

QUARTERLY COMMENTARY

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Good morning,

There is lots of hype lately on the “short squeeze” happening in the markets on GameStop and other stocks. I want to explain that here.

First, to simply explain a short:

If investor U owns stock ABC and investor Y believes it is going down in value then Y borrows U's shares. Y then takes the stock away from U and asks the brokerage to put it in a side account hoping to return to U much lower and profit from ABC's price decline. If that does not happen and ABC goes up (or even has a dividend payment...another good reason to own stocks with yield!) then Y is responsible for all gains and dividends U should've received from their own pocket.

Lately, a very large group of flannelysts (my name for those at home in pjs with stock opinions and no real risk on putting their own spin on a position) on Redditt have banded together to attack the larger firms that centre their attention on the “short” side of the markets. This really is 2021's, “Revenge of the Nerd(it)s”.

Folks, this is a very enjoyable show to watch! Personally, I love watching these short-sellers get a taste of their own medicine. What's good for the goose is good for the gander, right?

I too dislike those who take joy in profiting by borrowing an investor's shares and posing contrarian views against the long position.” Some say it keeps the markets better balanced. I believe that is only partially true. It hurts investors like U possibly much more than keeping things in-check. But that is debate for another day.

Really though, isn't this just the occupy Wall Street movement on steroids? That movement started in 2011 (can you believe that?). This has a much greater impact and these flannelysts don't need to pitch a tent. Just pitch an idea instead on social media then band together like a school of piranha and ATTACK! It's actually amazing it's taken this long to happen. It gets much more attention when you get them in the pocketbook, right?

Like all good ideas there is a flaw. The last piranha to the feast will have nothing left to feed on. This will not end good for those coming late to the feed. The school will move on to the next feed (it was silver stocks last Thursday) yet some will stay behind continuing to pick at the bones. Someone is always left behind. Buyers will stop buying. There will be no more feast.

This to me is the new, flannelyst led, herd betting to attempt to facilitate pain on Wall Street firms. The difference here is that nobody knows when those first buyers become sellers. It may take time; it may be happening already. The shorts will most likely win again. The Nerditts will not swim here forever, they need to eat and need their capital to take to the next feeding frenzy. It's not if, it's when. This is why many firms have limited orders as they cannot let these folks overextend themselves at risk of collapsing the firm buying them the shares. Simply put, if they continue to buy more and run out of money who ends up holding the bag of bones left floating in the river? This, I believe, is what is making the markets nervous. There is risk of this becoming something far worse if not managed properly by the firms allowing options trading and leveraged loans. They will be left holding the bag, not the flannelyst who sold \$1 million in call options that has \$10 in the bank.

Folks, I will never speculate your assets on side-shows like this. I've had a few enquires on doing so. Nope. Not happening.

This is like going to a really good concert. I'd prefer to sit and watch it comfortably from the sidelines. I do not want, or need, to go down to the mosh pit and have a little fun, but also possibly get crushed in the process! I too will continue to watch this show as it is pretty entertaining. The show always ends though, and this too shall end.

It is causing many short sellers to not only rethink what they are doing, but serious financial hardship. Sadly, they will never go away so U just have to live with Y.

The markets have been running hot for a few months and needed a pause/pullback. If this is what causes it while it plays out, so be it. Corrections are healthy and necessary.

We have so many reasons to look forward to 2021 and beyond (is that foreshadowing your next quarterly report, Steve?) that I will continue my asset moves accordingly. We are in the very early innings of a move back to travel, entertainment, and economic expansion. The flannelysts will be the first to set aside the mouse and (hip-)hop to concerts, dining, and global travel again and U will be invested for that upcoming change.

Cheers,
Steve

Enjoy your day!

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