



February 2021

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

February 2021 was another significant month for us. The Portfolio generated a return of +8.6%, and +57.02% YTD, and since January 2018, +472.29%.

In February, we saw a sell-off in larger-cap securities. We had been expecting this for the past 18 months as some valuations stretched from 10x to 50x of revenues. This has led to a redeployment of capital by investors into value and below-the-radar screen opportunities trading at lower multiples which were out of favor for many years.

Adding to this trend has been the continued democratization of the stock market led by Reddit and Robinhood and its over 20 million retail investors jumping into the market. The Reddit "Army of Traders" are targeting algorithmic-driven funds as well as hedge funds. For many years these institutions have had the upper hand in the markets, which has led to higher highs for the large-cap growth stocks and lower lows for the value, small-cap, and micro-cap stocks have underperformed the large caps by almost 200% over the past 12 years.

We continue to think that this investor focus on value opportunities will continue for at least the next few years as \$2 trillion in the further stimulus is pumped into the economy as well as a possible Infrastructure Bill. The talk on Wall Street is that interest rates might spike up. We don't think this is the case, as there is a flood of liquidity in the markets combined with cash hoarding by individuals due to deferred entertainment and travel spending over the past year. We believe interest rates will stay low as there is an insatiable demand for financial assets, inclusive bonds. We believe there will be a huge demand for US Treasuries which should hold down bond yields, as the United States is the only major nation with positive yielding treasuries.



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Our positions in the housing and mortgage sectors which include Beazer Homes, Inc. (NYSE: BZH), Hovnanian Inc. (NYSE: HOV) (NYSE: HOVNP) (Preferred Series A), and Ocwen Financial Corp. (NYSE: OCN) performed well during the month. At the end of 2020, we initiated positions in the Energy sector led by Exxon Mobil Corp. (NYSE: XOM"), Continental Resources, Inc. (NYSE: CLR"), and the Midstream Partners companies. We believe the energy sector is extensively underweighted in the S&P and will be a secular trend in 2021.

Our three proprietary technology companies have continued to perform very well and are starting to break out on the upside.

Overall the portfolio is well diversified with over 40 positions, mostly deep value situations where we believe there is a catalyst or a group of catalysts that will create a growth inflection point.

We continue to significantly outperform the major indices based on our proprietary research and investment approach. We believe that value stocks will continue to turn on the steam and outperform the large-cap growth stocks, which have led the market for the past 13 years.

We are accepting managed accounts with a minimum of \$2.5 million.

Bruce Galloway
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Chief Investment Officer

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