Nov. Dec. 2022 / Jan 2023

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

In January 2023 the Portfolio generated a return of +27.06% and since January 2018 +250.92 vs. 59.2% for the S&P.

In November and December 2022 our returns were -7.8% and -10.1%, respectively. The anticipated "Santa Claus Rally" did not materialize which resulted in a dramatic year end downturn especially in small and micro cap stocks. Our portfolio experienced a hit due to our weighting in technology and special situation positions combined with a dearth of buyers and market illiquidity.

As we entered January, the market mood changed from extreme negativism and a hard landing to greater optimism and a soft landing. The "Santa Claus Rally" arrived and we experienced a strong rally as pricing reversed dramatically. This performance has continued into February and we anticipate further strength this year as severely depressed securities with good fundamentals should roar back. We took advantage of the market sell-off and skittish outlooks in Q4-22 to add to our core positions at opportune prices and valuations. Many of these securities trade below $5/share and are not typically followed by Wall Street firms. They tend to have greater volatility, and also offer significant upside potential. Many of these companies have revenues from several hundred million to billions of dollars.

At year end with the Fed raising interest rates 75 basis points each meeting and inflation not wavering, there was a consensus that we were going in for a hard landing and the economy was like a "deer in head lights." The economy has held up much better than the Bears had anticipated and as a result we believe the mood has changed more positively indicating we may be at the end of the Fed's rate hiking cycle. There is $8-$10 trillion of excess liquidity which should provide further positive market gains and buffering in the economy.

We believe there are several transformative business segments that will continue to move the economy positively.

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These are as follows: 1) The on-shoring of strategic industries and suppliers that have been exported to Asia and China over the last 50 years; 2) the migration to the cloud; 3) the roll out of 5G and Internet of Things; 4) cyber security and identity management; 5) a step up in defense spending due to the situations with China and Russia; 6) transformation from hydrocarbons to clean energy; and 7) artificial intelligence which according to John Chambers the former CEO of Cisco, can be the most transformational technology the world has ever seen and even more so than the Internet. On that note, in our portfolio with have a "hidden gem" in the AI sector. Last year the stock sold off from $12 to $2.90/share. It has since recovered to $5.80/share and we believe it has at least 10x upside in the next 3 to 5 years. It is not followed by Wall Street even though it has $100 million in revenue and is trading at a lower market capitalization than many start-ups in the same industry.

We believe 2023 will be a Stock Picker's market and this is where we outperform. We are a long only value fund focused on low priced securities with significant upside potential. These securities are typically below the radar screen and not followed by Wall Street. As a result we tend to have higher volatility as well as a higher absolute return. In a strong market we will typically outperform the major indices by multiples. In the past 5 years our performance is +250% as opposed to +59% for the S&P which is an outperformance of almost 4x or close to 400%.

We continue to have a well balanced and diversified portfolio with approximately 50 positions across many industries and market capitalizations which should significantly outperform the major indices. We believe that we are well positioned to take advantage of any upside in the market when we get through this period of uncertainty and volatility. We believe our value/catalyst approach is the optimal way to generate significant investment returns with a balanced portfolio to limit downside volatility.

Bruce Galloway

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Chief Investment Officer

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