MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

FEBRUARY 29, 2024

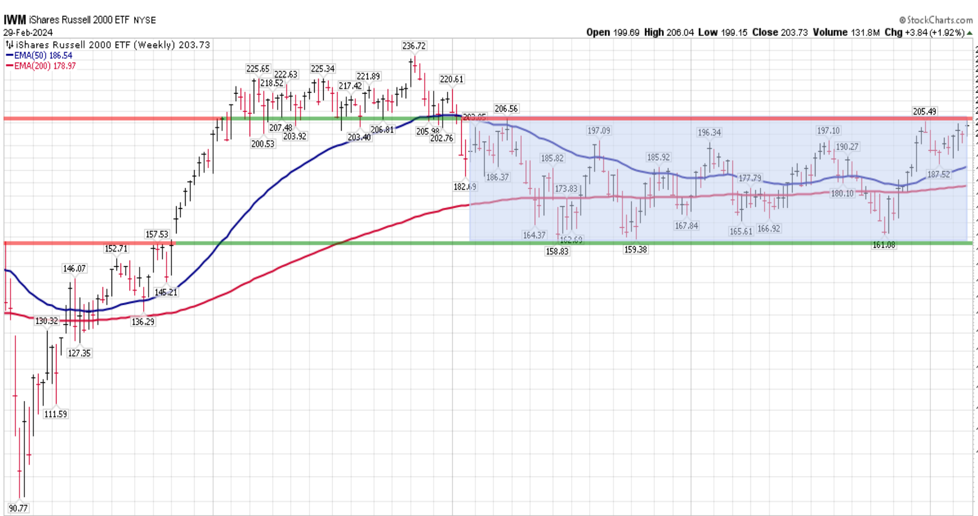
CYBERSECURITY - "SEARCH OPTIMIZATION" SCAMS

A growing cybersecurity threat is that of “search optimization” scams, which is where fraudulent websites are placed at the top of search results when someone searches for a website. In practice, someone would type in the name of their bank, brokerage, or other financial institution in the browser search bar. The results would have an authentic looking website at the top of the results, which is highly likely for the user to click on. Once the user is on the fraudulent website it would give the user a warning and direct them to call or click on another webpage where they might ask for sensitive information.

To avoid this cybersecurity threat, experts recommend typing the actual address of the institution instead of clicking on a search result, or if you must use the search results, hover over the links to examine the actual URL address. Fraudulent websites will have a URL address that is much different than what you would expect. We all must do our part to stay safe and be alert in the constantly changing cyber environment.

TECHNICALLY *Speaking*

We have talked for several newsletters about the need for the market to broaden out as it was led mainly by a handful of stocks. Progress has certainly been made on that front, but we are still awaiting that breakout moment. The chart below shows the Russell 2000 small cap index and the trading range it has been stuck in since 2022 (blue shaded area). It has reached the upper boundary again and internal readings are showing positive signs. Volume has greatly improved in the recent rise from the October low and trendlines on many timeframes are starting to slope upwards. The S&P broke a similar trading range towards the end of 2023 and hasn't looked back. Smaller companies would react positively to interest rate cuts by the Fed and perhaps that will be the catalyst for this long awaited breakout.



BIOTECH REVIVAL

The biotech industry has faced an especially severe bear market after the Federal Reserve went to war with inflation. From the peak in early 2021, the broad biotech market as represented by the SPDR Biotech ETF (XBI) declined by 65%. During this period, smaller and development stage biotech companies received very little credit for drug trial milestones that previously generated huge gains, and severely punished results that were mediocre or uncertain. The outcome was a sector that was full of progress, yet in total had been punished for it.

We believe that this sector is on the cusp of a revival. As the Fed pauses and possibly cuts interest rates, investors are regaining interest and larger companies may be ready to snap up those biotechs who have been unfairly treated by the markets the past few years.

VIKING RAIDS THE MARKET

In the last year the market for weight loss drugs has skyrocketed and a little talked about (until recently) drug in Viking Therapeutics pipeline would become THE reason to own the stock. This week Viking released positive data for their weight loss candidate and the stock exploded upward over 100%. As investors these are the kinds of things you dream about finding, but you also understand that stocks that rise like this are usually the ones that can go to zero should things fail. While we didn't liquidate the holding on this move, we did feel that a large part of the future value of their pipeline had been realized in the last few days and took profits. After all, their weight loss drug is still only in Phase 2 trials and with much competition in such a lucrative market, anything can happen before they attempt approval with the FDA. We still believe that there is some value left in the stock and they still have the drug which got us involved in the first place in Phase 3 trials for fatty liver disease and showing best in class results. Time will tell and, as usual with biotechnology stocks, much risk remains.

DROPPING DROPBOX

DropBox had been a holding in our portfolio for a few years now. Originally, it began as a thesis on small businesses opening back up after COVID and management becoming more disciplined on expenses. Then management really got ambitious and set out to try and make the company a cash flow generator. However, on the road to growing cash flow, the company is now coming up against competitive pressures, including artificial intelligence that will force DBX to ramp up spending to stay relevant and keep growing. While the survival of the company is not in question, the risk/reward is not what it used to be.

Ultimately, DropBox may successfully navigate the change landscape and harness AI to its advantage. However, visability to their potential success is unclear and we feel the funds have better use elsewhere.Therefore, we exited the remainder of our position with a small profit in most portfolios, after also selling a portion at higher levels earlier.

ROKU - WINNER OR VICTIM

After being in our portfolios in 2020 and 2021, ROKU is back as a holding. Our thesis is that the company will end up being a benefactor of increased advertising revenue. However, recent developments in the competitive landscape, could derail this investment idea. While ROKU can leverage AI to its advantage, there is also the risk that it could end up a victim of it. We are holding for now while we reaserch further.

IS APPLE ROTTING?

Until the late last year, Apple has been one of the darlings of the stock market. Nowadays, it certainly does not deserve to be considered in the "Mag 7" as it has underperformed the broad market and its sector. Certainly, the stock price had been defying expectations for quite some time, even as revenue growth disappeared and smartphone sales fell precipitously. It was the ecosystem and the cash flow it created that drew investors in. This is still a big factor, but it being enough to push the stock ahead is the question since near term catalysts are lacking.

This week, Apple finally cancelled plans for the Apple Car after nearly a decade of trying to come up with the "Tesla Killer". They will spend the money instead on beefing up their efforts in artificial intelligence, something they appear to be woefully behind on. The newly released Vision Pro headset is receiving mixed reviews with many calling it just a prototype and not a finished product. This product could be a hit at some point, but this is likely years down the road as they refine it.

While still a strong company, its high valuation will be hard to maintain without an infusion of growth and the spectre of anti-trust lawsuits on several continents are not going to help. Showing cost discipline in cancelling the car is a good step, but those funds need to bear fruit.

Recommendation List: A list of all previous specific investment discussions made over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

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