



December 2021

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

In December 2021 the Portfolio generated a return of -7.35%, +39.12% YTD for 2021 and +407.13% since January 2018.

For the past 16 years, we have said overpriced securities will trade off. That is exactly what's been happening over the past six months. Many stocks were trading at absurd valuations of 10x, 20x, and even 100x revenues, down 60%, 70%, and 80% from their all-time highs.

The value held up relatively well in 2021, and investors in high-growth stocks saw a trend to rotate into value. We believe value stocks are still undervalued and are in the “first inning” of outperforming the markets. In the past 100 years, value has out-performed growth because value companies typically have good balance sheets and solid earnings, whereas growth, in many cases, is a lot of “smoke and mirrors” with operating losses.

About nine months ago we took big positions in oil and gas which appreciated by 75%. The group is still significantly below where it was two years ago before Covid and 70% lower than in 2009, the last time oil was at \$80/barrel.

Unfortunately, towards the end of the year, many value positions sold off as collateral damage to the market, and NASDAQ declined. This created significant buying opportunities in many of our positions, including Yellow Corp (YELL), US Express (USX), and MoneyGram International (MGI). We still like the single-family home building companies. Our favorites in the group are Hovnanian (HOV) and Beazer Homes (BZH), both trading at around 3x earnings. We sold our position in Ford Motor (F) and increased our holdings in Tenneco, Inc. (TEN). U.S. Steel (X) and Cleveland Cliffs (CLF) are our top value positions trading at 2x and 3x earnings, respectively.

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In the energy sector, we sold our Exxon-Mobil (XOM) and swapped it into British Petroleum (BP) which has underperformed the group. We were also heavily invested in the Midstream Partnership companies: EnLink Midstream, LLC (ENLC), Western Midstream Partners (WES), and Summit Midstream Partners (SMLP).

We continue to have a well-balanced and diversified portfolio which we believe will significantly outperform the major indices. As we have been stating for months, we believe the value will continue to outperform growth over the next few years, contrary to how growth has outperformed value for 14 straight years. We believe our value/catalyst approach is the optimal way to generate significant investment returns.

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