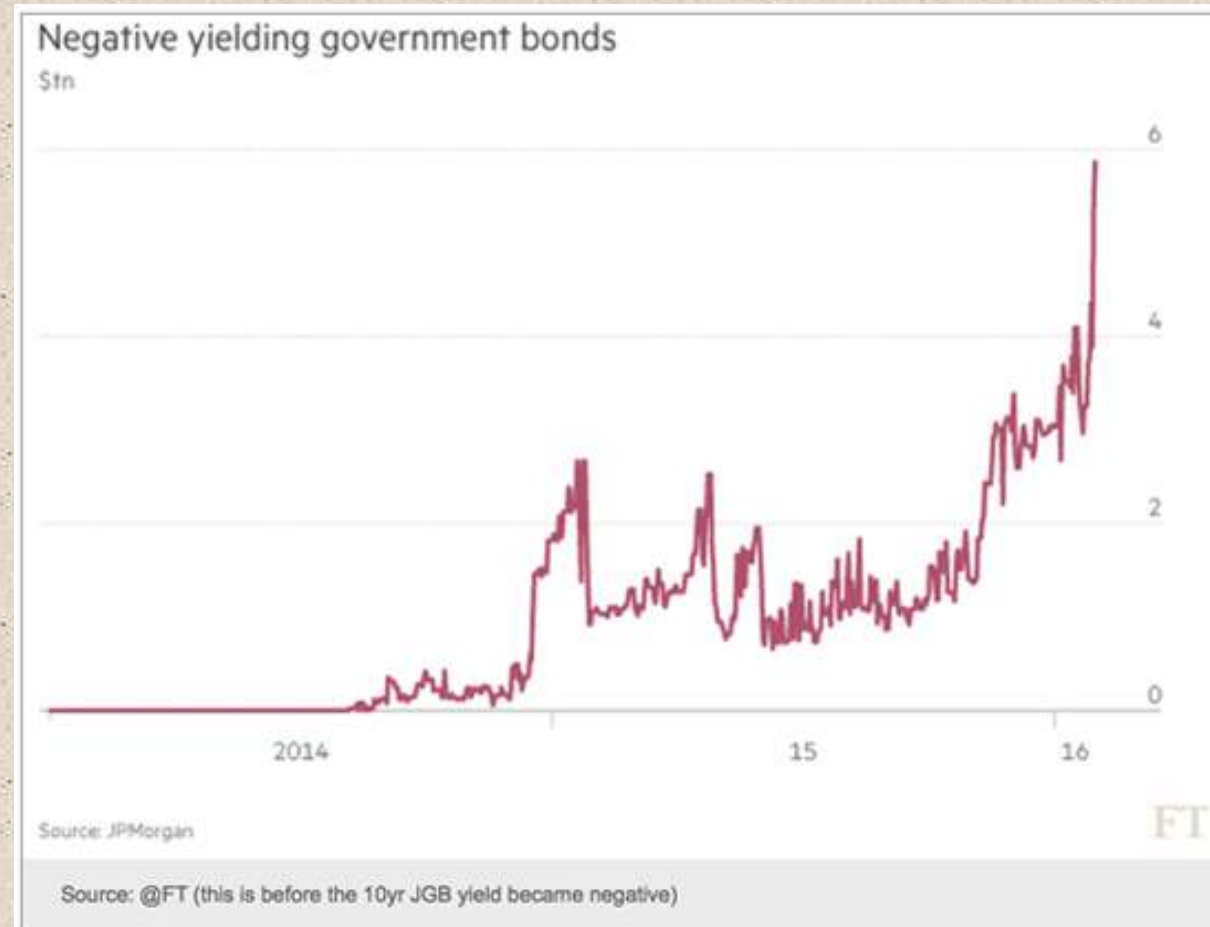
Best House On A Bad Block



Best House On A Bad Block

- There are \$6 trillion global bonds now trading at negative yields.
- And people are still not acting.

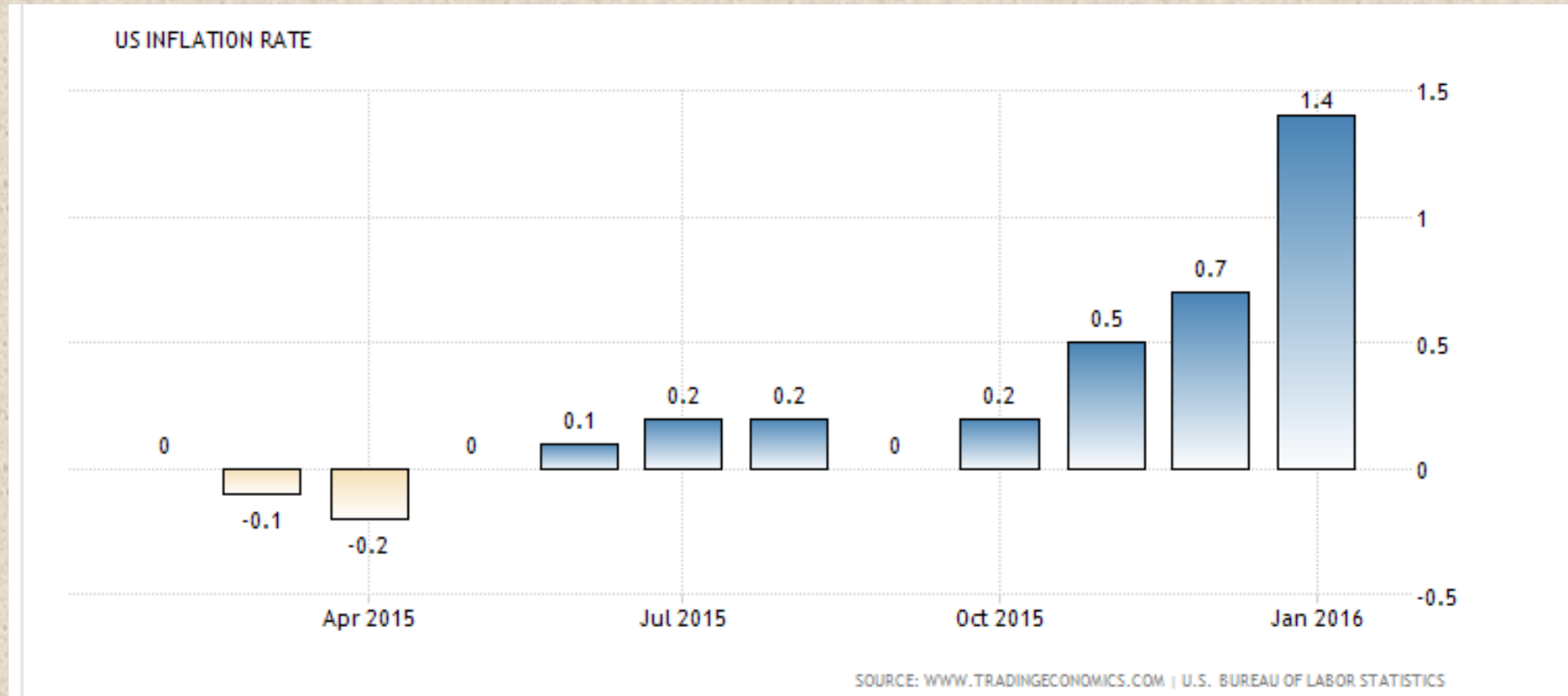
Best House On A Bad Block



Best House On A Bad Block

- This is way different from the US where the latest CPI numbers that came out surprised big to the upside.
- The US inflation rate is now at a **15** month high at **1.4%**.
- NIRP for the US is off the table with inflation there.

Best House On A Bad Block



Best House On A Bad Block

- A number like this raises the likelihood of the Fed raising rates next month which will exacerbate the monetary policy divergence between the US and the rest of the world.
- The dollar will go parabolic.

Best House On A Bad Block

- Once the greenback gets going it will force devaluation on ROW, creating a feedback loop and deflation.
- This will cause commodities to get crushed even more. This includes both oil and gold.

Best House On A Bad Block

- This is one of the reasons we were pounding the table over the recent gold rally being a bull trap.
- We don't see it continuing when the dollar resumes strength.

Best House On A Bad Block



Tech Bubble?



Tech Bubble?



Tech Bubble?

- Zenefits is an HR Startup - makes software for small businesses.
- The company makes money by acting as a health-insurance brokerage firm for its customers.
- Strong early growth lead to hefty promises of future growth. Big name VCs piled in including Andreessen Horowitz.

Tech Bubble?

- Zenefits began hiring people who had little experience with software sales in a highly regulated industry (health insurance).
- To sustain growth they went on an insane hiring spree. Hiring as much as **100** people in a single day!
- Overall head count grew to a reported **1,600** late last year from **15** at the end of **2013**.

Tech Bubble?

- They had a keg in the Arizona office.
- People were drinking during work.
- Employees were told to turn their work shirts inside out when they went to the bars so they didn't reflect bad on the company.

Tech Bubble?



Tech Bubble?

- The company moved beyond small businesses to large customers with hundreds of employees and the software started to breakdown.
- Instead of pausing to fight fires and fix bugs, Zenefits simply hired more employees to fill in where the software failed.
- They even used product managers for manual data entry.

Tech Bubble?

- The trouble was obvious, but leadership couldn't even afford to stop and take a breath to fix the problems.
- Growth was the only focus at the expense of everything.

Tech Bubble?

- Despite the hordes of new workers, employees were still strained and had too much to do.
- Pay became a problem.
- People were given low salaries with the promise of increases when funding came through, but Zenefits didn't make good on those promises when it raised new investments.

Tech Bubble?

- Eventually they couldn't keep up with their revenue promises. And things started tumbling down.

Tech Bubble?

- For all its straining, Zenefits began to fall short of revenue goals.
- One insider said that by late **2015**, recurring revenue was around **\$70** million, not the **\$100** million the company had projected.

Tech Bubble?

- Last fall, Fidelity Investments, who had invested in Zenefits marked down its stake in the company by half.

Tech Bubble?

- Zenefits is a perfect example of latest tech bubble.
- There will be a LOT more companies like Zenefits brought into the light soon.
- Austin real estate broker saying that only companies backed by hot VC money are paying the exorbitant rents downtown.

Tech Bubble?

- The ridiculous valuations assigned to these businesses created unrealistic expectations which has led to shoddy business practices.
- There is a lot of fuzzy accounting going on. Crappy businesses received sky-high valuations.
- Billions wasted in misallocated capital.

The Oracle Of Omaha

- To paraphrase Buffett; when the tide goes out you can see who wasn't wearing pants.
- In the tech sector a LOT of people are pantless.

The Oracle Of Omaha



Let's Get Short



Let's Get Short

- Workday is an application software business that provides human resource services.

WDAY

- The same type of unsustainable business model was built at Workday.
- They used the easy money environment and investors love for cloud companies to “buy” growth.
- Meaning they used easy money to pay for everything. They would just issue more and more shares.

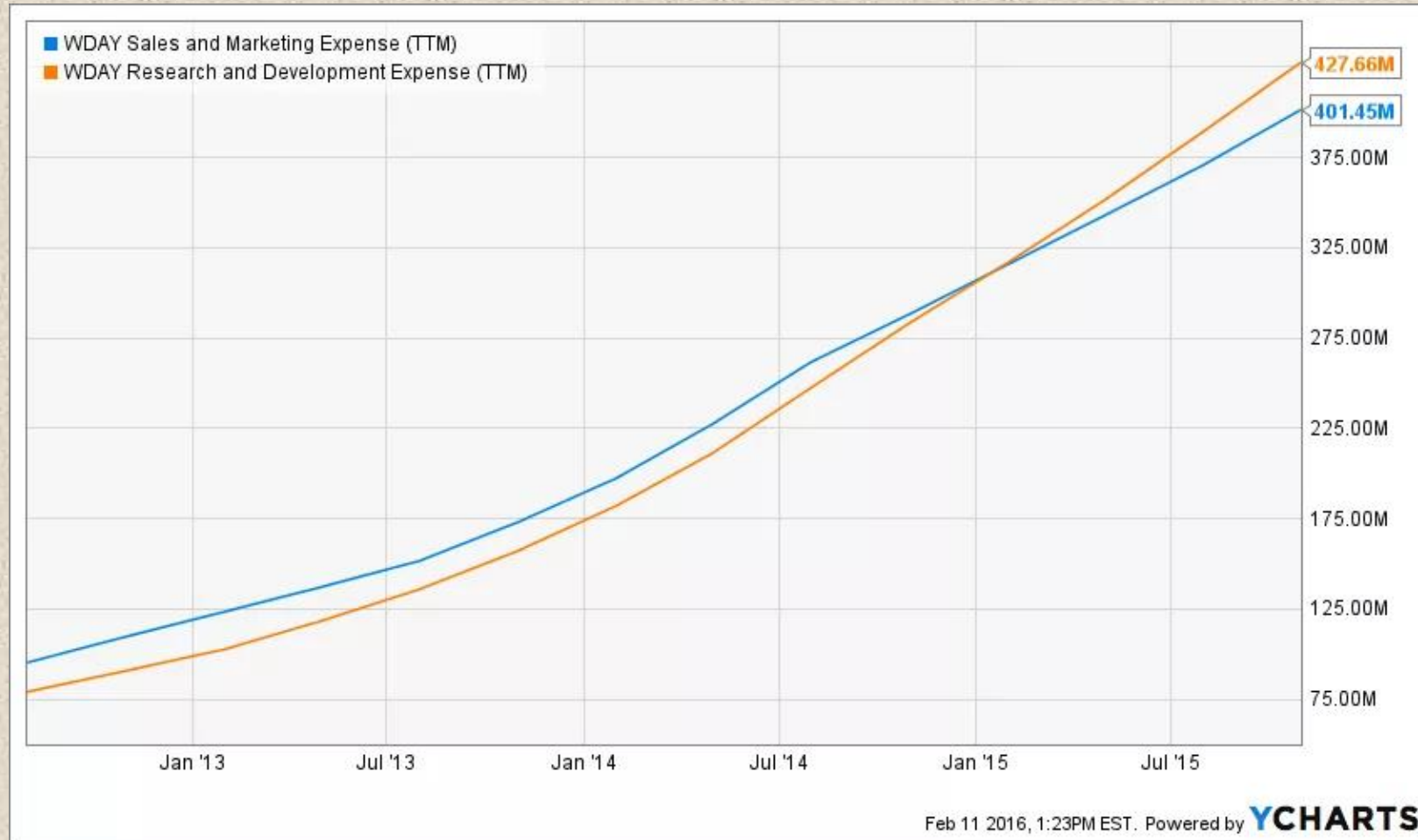
WDAY



WDAY

- That money would go to fuel their ridiculous sales & marketing and R&D expenses.
- Spending in these areas is what propelled their strong growth that investors wanted.

WDAY



WDAY

- Their sales and marketing expense equals almost **37%** of total revenue.
- And R&D costs equal nearly **41%**.
- Combine them, and they take up nearly **80%** of revenue...

WDAY

- But with all that growth, they still have never made profits.
- They've only lost money. And their EPS is only getting worse.
- So if investors are ignoring that, they are keeping their eyes on growth. And you get the same high expectations like you did with Zenefits.

WDAY



WDAY

- So to keep up with those expectations, they will have to keep buying more and more growth.
- But this business model is unsustainable because it only works when the stock price is going up.

WDAY

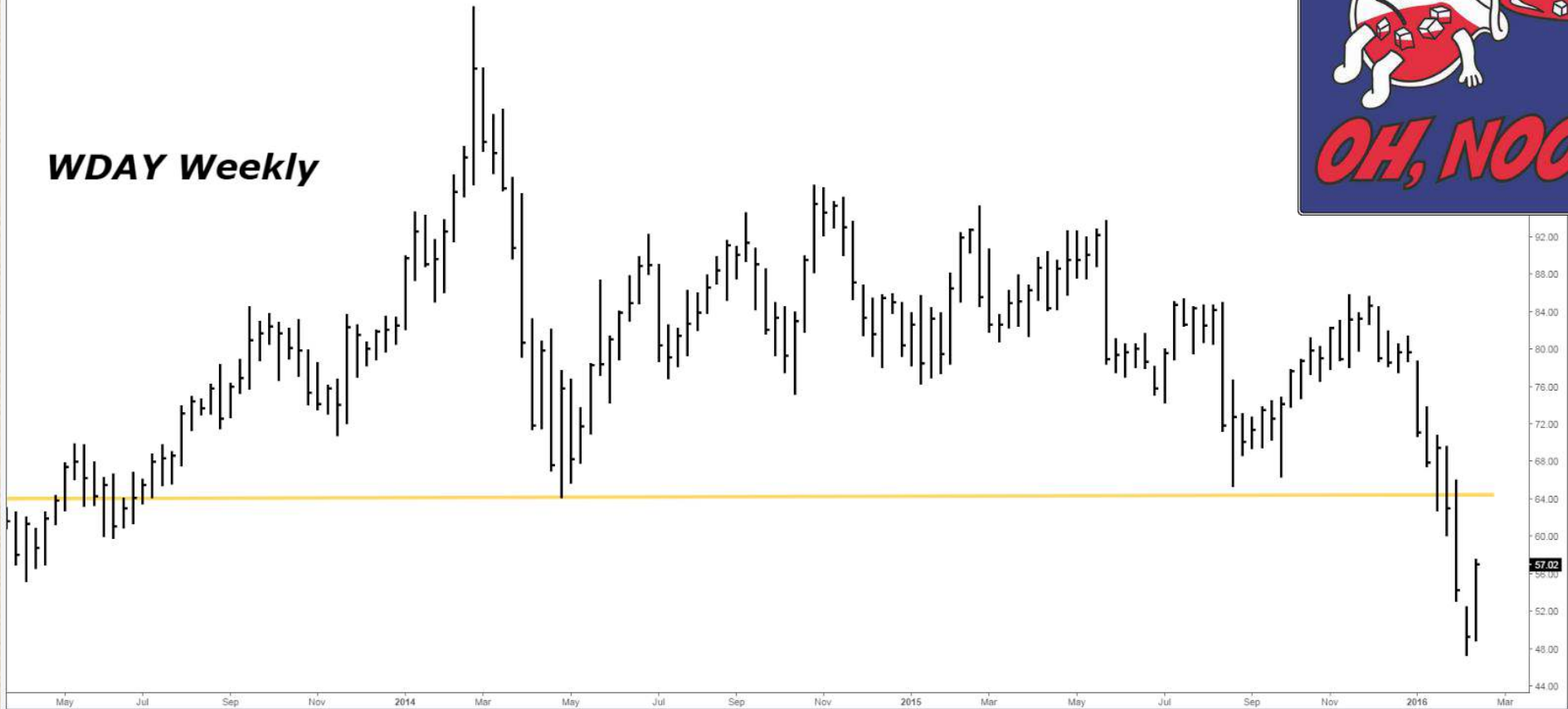
- As soon as the price turns around, the easy money stops because Workday can't issue more shares to buy their growth.
- And then whole business model collapses on itself.
- That's what we're seeing now as the price drops.

WDAY

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BATS:WDAY, W 57.02 ▲ +2.98 (+5.51%) O:49.37 H:57.48 L:48.86 C:57.02

WORKDAY INC, W, BATS

WDAY Weekly



WDAY

- We went short WDAY on Jan. **28th**. The current retrace is normal and we are looking to add to our position as Workday resumes its downward trend.
- It has a long way to drop.

Bearish Staffers Theme

- An economy turning around means less jobs.
- In January, a total of **75,100** layoffs were announced, a number not seen since January of **2009**.
- And on a year-over-year basis, layoff announcements are up by **41%**.

Bearish Staffers Theme

- We are looking into staffers on the short side.
- But things at our HQ (Austin, TX) are still looking pretty strong for jobs and staffing.
- We have to investigate further, but here are some picks of staffing companies that look pretty bad.

Bearish Staffers Theme

- ManpowerGroup (MAN)
- Bad jobs = man down?

Bearish Staffers Theme



Bearish Staffers Theme

- Robert Half INTL (RHI)
- Rob sure as hell wasn't feeling the latest jobs report.

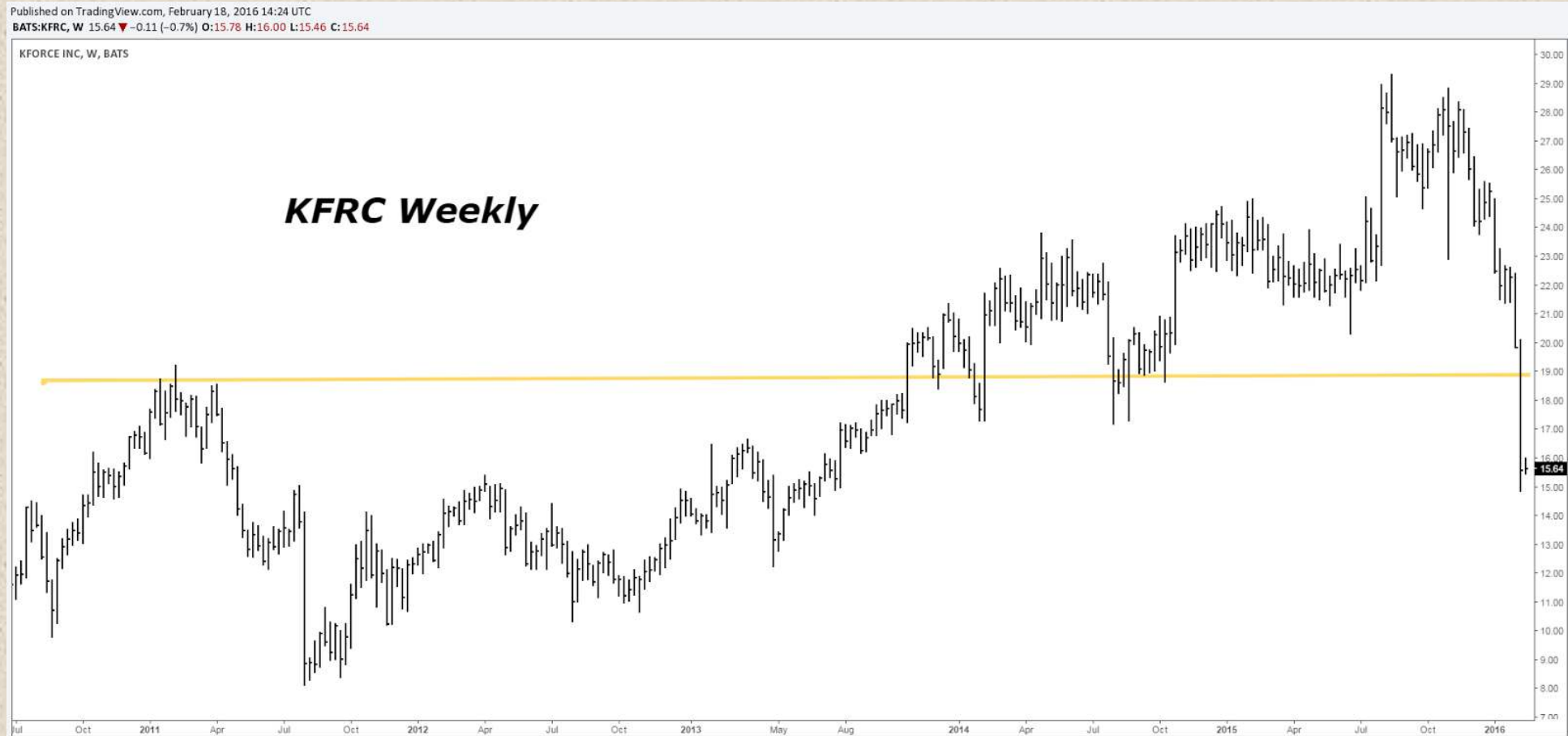
Bearish Staffers Theme



Bearish Staffers Theme

- KForce Inc (KFRC)
- As Yoda would say - mmmm the (job) force is weak with this one....

Bearish Staffers Theme



Bearish Staffers Theme

- TrueBlue Inc (TBI)
- We've got Michigan fans in the community who usually holler GoBlue, but in this case, not so much...

Bearish Staffers Theme



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