



January 2021

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

January 2021, as we expected, turned out to be a very significant month. The portfolio generated a return of +44.59% and, since January 2018, +426.97%.

In December, we stated that we were anticipating a significant upside due to the "January Effect," as tax loss selling diminished by investors who sold off their losers to offset gains in large-cap growth stocks. What was more pronounced during January was a transformational change that.

We believe is very significant and the start of a trend that will continue for the foreseeable future. That is the democratization of the stock market. For many years hedge funds have had the upper hand and have been piling into algorithmically driven events. This has led to higher highs for the large-cap growth stocks and lower lows for the value small-cap and micro-cap stocks which have underperformed the large caps by almost 200% for the past 12 years.

There has been concern that the democratization through Reddit and Robinhood traders numbering over 20 million have been manipulating stocks higher such as GameStop and AMC Theaters. This is a bunch of hogwash since in our opinion, the hedge funds have been manipulating stocks for years. In fact, they have been shorting shares through traditional means as well as derivatives and esoteric instruments, and they have created a short interest that actually exceeds the long interest. This was exposed with GameStop having a 150% short interest. We have already seen the unwinding of heavily shorted stocks in the markets. In two examples in our portfolio, we saw Overstock.com for from our purchase price of \$5/share to over \$100/share today and Jumia Technology AG (NASDAQ: JMIA) went from \$2.70/share to \$64/share today. We do not think these changes occur momentarily. They occur on a secular trend and we think that many of these stocks have been shorted so significantly and excessively that they are like springs that are about to unwind and we will be in this trend for several more years.

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Several of our undervalued positions performed very well in January. We had significant moves in Rite Aid (NASDAQ: RAD) and United Natural Foods, Inc. (NASDAQ: UNFI). In the housing sector Beazer Homes, Inc. (NYSE: BZH), Hovnanian, Inc. (Preferred Series A)(NYSE: HOVNP) and Ocwen Financial Corp. (NYSE: OCN) have started to move up and we foresee more upside as the housing boom continues. Our three proprietary technology companies performed very well and are starting to break out on the upside.

During the month, we added to our position in Yellow Corp. (NASDAQ: YELL)(formerly YRCW). We began accumulating the position in 2019 at \$2.20/share. We believe the stock is undervalued and should be valued at \$20/share in the next 2-3 years as the economy begins to expand.

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. Our proprietary research and investment approach significantly outperformed the major indices. 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 3 years.

We are accepting managed accounts with a minimum of \$2.5 million. We are so confident in our portfolio strategy that we will not take a dime of fees unless we outperform the S&P by 2x or 100%.

Bruce Galloway
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