

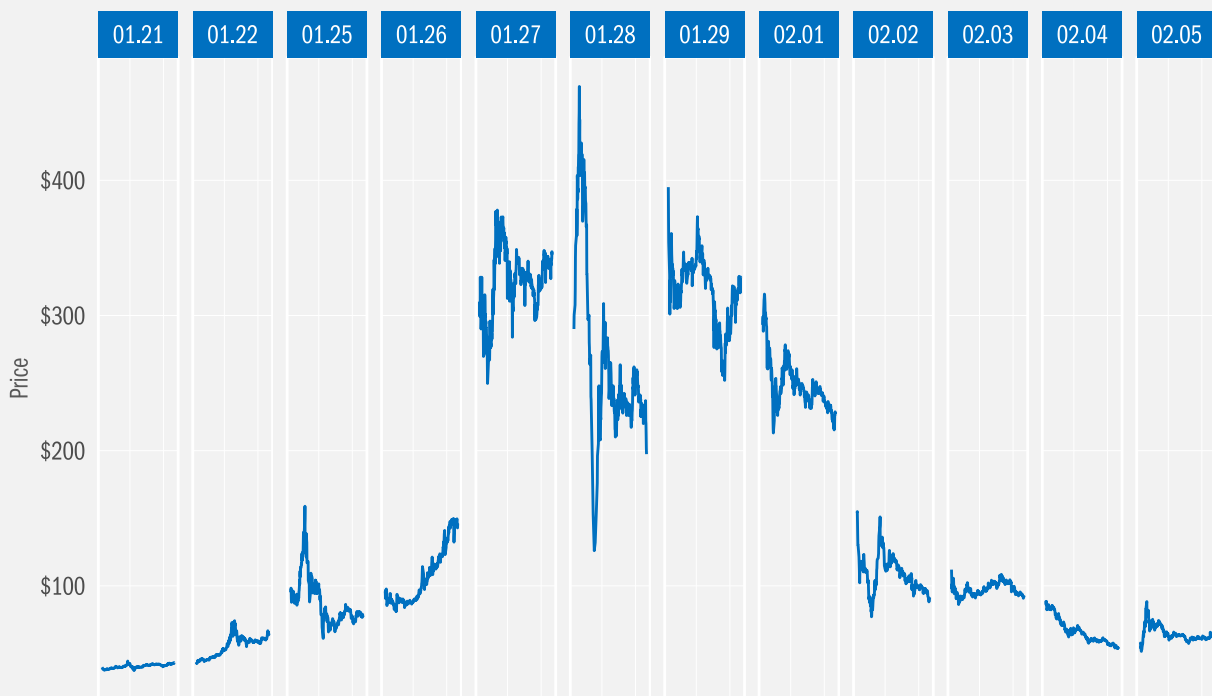
NOT THE ONLY GAME IN TOWN

For a moment, you'd have thought there were no other stocks in the world. Though a handful of names were caught up in what's proved so far to have been a short-lived frenzy, one dominated headlines. And by dominated, we mean to suggest it seemed there was no other news, as electronic gaming retailer GameStop became the talk of the town. With so many words having been spilled on the drama, we'll ask readers to allow us a pivot off that theme to a tangent thread: the rebound in a host of unloved names. Basically everything that had not been among the primary drivers of broader-market performance has gained interest over the past half year, with positive impact on the relative performance of our factor-driven strategies.

But First, the News...

If you haven't consumed a chronicle of GameStop's recent trading saga, well then you likely aren't reading this commentary. Still, we wanted to share a rather important series of data for posterity. Figure 1 shows twelve days-worth of GameStop's share price. Perhaps the 28th was the most remarkable: from a day-prior close of \$347.51, the stock immediately swung to a 25% loss, then surged 85% to a high of \$483.00, only to fall 77% to a day's low of \$112.25 in less than 90 minutes, in turn surging 189% to \$324.00 even more quickly, only to mostly sag for the remainder of the day. GME shares eventually closed that day down 44%.

Figure 1: Intraday Performance of GameStop (GME)

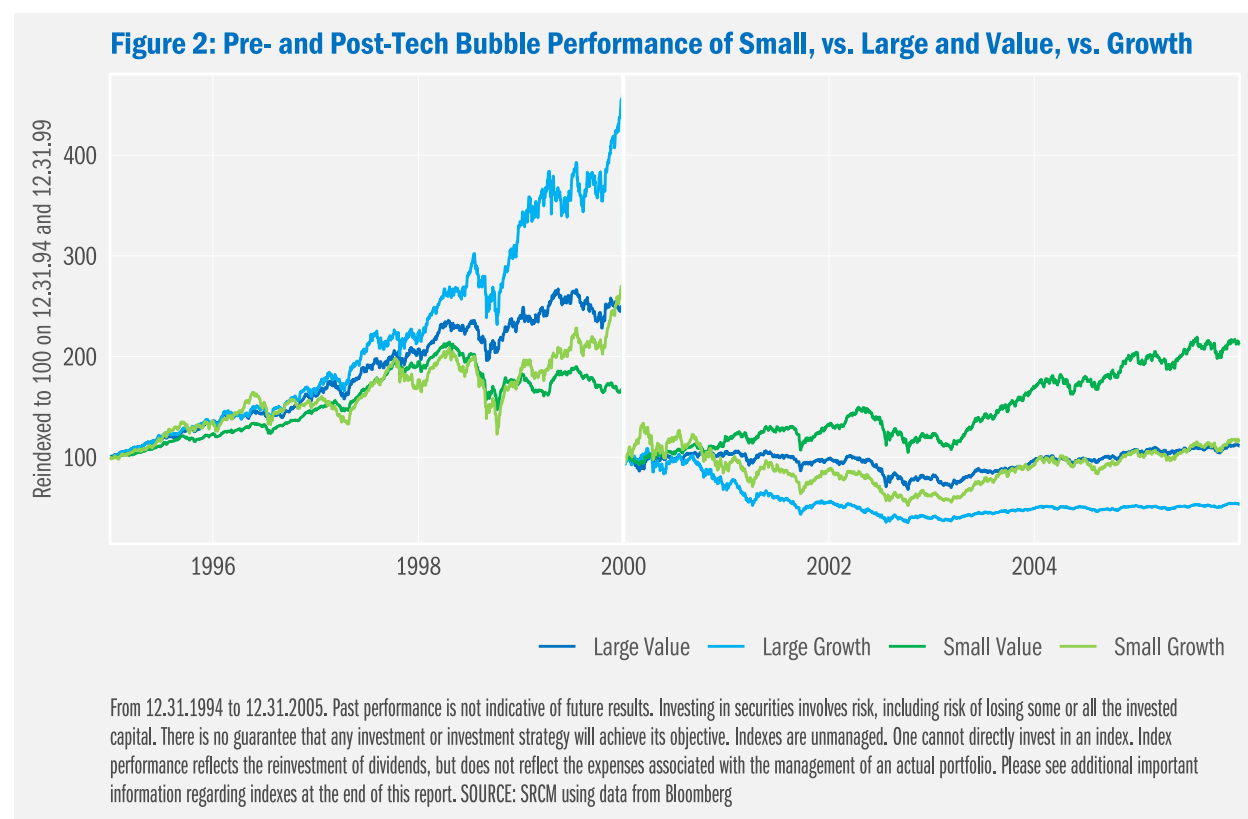


From 01.21.21 through 02.05.21. SOURCE: SRCM using data from Bloomberg

No Déjà vu. Yet.

While we don't have access to the relevant data for proof, we minimally cannot in memory recall a stock that expressed as dramatic the intraday swings that GameStop did on January 28. We are a reasonably young firm, with not many of our advisors having been in the business back then, but the memories of some include the heyday of the Tech Stock Bubble. Recalling the mad-market times at the turn of the century, commentators have been quick to point to the rather insane trading in GameStop stock and others, historically lofty market valuations and the rash of initial public offerings (IPOs). Many stories even pointed to the quadrupling of an esoteric index of unprofitable tech companies, suggesting we're right back where we were at the end of 1999.

But, these aren't those days, we don't think. The GameStop-and-its-ilk story—so far at least—is a comparatively narrow chapter in the annals of retail investor exuberance. Valuations, while historically high, may have better explanations now, versus then. IPOs can and broadly should be seen as a healthy sign of well-functioning capital markets (perhaps with some, again narrow, exceptions). And we think that profitless tech stock index, which reflects only a very small segment of the U.S. stock universe, is of little import in the context of the broader equity market.



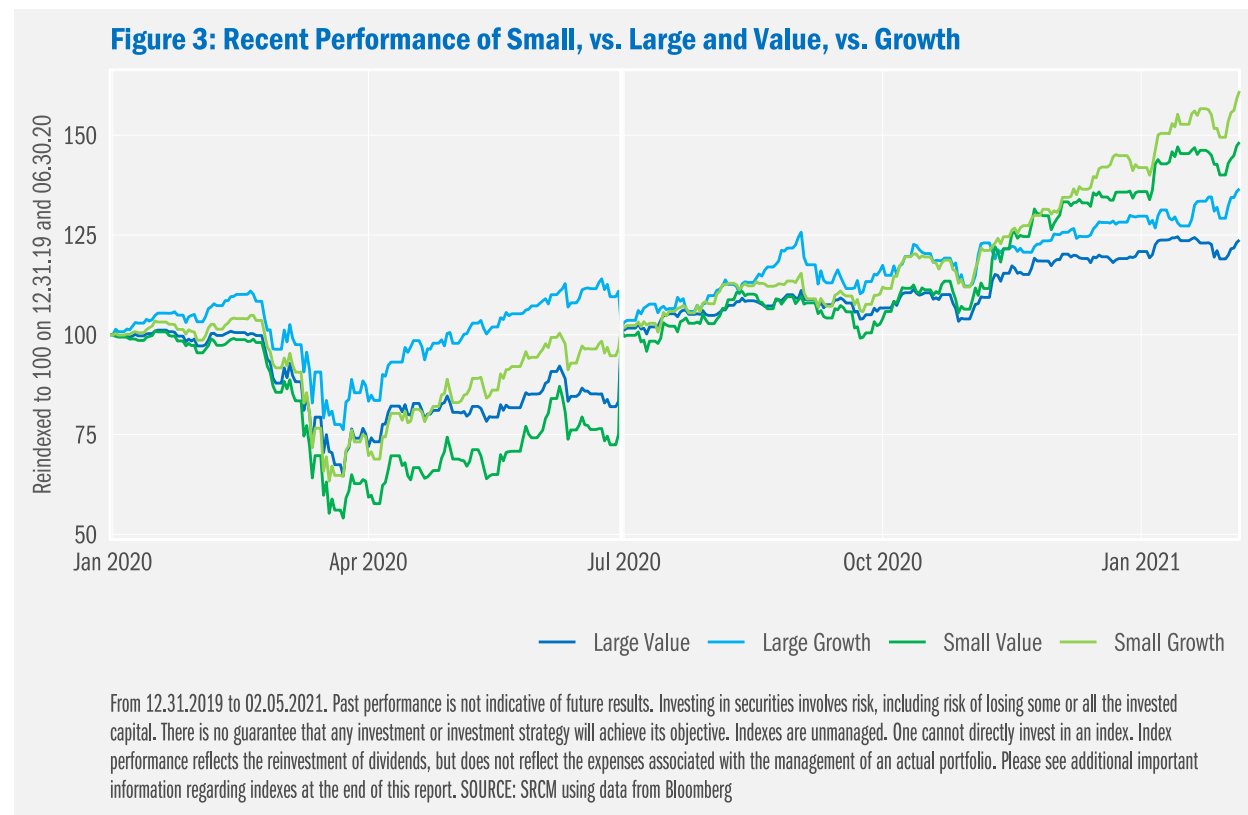
The Forgotten Reborn

One trend the Tech Stock Bubble did set up was the subsequent outperformance of a range of previously under-loved stocks. Charted in Figure 2, we show the performance of the four-way mix of the Size and Relative Price factors in the five-year periods both leading up to and after the bursting of the Tech Bubble. We used the end of 1999 as the demarcation point, though the actual market peak was March 24, 2000.

While large-and small-cap Growth stocks vastly outperformed their peers leading to the peak, both greatly underperformed their peers afterward. Note that small-cap Growth stocks also outperformed large-cap Value stocks after the bubble burst.

Gaining Steam

We hinted in the intro of a friendlier present-day corollary to the history offered above. In recent weeks, GameStop was not alone among small-cap stocks (formerly small-cap, in GameStop’s case) that have caught a bid. Not to the same extent as GME shares, which remain up 1,133% over the same time frame, small-cap stocks have soared 53% since the end of June 2020, outpacing by nearly 25 percentage points the gain on their large-cap peers. Small-cap Value stocks have underperformed their more expensive siblings, but still have well outpaced the broader market.



Trends Favoring Tilts

Since we may tilt toward the Size and Relative Price factors in our portfolios, the gap in performance between our preferred approach and the individual factors is not as large as has been presented. Still, those characteristics had proved a bit of a drag on performance over the past year or so, so the relative boost among those segments has been welcome. These factors aside, the dominant risk factor across our models is beta...exposure to equity. With markets near all-time highs, now is among the better times to reassess tolerance for investment risk. Please reach out to your advisor to revisit that discussion.

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