IDIOSYNCRATIC RISK

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IN THIS ISSUE:

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Brown paper packages, tied up with string.

'TIS THE SEASON

As we prepare to close the books on a rather eventful 2020, the Dow sits near its recent all-time high ($30,046.24!, or 1.56 BTC), Tesla is being added to the S&P 500, new Covid-19 related hospitalizations in the United States have hit a daily record of 96,039, and the cover of the Wall Street Journal is lamenting that the number of workers returning to the office have fallen dramatically in the wake of the Thanksgiving holiday. Of course, both Moderna and Pfizer have also applied for approval of effective Covid-19 vaccines in the United States and Europe. Despite their best efforts, there will not be widespread availability of a vaccine in time for the holiday shopping season, which is bleak news indeed for bricks and mortar retailers.

Anecdotal evidence suggests that the holiday season has gotten off to a tepid start. Your author's post-Thanksgiving Saturday stroll through Carytown (an outdoor, local shopping district in Richmond, VA) was particularly serene, considering that Black Friday had not yet even been relegated to memory. Most retailers have re-opened, by this point, but all were operating at limited capacity. Few of these capacity constrained retailers had more demand than they were able to comfortably serve.

CBRE's retail research division is expecting below trend growth in retail sales for the holiday season, despite an average of a +4.1% increase during the holidays over the last ten years. This year, bricks and mortar retail sales are expected to actually decline, while a staggering amount of online sales growth (+35-40%) is expected to make up the difference. Of course, the CBRE forecast is delivered with the caveat, "assuming there is no major resurgence of the virus or mandated store closures." (Source: https://www.cbre.us/research-and-reports/US-Retail-Holiday-Trends-Guide-2020) Feel free to adjust your own forecast accordingly.

An unscientific reader survey regarding holiday shopping plans conducted on a local NBC news site showed that nearly 2/3 of respondents were less likely to shop in stores for holiday gifts over the next month.

Travel demand is, obviously, depressed. Though perhaps this is encouraging in the wake of a Thanksgiving Holiday that has resulted in a short term spike in Coronavirus infections and hospitalizations, as well as long lines at testing centers. But one odd outcome from a relative resurgence in families planning holidays-at-home is a year over year surge in demand for real Christmas trees, which have been in short supply since the great financial crisis of 2008 drove a number of seasonal businesses, like christmas tree farms, out of business. Because it takes a number of years for trees to mature after being planted, the after-effects of the 2008 recession on the supply of Christmas trees are being felt, now, in a year when demand for the product is increasing as a result of families cancelling grandiose holiday travel plans. Prices for ordinary trees are up at some locations your author has visited on an order of 20-30% vs. similar prices, last year. The Federal Reserve Board has not yet indicated whether or not Christmas trees will be included in "Core" CPI.

Incidentally, there is reason to believe that this dynamic is a microcosm of the set up for the macro-economy as we head into the back half of 2021. The Financial Times noted, Tuesday, that inflation expectations as measured by the "breakeven rate" for 10-year TIPS vs. 10-year Treasuries has reached an 18 month high of 1.83%, while a swap rate that measures inflation expectations over the next five years has reached 2.25%, over 100 bps higher than the March low of 1.2%, and above the Fed's 2% inflation target. The logic is hard to refute. With record deficits spurred by record fiscal and monetary stimulus, retail capacity constrained by pandemic related regulations and business shutdowns, and not one, but two extremely effective vaccines expecting imminent approval and widespread availability before the end of June 2021, there's reason to believe that a resurgence of demand, should it come to pass, would be an enormously inflationary shock.

On the flip side, initial jobless claims have begun ticking higher, starting with the mid-November report issued 11/19, after months of decelerating job losses. The crucial indicator for stocks, however, will be the makeup of those job losses. White collar employment, which remained resilient during the peak of unemployment in March and April of 2020, when nearly 40% of low-income workers were unemployed, has continued to remain resilient. Unemployment rates amongst respondents with at least some college education have remained elevated year over year, but have fallen sequentially each month since April. If the jobless claims witnessed in the latter half of November do finally represent the "second wave" of coronavirus related lay-offs slated for white collar workers that have been the subject of apocryphal news stories and economic analyses since June, stocks could be in for a bumpier-than-normal ride.

What is interesting to your author, the humble equity analyst, is how little controversy these metrics engender amongst investment professionals. For most of our career we've borne witness to a healthy debate about the state of the economy amongst bulls, bears, permabulls, permabears, and gold bugs. But in recent months, the debate has not centered on the state of the economy, or the valuation of the markets. Rather, the question has become: "Does it matter?" On a macro-level, this is sometimes framed as, "is systematic value investing dead?" which is meant to imply that measurable fundamental statistics are no longer tethered to the performance of equities. Anecdotally, we can say that the most frequent question we receive from investors related to our research and equity recommendations is, "will it matter?" Followed closely by, "what makes this matter?"

And as has been repeatedly articulated in previous issues, it is your author's opinion that the trajectory of the broad market equity indices has been divorced from the underlying fundamentals of the economy by the persistent and pervasive trend towards indexing, and the near constant flow of dollars into such strategies from bi-weekly defined contribution retirement account contributions. But in a year dominated by the coronavirus pandemic, social distance and isolation, quarantine, recession, and a little foray into the world of entrepreneurship, we are no stranger to existential questions. This is not one.

Having identified the reason why fundamental analysis is not "working," or rather, the reason why price inefficiencies are not converging to the consensus, human estimate of "fair value," we find no evidence to suggest that the concept of fair value has ceased to exist. We have found that our process of soul searching has not impeded our ability to continue to find and recommend attractive short ideas, and that the benefit to an active manager of an ongoing focus on the short side of the book is not diminished.

Perhaps it is not so easy as shooting fish in a barrel (and let's be candid, Antrim does not work for free), but we continue to unearth mid and large cap companies with healthy daily trading volume, low or structurally limited passive ownership, low short interest, deteriorating fundamentals, stretched valuations, and aggressive accounting. And as long as we continue to do so, we feel confident that we will remain in business.

Our resolution for 2021 then, is more of the same.

Happy Holidays!

Eric S. Jensen, Jr., CFA
Founder & CEO
Antrim Investment Research & Antrim Research Publications

PAST PERFORMANCE IS NOT A RELIABLE PREDICTOR OF FUTURE RESULTS

Recommendation	Date	Performance Since Recommendation
Short ACEL	October 1st, 2020	-0.85%
S&P 500	October 1st, 2020	+8.9%
Long LMND	August 3rd, 2020	+9.4%
S&P 500	*August 3rd, 2020*	+11.9%
Short TSLA Short GSX Long AKRXQ	July 1st, 2020 July 1st, 2020 July 1st, 2020	+170.8% +7.3% -100.0%
S&P 500	*July 1st, 2020*	+18.1%
Long MIK Short QSR Long ZMTP	June 1st, 2020 June 1st, 2020 June 1st, 2020	+164.8% +7.1% +41.9%
S&P 500	*June 1st, 2020*	+20.3%
Long NLY Long AGNC Short SWKS	May 1st, 2020 May 1st, 2020 May 1st, 2020	+36.0% +30.3% +40.0%
S&P 500	*May 1st, 2020*	+25.8%
Long DESP Short KNSL	April 1st, 2020 April 1st, 2020	+100.5% +132.8%
S&P 500	*April 1st, 2020*	+41.7%

I have it on good authority that the dog's name is "Pagliacci"

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If you are coming across this, the ninth issue of ***Idiosyncratic Risk***, for the first time, welcome. I would always like to make new friends. If you find my views interesting or helpful, and if you'd be so kind, feel free to forward this newsletter along in your network to those who might also make use of its content.

I sincerely appreciate the friendship, support, mentorship, and camraderie I've experienced during my career in Investment Management and I would like to thank my friends and readers for supporting me, whether by forwarding this email and my contact information along in your network, or merely reading these pages and considering what I have to say.

Feel free to reach out with questions, criticisms, suggestions, and investment ideas if you've got any good ones.

A Publication By:

Antrim Research Publications
Eric S. Jensen, Jr., CFA
ejensen@antrimresearch.com
www.antrimresearch.com