# GOT A FEELING '21 IS GONNA BE A GOOD YEAR?

Well, after incessant cajoling from my colleagues, I have finally gotten around to attempting a Market Commentary for year-end 2020. Actually, this is the third attempt at writing this. 2020 was such a profound year in so many ways…almost too many to list, we risk a commentary that rambles more than usual.

I have had the title to this commentary in mind for quite a while. After all, '21 only comes around every 100 years. Fans of The Who (the band, not the World Health Organization) will recognize it as a line from the rock opera "Tommy". My first iteration of this tome was optimistic, with the prospect of putting 2020 and all its challenges behind us. I added the "?" after the events of January 6th at the Capitol.

Certainly, the impact of 2020 did not go away with the simple turn of the calendar. COVID has stubbornly found a way to mutate and, while numerous vaccines offer real hope of a return to normalcy, distribution is proving a challenge. Politics remains divisive. No matter what side of the "aisle" you stand on, the January 6th attack on the Capitol will long live as a disturbingly low point in American history. Recently, the dawn of a new phenomenon, I'll coin it "Investment Activism", has risen as exhibited by the wild gyrations of GameStop and several other companies. Seeing as it is difficult for us to shed any new light on the challenges of COVID or the divided political landscape, we'll spend the next few paragraphs addressing the recent volatility brought on by Investment Activism.

First, let me admit my bias up front. I have never been a fan of hedge funds. They get way too much credit for spotty performance and their typical fee structure of "2 and 20" (that's 2% annual fee plus 20% of the gains over a certain hurdle rate) is egregious. Second, I've always viewed some of the more aggressive tactics by certain hedge funds as being akin to market manipulation. While leverage and short positions certainly have a place in the equity market system, too much can be destructive. Third, Keith Gill, the young man at the center of this controversy, is a 2009 graduate of my alma mater, Stonehill College, and from my mother's rough and tumble hometown of Brockton, MA. So, I watched with great interest as the saga unfolded, pitting the thousands of "David's" of the Reddit world against the "Goliath's" of certain hedge funds. As more facts have continued to unfold, what was originally characterized by some as a concerted effort by the financial equivalent of Antifa to inflict pain on the hedge fund establishment has started to look more like a difference of opinion on the value of GameStop (GME). As Mr. Gill, known as "Roaring Kitty" on social media, expressed his bullish opinion on GME as far back as May 2020, those who follow him began to agree with his opinion on the stock. Meanwhile, several hedge funds, with the opposite opinion on the stock, began to build short positions anticipating that the stock's value would decline. (It bears mentioning here that our opinion of the stock is more in-line with the "bear case" based upon the fundamentals that we've analyzed, and the dramatic turnaround needed to shore up the company's long-term viability.) The ensuing battle that continues to wage as of this writing involves the "bulls" holding onto or adding to their long positions, thus driving up the value and squeezing the "bears" to buy more shares to "cover their shorts" to mitigate their losses, thus driving up the value.

Adding to the drama was the periodic restriction of trading in GME and other volatile companies by certain trading platforms such as Robinhood, TD Ameritrade and Interactive Brokers, thus causing disruption to the ability of other retail investors to purchase additional shares. All of this has piqued the interest of Congress and the SEC, which will, undoubtedly, manifest itself in a hearing and investigation as to wrongdoing. Additional regulation will be pursued, although in our opinion, material changes are unlikely to be enacted. While the volatility continues, it seems clear that the mechanics of the market, while stressed at certain points and limited to certain stocks, functioned well. We can't predict how the GameStop battle will end, but what is important is that "system" was able to accommodate two, concentrated opposing strategies. There will likely be a book, documentary and movie which will include some reference to Rocky Marciano!

So far, the material impact of all this drama is limited to those who hold a stake in GME and the other companies. While pricing in the broader equity market may experience volatility, we view and short-term pull back as an opportunity to continue to invest in good companies for the long term. Continued low interest rates and an expanding economy as a result of an eventual recovery from COVID bodes well for equities for the foreseeable future. Hence, we've got a feeling '21 can be a good year.