

Case Study #3
You Have To Be Blind To Observe

Chapter 1: Seeing Versus Observing

Sonia was in her sixties. She looked a lot younger. Some years back she and her husband were involved with a pool operator named Roger Stonybrooke. After Roger had retired and eventually passed away, Sonia and her husband were managing their own trading account. Then the years went by, and Sonia was now alone after she lost her husband in a car accident. The same accident also left Sonia blind.

For the most part, Sonia had acclimated quite well to her new reality. She was now great with her walking cane. Her service dog also helped her out a lot. The one area that she could not function any more was in observing stock charts. The loss of sight hit her the hardest when it came to studying stock charts.

With the help of her son, Sonia had poked around in her social circle looking for someone young who could assist her in studying charts. One day, out of the blue she received a phone call from a young woman.

“Good morning, Sonia. I am Renata Wierink. I was told by Ms. Cecilia Rhodes that you were looking for someone who could help you with stock charts. Are you still looking for someone?”

“Hi Renata. Nice to meet you. What a Dutch name!”

“Yes, my father is Dutch, but I grew up here in Arizona. You know much about Holland?”

“Yes, in fact, I spent two years in The Netherlands as a young woman, in music school in Amsterdam. But that was a lifetime ago. I am so thankful you reached out to me. Yes, indeed, I am looking for an assistant to help

with charts. I am now blind due to a car accident, and I miss being able to study stock charts. Are you familiar with stock charts?”

“I am sorry, Sonia. I have no clue about stocks or charts. But I can learn. I am a quick study.”

“You know Cecilia Rhodes? You sound so young to know her. I mean Cecilia is way older than you. I can’t imagine you and her in the same social circles.”

“Yes, Sonia, Ms. Rhodes is my mom’s bridge partner. They play bridge every week. My mom asked me if I would be able to assist a friend of Cecilia’s. I find Ms. Rhodes to be quite hilarious, a very sharp wit with an equally sharp mind.”

“Yes, that she is, ha ha ha, really sharp that one. What do you do, Renata?”

“I just graduated from New York University with a degree in journalism. I will start working for a private investors group as an information digger in six weeks.”

“Well, now, Renata! Congratulations on the degree. But I have ever heard of an *information digger*. What does an information digger do?”

“Ha ha ha, to most people I usually refer to myself as an investigative journalist. But I figured you would probably appreciate the term.”

“You are funny. I feel comfortable with you, Renata. If you are available and willing, I would like to hire you. I need just one hour every Friday afternoon. If Friday afternoon is not possible, any time during the weekend works just as well.”

After a few more minutes spent on the phone call finalizing the fee for Renata’s service, Sonia hung up and breathed a sigh of relief. *Finally, some help in overcoming this loss of ability to observe stock charts. It couldn’t have come at a better time. I have now found my eyes to observe stocks! A couple of these biotechnology stocks were primed for a move before the accident. Now I can observe, interpret, and act.*

That Friday Renata arrived at Sonia’s house. After a brief exchange of niceties, the two of them sat down across from each other at Sonia’s

breakfast table. It was December 13, 2019. Sonia asked Renata to open her laptop and go to Yahoo Finance website. And Sonia placed the latest issue of Barron's weekly next to Renata and instructed her to look at the charts on Yahoo Finance of all the stocks that were shown as making a new 52-week high price for that week in Barron's. There were quite a few of them.

It took the better part of two hours before they had gone through the entire list of stocks making new 52-week highs. For each stock, Sonia instructed Renata to go to Yahoo Finance website and insert the ticker symbol of the stock and pull up its price/volume chart.

"Here is what I am looking for. Any stock that has made a new high with an accompanying volume explosion is of interest. When you see an incredible jump in the height of the green volume bar in the x-axis, we stop for a second and you have to give me more information. When we come to such a stock, with the right kind of price/volume action, I will let you know what I am looking for."

Renata went through the charts of new 52-week-high stocks, one by one, methodically. At first it seemed a bit confusing to her. Until she came to a stock called Forty-Seven, Inc. Ticker symbol FTSV. When Renata saw that its volume had jumped significantly along with its price for the week, she brought it to Sonia's attention.

"Here is one that seemed to have jumped a lot in price this week. Here it says that this week FTSV went from \$14.44 to \$35.75. Oh, wow! That is really a lot of price increase! I wonder why?"

Sonia sat up straighter. She seemed to sense the excitement in Renata's voice, but more importantly, she felt the familiar feeling in her own gut. Something surely happened to FTSV.

"Renata, please look at its volume bars, the green bars on the x-axis. Did the volume also jump from last week to this week?"

Renata checked and compared the volume of trade of FTSV and exclaimed, "Oh, yeah! The volume jumped as well! By a lot! By more than ten times!"

“Do you know when this stock’s IPO occurred? I mean when does the chart start for FTSV on your Yahoo Finance chart if you select *Max* for the time frame?”

Renata was confused. She couldn’t comprehend. So, Sonia tried to make it easier for both of them and suggested, “Could you do me a favor. Could you please take my index finger and use it to trace the price line for FTSV for the past twelve months?”

Renata held Sonia’s right index finger and traced it along the price line on her laptop screen, from left to right. She felt Sonia’s back straighten up when Renata moved Sonia’s finger along that Friday’s price and volume jump. The almost vertical move up after a long slow horizontal move was unmistakable.

Renata heard Sonia mutter the price under her breath, “\$35.75, that is new high close, \$35.75.”



Chart 3.1

Renata did not know but Sonia was able to picture the chart of Forty-Seven Inc. (FTSV) in her mind’s eye. Years of dealing with stock charts had programmed her mind in a certain way. She could smell a winner. And Forty-Seven was smelling like a potential winner to her. She had an instinct, despite her lack of sight, the instinct was still there. Sonia smiled to herself.

Chapter 2: Interpreting The Observation

That night, Sonia lay in bed, unable to sleep. She kept replaying the price move of Forty-Seven, Inc (FTSV) in her head. Something has happened. Obviously, nobody on the outside knows, but the insiders definitely know what it is that happened. It serves the insiders no purpose in letting the outside world know what happened. They want to keep it quiet and discreet.

I need to get in on the act. But if I am wrong or if this is a game being played by one heavy-hitter and the stock turns around and heads down in price, I need to have a fail-safe, a stop price at which I am sold out to protect my trading capital. This week's action surely warrants me getting in, but without a proper stop price, I have a hard time committing. I need to watch this stock for a better entry point.

Renata kept to her schedule and arrived on time for the following Friday's charts work with Sonia. There were many stocks that seemed interesting to Sonia. However, she was fixed on Forty-Seven, Inc. (FTSV) for some reason. For two weeks in a row, Forty-Seven Inc. (FTSV) kept rising. From a close on the first week at \$35.75 to \$40.88 the following week, to \$44.05 the week after.



Chart 3.2

Sonia was now even more convinced that something was happening. Could be anything. Maybe they have a pending FDA approval for their drug in the pipeline that seems promising or could be some of their drug trials are showing positive results. Or maybe their R&D has found something that needs an infusion of cash, and maybe that is leading to insiders running up the price so they can issue a secondary stock offering. Thus, raising cash for their operations.

Or there is someone big, a big pharma looking to buy up Forty-Seven, Inc. (FTSV). That takes weeks and months and may even take over a year. And in the end, after all the negotiations, it may fall apart, and the stock price could come right back down.

Too many uncertainties. But there was clearly something unusual happening and Sonia wanted to get in on the stock price rise, but she was not clear where to place her sell-stop to get out in case she was wrong. So, she waited.

For the next couple of weeks, the stock reacted and headed back down. It pegged a low of \$35.28. It was now the new year, 2020. Sonia could feel a sense of conviction within her. She asked Renata if you could come earlier on Fridays.



Chart 3.3

“How much earlier would you like for me to come by?”

“Well, the market closes at 4:00 pm. I would like you to come at least thirty minutes before the market closes. Will 3:30 pm work for you?”

“Sure, that is no problem at all, Sonia.”

The following Friday was quite eventful for Renata. It was her first experience in seeing how a stock trade was placed on the phone. It was strange because she had seen in the movies and on television shows that people placed their trades online.

Renata arrived at 3:30 pm at Sonia’s house. Sonia had asked Renata to open her laptop and open Marketwatch.com. And Renata was instructed to enter the ticker symbol FTSV on Marketwatch.com. It said the price for FTSV was \$46 per share. Sonia asked Renata to leave the screen on. The market was still open for another thirty minutes. Sonia made coffee and offered Renata a cup. There was silence for a few minutes. Renata felt a need to fill the silence. Renata noticed the price for FTSV was moving up and down between \$46 and \$46.50.

“This is nice coffee. I usually do not drink coffee this late in the day, but this feels so fresh.”

“I suppose you are wondering what we are doing having a cup of coffee instead of working on the stock charts. I need to wait till the last 15 minutes before the market close and check where Forty-Seven seems to want to close for the week. We have a few minutes to kill. What price is your screen saying Forty-Seven is selling at?”

Renata looked at her screen and said, “\$46.70, and we have another twenty minutes or so before market close.”

A few minutes later, Sonia picked up her phone and called someone. Renata sat there listening and wondering who Sonia was calling.

To Renata it seemed like Sonia punched some codes in on her phone and she was then talking to a human voice, a male voice. Renata could hear the voice of a man on the other end of the call ask Sonia to authenticate her identity via a couple of questions. And then Sonia said, “I want to place an order.”

“You can skip the first few pages that have my prior trading records and find the first blank page.”

Renata flipped the pages until she came to the first blank page and looked up at Sonia and said, “I am ready.”

Sonia asked Renata to write down her trade details:

Bought 1000 FTSV @ \$45.74

Total committed = \$45,740

Stop price \$31.75, worst-case scenario loss = \$45,740 - \$31,750 = \$13,990

Renata kept a straight face, without showing any reaction, she jotted down the trading record. As she walked out of Sonia’s house, Renata thought to herself, *Wow, she is risking forty-five thousand dollars based on just my verbal price details of a stock chart! Maybe she researched the company in her own time. But how? She cannot see, so she cannot read. Does she have someone reading to her? Astoundingly courageous, my goodness.*

Renata had no way of knowing but Sonia’s exposure to risk was no more than fourteen thousand dollars. Renata was still young and inexperienced to understand that if you know what you are doing, you do not look at risk the same way as most others do.

Chapter 3: Action Based On The Interpretation

A week went by and there was no action of consequence. Renata started their afternoon together noticing and indicating to Sonia that Forty-Seven (FTSV) closed the week at \$39.03. Sonia seemed unperturbed by the paper loss.

Renata calculated that the \$45,740 amount was now worth \$39,030. That was a quick loss of over \$6,500 in a week! But she noticed the calmness with which Sonia took the news. Even more shocking to Renata was the cool aloofness with which Sonia continued the week's work of checking on other charts that Renata brought up to Sonia.

Among the new stocks that seemed to garner an incredible amount of interest was a stock called Myokardia (MYOK). Similar to the index finger tracing exercise Renata performed with Forty-Seven, Inc (FTSV), Sonia used her index finger to trace the price line for Myokardia (MYOK) with the assistance of Renata.

“This looks interesting. This Myokardia. Could you please take my finger and run it all along the price line for Myokardia?” asked Sonia.

Sonia wanted Renata to repeat the action for Myokardia a couple of times, as if Sonia was trying to memorize the price action on the chart of Myokardia. When they were at it for the second time, Renata began to see an upward price movement on Myokardia from her own eyes. She realized that she had never paid attention to price movements before in this simple manner.

Another week went by. This week Forty-Seven dropped a few dollars more in price and closed out the week at \$36.87. Renata was getting very nervous for Sonia. *Almost nine thousand dollars in the hole!*



Chart 3.5

As they finished the week's work and reviewed the most recent week's action on Myokardia and on Forty-Seven, Renata broached the subject of the paper loss with Sonia.

"I am so nervous, Sonia. You are losing almost nine thousand dollars on this stock, Forty-Seven. It is heading the wrong way!"

"I cannot do anything, so I do not worry about things I cannot do anything about."

"But Sonia! This is a nine thousand dollars loss. Aren't you concerned?"

"My dear Renata, I have been at this a long time. This stock can swing and dance all it wants, up and down, just so long as it does not hit my sell-stop price of \$31.75. If you fish, you will understand. You give the fish a line. She can go against you for a while. And then you reel her in towards you. That is the nature of the game. A game of patience."

Renata was deep in thought as she headed out of Sonia's house that evening. She got into her car in the driveway and sat quietly deep in thought. *What is Sonia seeing in these stocks that she is so interested in them?*

As she was about to start her ignition, she heard violin music coming out of Sonia's house. It was very pretty. *Sonia is so good at playing the violin!*

The following Friday Renata was running a few minutes behind and called Sonia to inform her of a few minutes' delay. Sonia was not happy.

"I need you here today, Renata. I called my broker, and he said that Forty-Seven is making a new high. I need to take some action, and I would really like to have your eyes here with me."

"Please do not worry, Sonia. I am running no more than ten minutes late. I will be there on time. I will be there twenty minutes before the market closes. Would that be enough time for you?"

"Yes, Renata, who is plenty of time. But if you run into any more delays, please call me right away. Then I will have to call my broker and keep him on the phone until the last few minutes of the market close."

Twenty minutes before the market closed Renata walked into Sonia's living room and walked over to the table where Sonia had a pot of coffee and two empty coffee cups waiting. Renata apologized for the delay and was on her laptop within seconds. Forty-Seven (FTSV) was trading at \$49 a share.

"Oh, wow! It went up a lot this week! From \$36.87 last Friday to \$49 today, in just one week!" exclaimed Renata.

"Yes, I have to now buy more. That is why I needed you here today on time. I know there was no way to know this, and I know you were not late on purpose today. But I was getting a bit anxious about you arriving late today," responded Sonia but her voice did not reflect any of the anxiety she referred to. She was calm as ever.

"What am I doing today with Forty-Seven? What am I looking for?"

"Let us keep watching its price, Renata, as we come towards the market close. I need to see that it clearly closes above \$45.74. Wait till 3:50 pm and let me know where the price is at that point."

As they waited for the minutes to tick by, both Sonia and Renata sat in silence, each sipping on their cup of coffee. The wait seemed to go by slowly. Sonia was in total silence. As the time to act arrived, she checked with Renata for the prevailing price for Forty-Seven stock. It was still at \$49.00.

Sonia called her broker. After the usual authentication process, Sonia calmly called in her order.

Buy 1000 FTSV at market

Change sell-stop to 2000 FTSV at \$33.18 GTC



Chart 3.6

A few seconds later she hung up the phone and informed Renata that she got filled at \$49.22. And pushed her *Journal Of Trade Secrets* towards Renata and asked her to enter the trade right under the prior entry in that journal. Now Renata could see both entries, one under the prior entry.

1000 FTSV @ \$45.74

Total committed = \$45,740

Stop price \$31.75, worst-case scenario loss = \$45,740 - \$31,750 = \$13,990

1000 FTSV @ \$49.22

Total committed = \$49,220 + \$45,740 = \$94,960

Stop price \$33.18, worst-case scenario loss = \$94,960 - \$66,360 = (\$28,600)

Renata was stunned. Sonia was willing to lose \$28,600 on her bet that Forty-Seven would be going up in price. She must really have some serious conviction. What does she know about this stock that no one else does? The investigative journalist in her wanted to dig into this. But her current time commitments did not allow her to spend much time on this. Renata made a mental note to check into Forty-Seven as soon as time allowed her.

The following Friday, around midday, Renata received a phone call from Sonia. Renata was finishing up a report she was working on for a client as a freelancer. It was only noon, and it was not yet time to head over to Sonia's. A little bit concerned, Renata answered the phone.

"Hi Renata! I am so sorry to call you, but I just wanted to make sure you will be here on time today. Please do not think that I have lost confidence in your professionalism, I know you were late last week due to circumstances, and it was just a one-time thing. Today's market action on Forty-Seven dictates a certain type of action. I really need you here today."

"It is no issue, Sonia. Please don't worry, I will be there on time. Not to worry."

Renata arrived on time, exactly at 3:30 pm that Friday. Having settled herself down with her laptop open, she turned around to Sonia and finally asked her, "What is going on today? You seemed a bit anxious on your phone earlier todayOh my goodness! I see now! The stock is \$57! It jumped so much today. What is going on? Are you thinking of selling to lock in your profit? Let me see, this is almost \$20,000 profit in just a few weeks! You did great, Sonia!"

Sonia smiled and sipped on her coffee and shook her head.

"Actually, I am looking to buy more. So, I need your help. What was the day's low price today?"

"Huh? Hmm...let me see. The day's low price today was \$54.37, Sonia."

After that exchange between the two, Sonia went back to asking Renata to assist her in going over the week's action on other stocks, including the action on Myokardia. There were a handful of stocks that Sonia asked Renata to place on a list she called, "The Perfect Watchlist." Myokardia was on it, as were a few other stocks. The number of stocks that Sonia wanted to watch every weekend had increased from just Forty-Seven (FTSV) to now more than a handful of stocks.

Soon enough it was time for Sonia to call her broker. And Sonia went ahead and placed her order.

Buy 2000 FTSV at the market

A few seconds later, she ended the phone call and looked at Renata and said, "I got filled at \$58.00. That was the day's closing price as well. Now it is time for you to help me add this position to my Journal Of Trade Secrets, Renata."

Renata picked the *Journal Of Trade Secrets* that was laying on the table. She opened the page of her previous entry. As Sonia narrated, Renata wrote down the trade entries.

Buy 2000 FTSV at \$58.00

Amount committed = \$116,000

Total Committed = \$116,000 + \$45,740 + \$49,220 = \$210,960

Move sell-stop to \$48.60.

Worst-case scenario = \$210,960 - (4,000 x \$48.60) = (\$16,560)

Renata thought to herself in her head, while being professional and detached from it all on the outside. *But why? You had twenty grand profit and now you are facing sixteen grand in loss if you are wrong! That is a swing of thirty-six thousand dollars!*

Renata was confused at first, but quickly noticed that the lower the dollar amount committed, the higher the percentage of the dollar amount risked. And the higher the commitment, the lower the dollar percentage risked. *Maybe there was a method to Sonia's madness after all.*



Chart 3.7

The following Monday, Renata woke up at 6:00 am. She went for her daily morning run. When she got back home, she showered, and she was getting ready to have breakfast, and she heard a ping on her phone. She walked towards her phone and picked it up. It was an alert she had set up for Forty-Seven, Inc. Ever since she started working for Sonia, she had placed an alert for any breaking news about Forty-Seven, Inc.

What she saw on her phone was shocking. It read in bold print, “Gilead Sciences has agreed to acquire Forty-Seven, Inc., an immuno-oncology company, for \$4.9 billion or \$95.50/share”

Renata sat down stunned. She took her phone and ran some numbers on her phone calculator, imagining what she would enter in Sonia’s Journal Of Trade Secrets.

Bought 4000 FTSV = total committed \$210,960

Sold 4000 FTSV @ \$95.50 = total received \$382,000

Profit = \$382,000 - \$210,960 = \$171,040

How the heck did Sonia know about this in advance? I wonder if Forty-Seven Inc.’s charts can offer any clues.



Chart 3.8



Chart 3.9

Chapter 4: The Investigative Reporter

Having seen the stock operations run by Sonia, Renata Wierink's investigative mind wanted to dig into Gilead and Forty-Seven. She was new to the field of investigative journalism and there was much that she could not unearth. But despite her lack of experience and resources, she still came up with a short article. She did not share it with anyone. It was for her own personal records, perhaps to learn from in the ensuing years. It read:

When Did Forty-Seven Become \$95.50?

The Biotech Sector had entered a new era. Like life in general in the new century, the sector was experiencing a sort of outsourcing. The big pharmaceuticals were too rigid and too set in their ways to allow for innovative thought and experiments. Most of the innovations were coming from smaller units and labs. As if science was being outsourced.

It was 2015, when a small and new young biotechnology company called Forty-Seven, Inc. came to the market. Forty-Seven was working on a new drug called Magrolimab. Magrolimab was the new hope to treat blood cancers like myelodysplastic syndrome (MDS) and acute myeloid leukemia (AML) by targeting a specified protein called CD47 which is used by cancer cells to evade the immune system.

Aside from the trials in MDS and AML, Magrolimab is also undergoing testing in three solid tumor types (colorectal, ovarian, and bladder), non-Hodgkin lymphoma, and diffuse large B-cell lymphoma. Each of these affects numerous children and adults around the world and this drug may help alleviate the suffering from these terrible cancers.

Soon the FDA gave Magrolimab a fast-track designation and Forty-Seven started trials on human patients. Enter Gilead Sciences Inc., a larger and more established pharmaceutical company who already had an interest in expanding its oncology portfolio. Hearing about Forty-Seven's potentially groundbreaking drug Magrolimab and its aim to help treat a variety of cancers, Gilead wanted to add the company and its product to its existing pipeline.

The process of acquisition was fraught with numerous negotiations and strategic maneuvering. This is common in any merger or acquisition as both companies want to get the best deal that they can to ensure employees, products, and research are all valued accordingly and paid fairly for.

Once this news hit, Forty Seven's stock showed rapid growth in two weeks, going from sub \$15 a share to just over \$40 a share. This had been an amazing transformation as Forty Seven's stock had been as low as \$6 per share and mostly hovered just below \$20 a share till then.

The initial meeting between Gilead and Forty Seven took place just after the positive data regarding Magrolimab came to light. And just before Christmas, both companies had their first talk through specialists of mergers and acquisitions (M&A) at the headquarters of Gilead Sciences where the executives created the foundation of the agreement and initial offering.

A second meeting took place in early February. That meeting was so promising that Gilead was adamant and a lot more focused on acquiring Forty-Seven, and later that same day, a written proposal was created and sent to Forty-Seven Inc. to acquire the young company. The initial offer was turned down as Forty-Seven wanted more than the offered \$57.50 a share.

Gilead was surprised. This was February 2020. Gilead knew the market was facing headwinds. The knowledge of Covid-19 being on its way and creating havoc was quite well-known in the biotech sector. Though it would take weeks and several months before the public at large would face

the Covid-19 crisis. Given the expected downward pressure on the financial markets, Gilead thought their offer was quite generous.

Wanting to show the company's worth, Forty-Seven had an ace up their sleeve as they sent over more private clinical data to entice Gilead Sciences to present a larger offer. Although the data was private it can only be assumed that it was positive in how the drug trials and testing were going.

After receiving the data, both the companies communicated often over emails, text, and telephone. Sources say the data that was sent over was of great interest to Gilead, and a new offer would be created with this information in mind. Since progress had been going well with the *potential* wonder drug, the valuation for buying the company would be re-examined.

Gilead, after much talk within itself, came back with an increased offer of \$68.50 a share.

However, in a twist, someone had leaked the news of Gilead taking over Forty Seven to Bloomberg, a business and market news organization, which reported on the deal. Once word got out that Gilead, a major player in the medical industry, was seeking to acquire Forty-Seven because of its potential wonder drug, the stock prices for Forty-Seven shot up. And this forced Gilead's hand.

Gilead and Forty-Seven met again briefly to discuss the leak to Bloomberg, how that impacted the stock price rise for Forty-Seven, and what the implications would be for any upcoming offerings. Still respectful of each other, their back and forth was fruitful in providing Gilead Sciences with a path forward. One that would hopefully end with the acquisition of Forty-Seven.

Arguing for an increase wasn't the hard part as most within Gilead knew they would have to bring more to the table, the hard part was setting the price, one that was within a fair value range, but nothing to break the bank. After some internal talk, Gilead came back and raised their offer to \$77 a share.

Forty-Seven came back and said, 'No thanks,' which shocked Gilead Sciences. With more meetings, and more late nights, Gilead Sciences scrambled to work out how to deal with this process going forward.

With the last offer turned down, and with one final meeting, all of it prompted one final push from Gilead Sciences to offer Forty-Seven \$95.50 a share, turning this into a whopping \$4.9 billion deal. Forty-Seven's stock shot up 61% after the agreement.

In interviews after the deal went through, both the companies had some words to share. After such a monumental deal it was obvious that those in the industry wanted to see what was on their mind, the thoughts they had in the process. Instead, both entities remained sparse on words but offered nice things to say about each other's company.

"Magrolimab complements our existing work in hematology, adding a non-cell therapy program that complements our pipeline of cell therapies for hematological cancers," said Gilead Science Inc.

But who leaked the potential acquisition to Bloomberg? Obviously, it was the one with the most to gain.

Postscript: In 2024, FDA halted the use of Magrolimab for clinical studies due to some data showing increased risk of death. Gilead ended up scrapping Magrolimab. For Gilead, this turned out to be a dud of an investment. But it was not such a bad deal for Forty Seven, which made out quite well. It is clear that the leak to Bloomberg did not come from Gilead.