WASATCH
CAPITAL MANAGEMENT OF
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"YOU REALIZE YOU REALLY WEREN'T SUPPOSED TO TRY TO KEEP UP WITH THE KARDASHIANS?"

The Big Short -Article by Mark Lazar

***The market can remain irrational longer than you can remain solvent*. Gary Schilling**

The first month of 2021 is officially in the bag, and we're off and running in February. While market indices finished January largely in the red, pundits believe the stars are aligned for equities to post another solid year of returns.

Item	YTD Change
Dow Jones Ind Avg	-.99
S&P 500 Index	-1.01%
EAFE Foreign Index	-1.07
Barclays Agg Bond Index	-.72
10-Year Inflation Forecast	2.21%
1st Quarter GDP Forecast	4.6%
Unemployment Rate	6.3%

**Market data as of 1/31/2021*

The big story of the month was GameStop. In a nutshell, elite hedge fund billionaires had their rear-ends handed to them by a surly band of amateurs who connect on the social media website, Reddit. Unlike mutual funds or ETFs, which are constrained by fairly rigid investment policy guidelines, hedge fund managers have no such restrictions. Rather, they seek to maximize returns by oftentimes betting on unconventional, high-risk strategies. A common tactic employed by hedge funds is to short an unloved stock. The mechanics of short-selling are fairly simple; shares must first be borrowed (from an investment firm), then are subsequently sold. The borrower of the shares must pay margin interest to the investment firm who loaned them. At some point, the borrower purchases the stock and return the shares, which results in either a profit, if the shares are purchased at a price below what they were sold at, or a loss, if purchased at a price above what they were sold at.

With portfolios generally in excess of a billion dollars plus the liberal use of leverage (margin) to amplify returns, hedge funds are 800-pound gorillas and can have significant influence on the share price of a small cap stock that happens to find themselves in their crosshairs. Enter Game Stop; a (formerly) little known, publicly traded company that sells videogames and gaming equipment in brick-and-mortar stores (mostly strip malls). From a fundamental perspective, this is reminiscent of Blockbuster circa 2008. Understandably, hedge fund managers thought they had a sure thing, and short interest in Game Stop soared. Ivy League, Wall Street insiders were all but counting soon-to-be profits from their cunning strategy—that is, until a ragtag group of outsiders led by an unlikely protagonist, with the screen name, “Deep***kingValue,” did the unthinkable; they went long where Wall Street went short. In a grass roots movement, millions of small investors bought shares, effectively reversing the price, sending it sharply higher. On January 4, GME was $17.25/share, but post-Reddit rallying cry, the stock peaked at $483. The resulting “short squeeze,” which occurs when a shorted security moves sharply higher, forced speculators who had sold the security short, to purchase shares (cover their short position) in order to prevent potentially greater losses. Which is exactly what hedge managers manager did—and, consequently, suffered close to $20 billion in losses. Ouch!

The Game Stop saga was a David versus Goliath tale, where Main Street took on Wall Street and won. A collection of neophytes effectively democratized the stock market which, by the way, is how it’s supposed to work. Hedge Fund managers in three-piece suits should not have an unfair advantage over the rest of us who use the stock market for its intended purpose; to invest long-term money in the capital markets, thus allowing us to share in the profits of companies like Apple, Amazon, Costco, and Starbucks.

The stock market is the most effective mechanism known for the average person to generate wealth over time. But the market is about risk-taking. For investors to potentially earn double-digit, compound returns over the years, they must also be willing to lose some or perhaps all of their money. Last month, outsiders taught Wall Street insiders an expensive lesson. A particular Reddit poster chose to rub salt in the wound with the following quote, “We can remain solvent longer than you can remain rational.” Here, here!

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Wasatch Team Updates

Wasatch Capital Management is still growing! Last month Stan Goodell joined us and this month Michelle Bilanzich joins us. Michelle comes from Wells Fargo where she was helping clients there. We are excited to have her on board!

Mark

Mark & Savina hiking in Alpine this month

Stan

Valentine's Day at the Goodell household!

John

John and Shawn dining on the beach in Mexico

Beth
Beth skiing with her husband, Paul

Michelle
Michelle enjoying brunch at Sundance with her husband, Chris.

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