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"Well, here's another fine mess you've gotten me into."

—Laurel to Hardy, numerous films circa 1929

Dear Friends,

Maybe your saturation level for the media after nearly a year of the COVID lockdown is sufficiently *over saturated* that you have turned off all electronic devices and have missed the latest stock market mania du jour. This round involves wild trading in a limited handful of stocks in some cases leading to 75% to 100% swings in a day. Now before we get too critical, let us stipulate we have always said 100% a day is a fine return. Furthermore, those reported to be engaging in this sort of trading tend to be young tech savvy folk who are new to the stock market, do a great job of communicating online, often working from home and with both spare time and a bit of COVID cash in their hands. It is also said that this age group sees most professional investors as robber baron types and are doing their collective level best to transfer wealth from the old to the new. The three primary benefactors of this attention over the past two weeks have been companies GameStop (a retailer of video games), AMC Entertainment (movie theatres) and electronic device maker BlackBerry. These stocks have in common sagging business models which resulted in each having severely depressed prices from former highs and were heavily shorted by some institutions. Activity for a number of days recently in these names was at such a frenzied level that exchanges had to halt trading repeatedly and swings of 50% or more in minutes were not uncommon.

Is this type of social media driven activity destined to become commonplace in the market for stocks? Short answer, in our view, "No." In a recent Wall Street Journal article on the topic, columnist Holman Jenkins insightfully observed, "Day traders might be able to drive GameStop shares temporarily from $20 to $483. They can't make GameStop a $483 company." Not once in all of the media attention day trading has received did we hear a convincing argument that these meteoric rises in price were sustainable based on realistic assessments of the underlying business. We are fond of saying that the value of a company is highly correlated to its ability to generate cash from operations… more cash than they need to run the business. Result? Cash piles up. A good deal of energy is put into documenting publicly held companies' financial performance. The SEC requires it and results are reported quarterly. Therefore, the fact that these three companies are struggling for survival is not unknown. Barring a material change in their business models, their prospects are glum and their currently inflated prices likely to be vaporous.

But it would be a mistake to assume this earthquake in the financial markets is one and done. Having broken out from the virtual world and into the "real world" it is difficult to know how these conflicting market tensions will iron themselves out. It is fair to expect there will be more disruptions in the markets as a result of this convergence: young vs. old…day trading vs. investing. The head of Reddit (the "digital host" for this financial quake) observed, "Whether it's one platform or another, this is the new normal." We have substantial doubts about the latter but one thing is certain, *here's yet another fine mess*, and we may well see more of it as hordes of emboldened Redditors exercise their animal spirits. Rest assured we

will not be investing in this manner with your hard-earned capital. Despite the allure of supposedly "easy" money…it is never easy. Stay tuned. More to follow. Think positive and test negative!

Best regards,

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