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Dear Client,

Over the past few days, there has been unusual volatility in a small number of stocks. This has garnered a lot of attention in the media. We thought a brief note on what is going on and our perspective on it might help.

What exactly is happening?
Sometimes stocks with perceived challenged business models and balance sheets are what is called sold short. Without going into a deep technical discussion, it involves making a bet that the stock will go down in value. Typically, this is done by hedge funds that specialize in this type of trading.
Short selling can be a dangerous game. If the price of the stock rises significantly, the position may require additional money as collateral. If the money is not put up, the position must be closed by buying the stock within hours, causing the stock to trade even higher. This can snowball, causing a feedback loop that results in extreme volatility called a short squeeze. Short squeezes are actually quite common. But, they usually are confined to small pockets of the market and occur and fade quickly.
This time, it has taken a new twist. Several social media websites have gone viral with participants encouraging each other, in rapidly multiplying numbers, to buy a few small, speculative stocks with large short positions. This has led to short squeezes leading to large gains for some social media players and big losses for a handful of hedge funds. Over the weekend, trading in precious metals has also been involved.

How does this impact your portfolio?
While this will take time to play out, there probably won't be much of a long-term impact. Stocks going up 100% or more in a single day and some hedge funds suffering big losses grab headlines. As mathematically-based stewards of wealth, we look deeper than the headlines. We look at the numbers. As of January 27th, the spotlighted stocks with the highest short positions, favorites of the social media crowd, made up just 0.17% of the value of the S&P 500. We doubt that many will feel sorry for the hedge funds that suddenly found themselves on the very wrong side of a squeeze. While one might wonder if hedge fund losses could result in some domino effect in the markets, the type of strategies involved here are only a relatively small part of the hedge fund world and less likely to cause a large-scale chain event.

What should you consider doing?
People participating in either side of the social media crowd versus hedge fund frenzy certainly have this dilemma. We don't manage your portfolio like a distressed securities hedge fund, nor do we tout individual stocks on social media. The struggle between the social media side and the hedge funds is ongoing. If history is any guide it is possible that there will be losers on both sides by the time this is over.
Famed investor, Warren Buffett once said, "There are no called strikes in investing." For non-baseball fans out there, that means investors don't have to take a swing at every dramatic issue that periodically comes along. As disciplined investors, we are free to avoid the murky corners of markets where strange and unexpected things are more likely to happen and instead focus on what really matters in your portfolio and your life.
All that said, we are monitoring the situation and are taking it seriously. We take everything that might affect you and your portfolio that way. Of course, this isn't the only issue facing markets. Our country

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remains polarized in the face of political change, and the recovery from the human and economic effects of the pandemic, while encouraging, remains delicate.

Of course, there are also powerful positives. The ingenuity of everyday people led to vaccines that rolled out far more quickly than expected. Perhaps, after nearly a year, people can return to a more normal world.

Through all of this and whatever else comes, we are here and always have time to talk.

Sincerely,

Chris Keyes, CFP®   Scott Keyes, CRPC®   Bobby Weaver, MBA, CFP®

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Sources: Wall Street Journal, S&P Global, Bloomberg CNBC