SIGNATURE RESOURCES CAPITAL MANAGEMENT

Commentary: February 2021

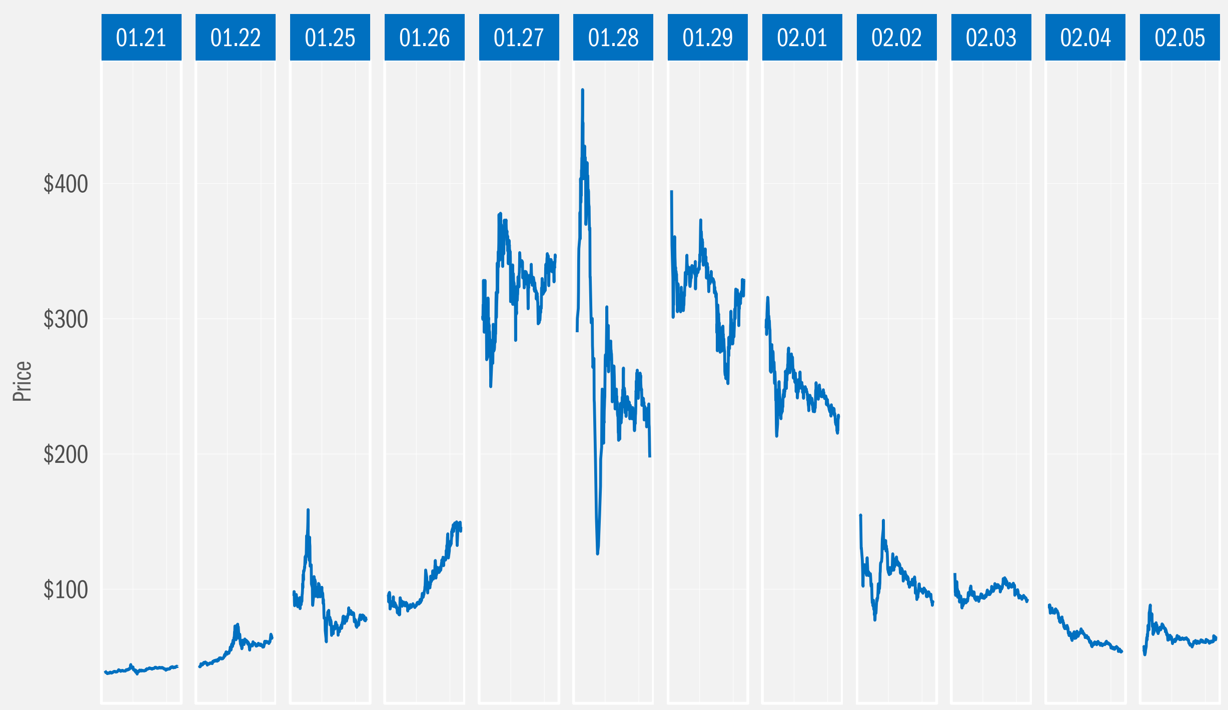
NOT THE ONLY GAME IN TOWN

For a moment, you'd have thought there were no other stocks in the world. Though a handful of names were caught up in what's proved so far to have been a short-lived frenzy, one dominated headlines. And by dominated, we mean to suggest it seemed there was no other news, as electronic gaming retailer GameStop became the talk of the town. With so many words having been spilled on the drama, we'll ask readers to allow us a pivot off that theme to a tangent thread: the rebound in a host of unloved names. Basically everything that had not been among the primary drivers of broader-market performance has gained interest over the past half year, with positive impact on the relative performance of our factor-driven strategies.

But First, the News...

If you haven't consumed a chronicle of GameStop's recent trading saga, well then you likely aren't reading this commentary. Still, we wanted to share a rather important series of data for posterity. Figure 1 shows twelve days-worth of GameStop's share price. Perhaps the 28th was the most remarkable: from a day-prior close of $347.51, the stock immediately swing to a 25% loss, then surged 85% to a high of $483.00, only to fall 77% to a day's low of $112.25 in less than 90 minutes, in turn surging 189% to $324.00 even more quickly, only to mostly sag for the remainder of the day. GME shares eventually closed that day down 44%.

Figure 1: Intraday Performance of GameStop (GME)



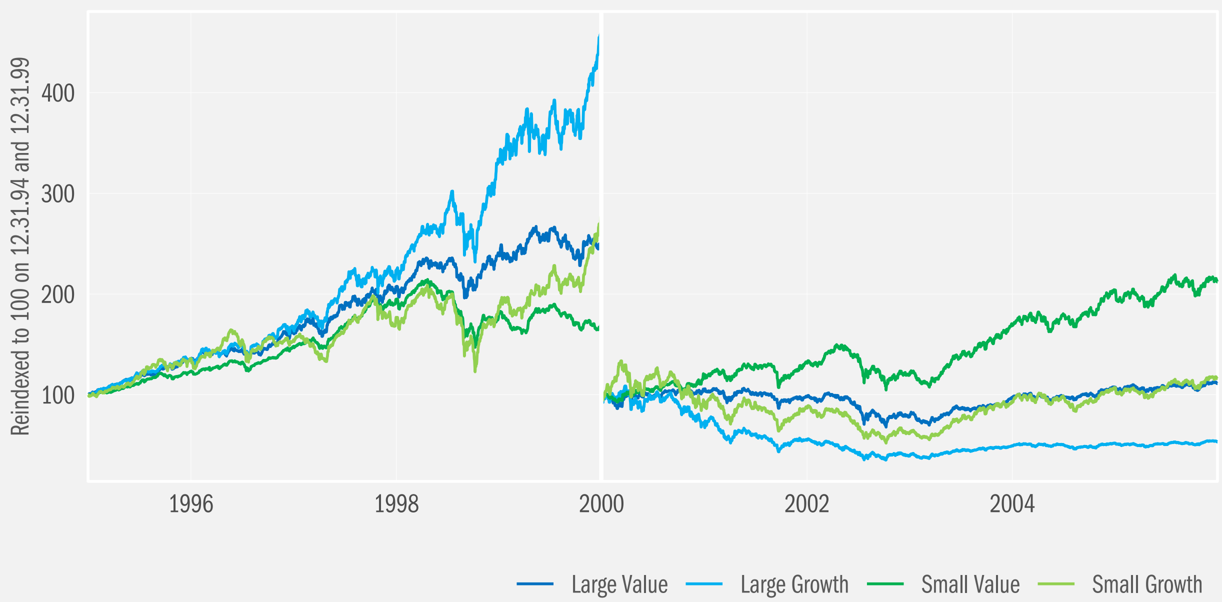
From 01.21.21 through 02.05.21. SOURCE: SRCM using data from Bloomberg

No Déjà vu. Yet.

While we don't have access to the relevant data for proof, we minimally cannot in memory recall a stock that expressed as dramatic the intraday swings that GameStop did on January 28. We are a reasonably young firm, with not many of our advisors having been in the business back then, but the memories of some include the heyday of the Tech Stock Bubble. Recalling the mad-market times at the turn of the century, commentators have been quick to point to the rather insane trading in GameStop stock and others, historically lofty market valuations and the rash of initial public offerings (IPOs). Many stories even pointed to the quadrupling of an esoteric index of unprofitable tech companies, suggesting we're right back where we were at the end of 1999.

But, these aren't those days, we don't think. The GameStop-and-its-ilk story—so far at least—is a comparatively narrow chapter in the annals of retail investor exuberance. Valuations, while historically high, may have better explanations now, versus then. IPOs can and broadly should be seen as a healthy sign of well-functioning capital markets (perhaps with some, again narrow, exceptions). And we think that profitless tech stock index, which reflects only a very small segment of the U.S. stock universe, is of little import in the context of the broader equity market.

Figure 2: Pre- and Post-Tech Bubble Performance of Small, vs. Large and Value, vs. Growth



From 12.31.1994 to 12.31.2005. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

The Forgotten Reborn

One trend the Tech Stock Bubble did set up was the subsequent outperformance of a range of previously under-loved stocks. Charted in Figure 2, we show the performance of the four-way mix of the Size and Relative Price factors in the five-year periods both leading up to and after the bursting of the Tech Bubble. We used the end of 1999 as the demarcation point, though the actual market peak was March 24, 2000.

While large-and small-cap Growth stocks vastly outperformed their peers leading to the peak, both greatly underperformed their peers afterward. Note that small-cap Growth stocks also outperformed large-cap Value stocks after the bubble burst.

Gaining Steam

We hinted in the intro of a friendlier present-day corollary to the history offered above. In recent weeks, GameStop was not alone among small-cap stocks (formerly small-cap, in GameStop's case) that have caught a bid. Not to the same extent as GME shares, which remain up 1,133% over the same time frame, small-cap stocks have soared 53% since the end of June 2020, outpacing by nearly 25 percentage points the gain on their large-cap peers. Small-cap Value stocks have underperformed their more expensive siblings, but still have well outpaced the broader market.

Figure 3: Recent Performance of Small, vs. Large and Value, vs. Growth

From 12.31.2019 to 02.05.2021. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Trends Favoring Tilts

Since we may tilt toward the Size and Relative Price factors in our portfolios, the gap in performance between our preferred approach and the individual factors is not as large as has been presented. Still, those characteristics had proved a bit of a drag on performance over the past year or so, so the relative boost among those segments has been welcome. These factors aside, the dominant risk factor across our models is beta…exposure to equity. With markets near all-time highs, now is among the better times to reassess tolerance for investment risk. Please reach out to your advisor to revisit that discussion.

Important Information

Signature Resources Capital Management, LLC (SRCM) is a Registered Investment Advisor. Registration of an investment adviser does not imply any specific level of skill or training. The information contained herein has been prepared solely for informational purposes. It is not intended as and should not be used to provide investment advice and is not an offer to buy or sell any security or to participate in any trading strategy. Any decision to utilize the services described herein should be made after reviewing such definitive investment management agreement and SRCM's Form ADV Part 2A and 2Bs and conducting such due diligence as the client deems necessary and consulting the client's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of SRCM services. Any portfolio with SRCM involves significant risk, including a complete loss of capital. The applicable definitive investment management agreement and Form ADV Part 2 contains a more thorough discussion of risk and conflict, which should be carefully reviewed prior to making any investment decision. All data presented herein is unaudited, subject to revision by SRCM, and is provided solely as a guide to current expectations.

The opinions expressed herein are those of SRCM as of the date of writing and are subject to change. The material is based on SRCM proprietary research and analysis of global markets and investing. The information and/or analysis contained in this material have been compiled, or arrived at, from sources believed to be reliable; however, SRCM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated thereby. Any market exposures referenced may or may not be represented in portfolios of clients of SRCM or its affiliates, and do not represent all securities purchased, sold or recommended for client accounts. The reader should not assume that any investments in market exposures identified or described were or will be profitable. The information in this material may contain projections or other forward-looking statements regarding future events, targets or expectations, and are current as of the date indicated. There is no assurance that such events or targets will be achieved. Thus, potential outcomes may be significantly different. This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an advisor to determine the appropriate investment vehicle.

Domestic (U.S.) large-cap equity: The MSCI U.S. Large Cap 300 Index is designed to measure the performance of the large-cap segment of the U.S. equity market. The index represents approximately 71% of the free float-adjusted market capitalization in the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Large" in a section specifically describing only U.S. stocks. Domestic (U.S.) small-cap equity: The MSCI U.S. Small Cap 1750 Index is comprised of the remaining smallest 1,750 companies in the U.S. Investable Market 2500 Index of the U.S. equity market and designed to measure the performance of the small-cap segment. The index represents approximately 11.5% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Small" in a section specifically describing only U.S. stocks. MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance.

Publication: 02.05.21

2021-SRCM-16