



April 2021

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

April 2021 was another strong month for us. The portfolio generated a return of +11.09%, +106.5% YTD and since January 2018 +652.61%.

Many of you are probably wondering how we have outperformed the major indices by lots. Below I shall explain how we generated these significant returns and our investment strategy.

In 2016 we identified a stock, RLJ Entertainment, Inc. ("RLJE"), founded by the media entrepreneur Robert Johnson, who had also founded BET Networks and sold it to Viacom for \$3.2 billion. During this period, the Company had some major hiccups, and its share price sold off by 97% after its SPAC IPO. We were acquiring shares at \$.03 on the dollar while the Company was generating \$20 million in EBITDA. They had an exceptional streaming media business that was growing rapidly and comparable, but on a smaller scale to Netflix. We believed this was the Crown Jewel of the business and worth multiples more than the stock was trading. In 2018 RLJE was acquired by AMC Networks, generating a 7x return on our investment.

Fast forward to the pandemic. We had the experience from past pandemics (Bird Flu, Swine Flu, SARS & HINI) on how to invest in these types of turbulent driven markets. Initially, we began acquiring shares in mask and protective gear manufacturers (Lakeland Industries, Inc. (LAKE) and Alpha Protech, Ltd. (APT)) very quickly, generating multiples on our investments. Once we realized the pandemic was here to stay, we invested heavily in the stay-at-home economy. To that end, we focused on two badly beaten up e-commerce companies, Overstock.com (NASDAQ: OSTK) and Jumia Technologies, AG (NASDAQ: JMIA), both trading at 3-4 cents off their old highs. We bought them very cheap, sold them with a 5-6x return, and then locked in our profits by purchasing options. As Overstock rose into the 70s, we kept on rolling the options at the higher-priced options and locking in the previous profits. We pursued the same strategy with Jumia.

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During this period, we also did this with two incredibly undervalued stocks in the home building sector, Hovnanian Inc. (NYSE: HOV) and Beazer Homes, Inc. (NYSE: BZH). Both of these dropped to single digits and were abandoned by Wall Street. Since then, Hovnanian has moved from the teens to \$134/share, and their Preferred was trading at a 70% discount to its implied value. We began acquiring Beazer in the low teens, and it's now trading at \$25/share, with a lot more upside. We invested heavily in the steel companies,, Cleveland-Cliffs, Inc. (NASDAQ: CLF) and U.S. Steel (NYSE: X), in anticipation of an infrastructure bill. We also invested in the transportation sector, acquiring shares of Yellow Corp. (NASDAQ: YELL) at less than \$2/share, which now trades at \$9/share, and we believe it can go to \$100/share.

Additionally, we also identified and invested in three proprietary transformational technology companies in their early stages. As you see, we think out of the box and do not "follow the crowds" or Wall Street's "Me To" research. We love stocks that fall below \$10/share, and especially those that fall below \$5/share, since 97% of wealth managers and brokers cannot recommend them because they are considered Penny Stocks. As a result, analysts abandon coverage and don't recommend them. In the case of HOV and BZH, both had lost their research analyst coverage, which contributed to their price declines. We also buy deep value stocks that have been "algorithm to death" where we believe there is a catalyst or a group of catalysts that we believe will create an inflection point by which the algorithms or the Shorts will be forced to cover. This creates a cascade of buying the stocks through stop losses and technical factors. This is usually a secular trend that can last for years.

So in short, that's an overview of our investment strategy over the past several years. We believe that interest rates are moving up, and this is just the beginning of an upward trend. We believe the value will continue to outperform growth over the next few years, contrary to how growth has outperformed value for 13 straight years. We believe there are still many runways ahead of us, and we are still in the first or second inning of this transformation.

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Overall the portfolio is well diversified, with over 52 positions, across a variety of industries and market capitalizations. We are 35% Tech, Telecom, and Media in deep value positions below the radar screen of Wall Street and at a transformational change in the industry niche, they address.

We are accepting managed accounts with a minimum of \$2.5 million. We are also in the final stages of launching a new fund with a minimum investment of \$1 million.



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