



Another Great Quarter for Small Stocks

Small stocks and value stocks continued to outperform in the first quarter. The average of the two beat the S&P 500 by about nine percentage points. Both the Value Strategy and Select 25 Strategy benefited from this and easily beat their benchmark. Foreign stocks had a respectable quarter and the Foreign Value Strategy performed slightly better than its benchmark.

Bonds were the poor performer this past quarter. Client with bonds in their portfolio know that they are not invested in the bond market benchmark (as represented below by AGG), but by a combination of Treasury Inflation Protected Securities (TIP) and short term bonds (BSV). This is because I consider these investments to be less sensitive to rising interest rates than AGG. This strategy paid off in the first quarter. Although AGG lost 3.4%, a 50/50 mix of TIP and BSV lost only 1.2%

No commentary on the quarter would be complete without a mention of so-called "meme" stocks, like GameStop, which went from under \$20/share to over \$350 in 10 days, fell almost as fast, and is now at about \$190/share. This was particularly interesting to me since I am familiar with GameStop (it was bought for the Value Strategy in 2013). It is a company that has been selling off its "good" businesses in an effort to shore up its flagship GameStop stores. It is a victim of a fundamental shift in buying games on CD-ROMs to buying them via online downloads and subscriptions. But it found a following on the internet and the company itself did not matter, just the idea of piling into something that might go up. It is not only the poster child for investing as gambling, but also the short term vs. the long term. In the short term any stock can do anything. But in the long term it comes down to the performance of the company itself. And in the long term there will be almost surely be tears for GameStop investors that bought at high prices since a money losing retailer with rapidly falling sales isn't worth much.

<u>Market Sector</u>	<u>Return</u>	<u>Benchmark</u>
Total U.S. Stocks	6.4%	SPY (S&P 500)
Small U.S. Stocks	12.9%	IWM
U.S. Value Stocks	18.6%	IJJ
Foreign Stocks	4.3%	VEU
Bonds	-3.4%	AGG

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