FISCHER STRALEM
551 Madison Avenue, New York, NY 10022

February 8, 2021

Dear Client:

As we start off this new year, it's impossible to close the door on the pain and suffering we all experienced, together and alone, in 2020. Our world failed us in ways that were terribly plain to see, and that failure stirred anger, hurt, and blame. Sadly, while we look to the future, the legacy of the year past remains. The month of January started off with a political bang that will live in infamy, and ended with a financial blast which was, understandably, worrisome for investors. In 2008, everyone became an armchair expert on residential mortgages and credit default swaps. In 2020 it was viruses and epidemiology. This year's must-have expertise (so far) involves equity market plumbing, including short-squeezes and collateral calls -- industry lingo triggered, in today's vernacular, by a mash-up of social media flash mob meets occupy Wall Street.

A flash mob is a phenomenon where groups of people are summoned by message boards, email, and social media to a designated location at a specified time to perform a specified action before dispersing. In this instance, the location was emerging fin-tech broker app, Robinhood, and the action was to push up the price of some of the most heavily shorted names, forcing hedge funds who had bet that the a prices of these names would fall, to buy in order to protect against greater losses. Their scramble to buy (cover the shorts) only added to the upward pressure on the stock's price, as did the media attention.

The motivation was simple and the execution self-fulfilling. The message boards didn't stress stock fundamentals, which is the primary rationale to short a stock and often based on deep research. This was an unadulterated David versus Goliath battle where the little guy inflicted some well-documented pain. There is nothing illegal about online groups that pump stocks, and only considered manipulation when false information is spread. As far as we know, many were simply announcing their intention to drive a stock higher, and not attempting to deceive other investors by making false claims.

And, just as the public became fixated, trading was halted, and charges of a rigged market ensued. Only, the real culprit, a "margin call" for more capital on the brokerage firm, is not a conspiracy but a fact of trading life. The risk for brokers is that a party fails to deliver -- either the stock or the cash -- so they enlist the help of a clearinghouse, which guarantees the trade execution. But since the clearinghouse assumes the risk of non-delivery, it takes deposits from the participating brokers as a buffer -- a dollar amount that increases as a stock becomes more volatile. Robinhood clears its trades through the well-known Depository Trust & Clearing Corp, which is owned by a consortium of banks. You can fantasize that the DTCC is part of the conspiracy and ganged up on Robinhood at the request of banks to help short sellers -- especially in this era of limited social trust and populist conspiracy theorists. But in reality, this event is closer to something the infamous investor Benjamin Graham once said, "in the short run the stock market is a voting machine, reflecting a company's popularity, but in the long run the market is a weighing machine, reflecting a company's substance and value".

In 2016, the political establishment pushed back against the weaponization of social media to disrupt politics. In 2021, the financial establishment is in denial about the weaponization of social media to disrupt our *idea* of capitalism. We are witness to how the former has panned out and, while the latter is difficult to ignore, we should not lose sight that capitalism is always adapting to the latest technologies and always comes out on top.

Regards,

Adam S. Abelson
Chief Investment Officer, LCES