

**Opening Balance (November 1, 2019): \$500,000**

**Ending Balance (September 30, 2020): \$289,688**

**Performance Since Inception: -42.1%**

There was limited activity in the account this month. We closed our short position in the New York Times at a slight profit, and the remaining shares of The Gap were called away from us. Given the uncertain state of bricks-and-mortar retail, we were happy to exit that position.

Here are the positions that are currently open and the logic behind each:

- Long 25 January 2022 calls for AT&T (T), position entered at \$5.70. AT&T closed today at \$28.67. This would imply a break-even of \$30.70, where we believe that fair value for AT & T is around \$40 per share. The dividend yield for AT & T is currently 7% which is ahistorically high. Given the low interest rate environment, we think that this mis-pricing will be corrected within the next nine months
- Short 33 January 2021 puts for Alcoa (AA), requiring us to buy it at \$18. The current market price is \$11.82. We believe that the upside for Alcoa is much greater than downside risk at current levels which is why we choose to keep the position open
- Short 25 October 25 puts for Bank of America (BAC), requiring us to buy it at \$25. The current market price is \$24.21, and we believe that fair value is between \$30 and \$35. We will be actively monitoring this position, ready to close it should the stock rally to \$25 to \$26 per share over the next two weeks
- Long Costamare (CMRE) at \$4.89. The current price is \$6.38 and we have a price target of \$8 per share within the next 12 months. The dividend yield is currently exceeding 6%, and this shipping company will benefit from the bounce-back in international trade, post COVID-19. Historically, the yield of CMRE has ranged from 5% to 8%, which helps establish our price target. Right now, there is strong upward momentum with the stock and we are ready to place stop-sell orders on it, should that momentum wane

- Long Lloyd's Banking Group (LYG) at \$1.43. The current price is \$1.35 and we have a price target of \$2.50 to \$2.75 within the next 12 months. LYG is Great Britain's largest mortgage lender: Think of it as their equivalent of Royal Bank of Canada. The balance sheet is LYG is rock-solid and we think it's likely that the dividend that it was asked to suspend by Great Britain's regulator, will be re-instituted in the near future
- Short October 40 calls of Rosetta Stone (RST). The company is being bought out later this year at \$30 per share, and this position will almost certainly expire worthless in two weeks.
- Short November 30 puts of Ventas (VTR). VTR is currently \$44.11 and we think it is unlikely that it will put back and we will face assignment. If we do, we will cheerfully buy it at \$30: We put fair value for the company in the \$40 to \$45 range
- Long January 2022 30 calls for Walgreen's Boots Alliance (WBA). WBA is currently \$36.62 and we put fair value in the range of \$50 to \$55

Here is our outlook on the overall economy and markets over the next two years. There will be an economic recovery; however it will not be the V-shaped one that all of us hope for. We think that elevated levels of unemployment will be with us for an extended period of time, putting downward pressure on wages. If this is true, then inflation (as measured by the CPI) should not be an issue for the market as a whole.

Right now, the market seems to place little value on dividends. This explains the prices of companies that have been traditionally understood as "dividend aristocrats" such as AT&T and Walgreens. We expect this to correct, as there is an evolving appreciation that the recovery will be slow, even while it is undergirded by very low interest rates.

We believe that if there is one "sweet spot" in the market right now, it is the Financials (explaining our position in both Bank of America and Lloyd's Banking Group) and we are looking to add positions in other blue chip banking names with generous and sustainable dividends.

Michael