October 2021

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

In October 2021 the Portfolio generated a return of +13.40%, +103.86% YTD and +643.09% since January 2018.

October is usually a very good month for the markets. The major market indices were +4.5% to +7%. Oil rallied to $83/bbl, and natural gas rallied to $5.85/mcf. Our oil and gas stocks, led by Halliburton (HAL) and Occidental (OXY), performed very well. Cleveland Cliffs (CLF) and U.S. Steel (X) reported blowout numbers. They have started to perform well yet are still trading at less than 2x and 5x earnings, respectively. One of our largest positions, Yellow Corp. (YELL), is touching new highs, and we believe has a lot more runway ahead as the economy continues to strengthen.

Our Special Situations, as well as our Internet of Things (IOT) and Artificial Intelligence (AI) positions, performed very well. We have also added two more AI and IOT positions to the Portfolio below the radar screen and remain undiscovered by the Street. We believe that artificial intelligence is transformational, and as John Chambers, the former CEO of Cisco, has said, "AI could be bigger than the Internet."

We are very positive on small-cap value stocks and believe that capital from many of the over-stretched tech stocks such as Zillow, Roku, Zoom, and Peloton will be deployed into value stocks. We have been saying for many months that this should continue with some of the tech companies trading at 50x revenues while value stocks are trading at 2-4x normalized earnings.

During the month, there were many cross-currents in the markets, such as a surge in the Covid Delta variant, supply chain and h issues, and a slowdown in China. This also caused interest rates to tank, then rally up, just to tank again. There were multiple rotations between value and growth stocks, with the net that value stocks sold off sharply. Not only that, many stocks that were overextended on the upside traded down significantly from profit-taking in many of our positions that had rallied 2-3x. We saw significant profit-taking in all of our energy stocks in which we are overweighted.

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We also saw significant profit taking in our small-cap and micro-cap positions. Several of our special situation positions traded down 25% during the month.

We are still very optimistic about the market as interest rates will remain low for the foreseeable future. There is so much talk and expectation about tapering that once it happens, the stock market should actually rally which would indicate strength in the economy. We are adding to some of our positions that have rebounded dramatically from their highs as we believe there is significant upside. We are also taking large positions in very low P/E stocks such as U.S. Steel, Inc. (NYSE: X), which is trading at 2.2x earnings, and Cleveland Cliffs, Inc. (NASDAQ: CLF), which is trading at 5.4x earnings, Tenneco, Inc. (NYSE: TEN) trading at 4.1x earnings and Ford (NYSE: F) which is trading at about 5x normalized earnings. I say normalized earnings because some short-term issues, such as semiconductor shortages, affect them, but demand remains extraordinarily strong.

Overall the portfolio is well diversified, with over 53 positions across various industries and market capitalizations. During the month, we added Yellow Corp. (NASDAQ: YELL), Beazer Homes, Inc. (NYSE: BZH), Hovnanian, Inc. (NYSE: HVNP)(Preferred), MoneyGram International, Inc. (NASDAQ: MGI) and Widepoint, Inc. (NASDAQ: WYY).

We remain optimistic that the markets will continue to rally through January 2022, especially in value stocks, cyclical, and materials (oil, gas, mining, etc.), where these companies can pass on price increases rapidly to customers. We are maintaining our positions in MoneyGram International, Inc. (MGI), Ocwen Financial Corp. (OCN), and Conn's, Inc. (CONN).

We 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 13 straight years. We believe our value/catalyst approach is the optimal way to generate significant investment returns.

Bruce Galloway

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