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And We're Off!: 2021 has gotten off to about as a wild start as anyone could have imagined. Wall Street has devolved into complete chaos, and lest anyone think it is just a blip on the screen, the class warfare battle is only in the first inning. It's truly different this time. Battle lines have been drawn and there is some serious firepower on both sides. We don't have a stake in either fight and are instead cheerful recipients of the confusion it has brought to the markets.

What started out as a simple, short squeeze, something we have seen time and time again - the most recent example being Tilray a few years ago, has morphed into a full nuclear war. GameStop has been all the rage for the second half of January and has seeped onto the front pages of mainstream media and has practically been responsible for all the internet social media traffic. All leading to signs of froth and bubble-type speculation that are as rampant as we've seen in years.

But just because there are tell-tale signs of froth does not mean a crash is imminent. And this is hardly the first time we have seen individual names get caught in a massive short squeeze. We can look back to Herbalife and Volkswagen as recent examples which wreaked havoc on certain funds but did not mark any sort of top in the general markets.

But these organized short squeezes are different from those of other periods because they involve a larger swath of symbols and are targeted directly at hedge funds that are short these names which are made public via their 13F filings. This month we saw some high-profile funds that needed capital infusions to meet margin calls and there are several rumors of funds closing their doors soon due to massive sustained losses.

It has become a small fry versus big guy fight, or that's at least how the media likes to portray it. There is definitely some truth to that, but it also delves a lot deeper. We are seeing funds being squeezed out of positions by other funds going in for the kill, and also seeing prominent investors on social media encouraging the chat rooms to pursue their strategies. All leading to massive price spikes and subsequent sharp declines as emotions and margin clerks begin to rule the roost.

It's a fascinating environment and one that has created tremendous trading opportunities to start the year. It's also a treacherous and highly emotional atmosphere where losses can rack up quickly on either side of the market.

This time it is different in the sense that out-of-the-money options are the instrument of choice and it has also become a bit more personal. Meaning, the public (Wall Street Bets, Robinhood, Redditt) have grown tired of institutions ruling the roost and is fighting back. It's another classic example of a "disruptive" change in society.

Let's be clear, it's not a bad thing. Change is good and we are more than willing to stake our claim in this new playing field for however long it lasts. Hedge funds and other institutions have seen their competitive edge deteriorate for years now and this month's drama has only reinforced the notion.

The playing field has and will continue to level, mostly due to technology. One could also point a finger at the Fed and the government for allowing easy monetary conditions to exist aided by stimulus checks going to many who are depositing them directly into their now commission-free brokerage accounts.

There will be a day of reckoning soon, "easy" money has way of balancing itself out and trading karma goes both ways. But the seismic shift on Wall Street and particularly fund management is undergoing a transformation; and it's not reversing anytime soon.

The old guard and "2 and 20 crowd" are the last of the dinosaurs roaming the earth before total extinction. Again, not a bad thing for those willing to change and adapt to the new rules. We put ourselves in that category and have and will continue to change our style in some regards, more automated being at the forefront, and continue to rely on market conditions rather than stated fundamentals - which is a commodity everyone now has access to and leads to group thinking that is edgeless.

There is a revolution brewing on Wall Street *and* Main Street. Some think it carries over from political divide or from the massive chasm of inequality that has grown since 2008. This month we saw regulators restrict trading on certain retail platforms after the massive speculation they spurned. Is that fair? Probably not, but it doesn't matter. The back and forth between retail and professional will only continue to fester.

We aren't going to spend much time defending either side. There are cogent arguments to be made both ways.

"It's a form of revolt by a coordinated group of disaffected millennials/GenZ who are sick of the Wall Street hogs getting fat while everyone else suffers. It doesn't matter that it makes no sense...in fact that's better. Many don't care if they lose money, they want WS to suffer" – Anonymous post on Redditt, 1/27

But if anyone thinks the government will sort this all out and return peace to the streets - don't. Below is a quote from famed short seller Bill Fleckenstein and his take on the SEC's role:

On top of it all, there has been no adult supervision. The SEC has been sound asleep forever. The Trump administration did nothing about the markets, with Trump trying to *actually boost it higher. The prior administrations did nothing either, and the Biden administration is going to be sound asleep as well. So the market is broken, and there are no adults home anywhere. What we are witnessing is a combination of the most dangerous and speculative elements of 1929, 1969, 1989 (Tokyo), and 1999, with a little Tulip mania thrown in, too. Meanwhile, the Fed is still monetizing $120 billion a month".*

Anecdotally, listening to some of the politicians, namely Elizabeth Warren, try and weigh in on stock market speculation and short-selling is truly terrifying in just how clueless they all are. Don't expect any good ideas coming from this batch of politicians when it comes to markets.

It is our opinion that 2021 will be a trading market versus an investing market. Maybe that is just wishful thinking on our part. But, with the amount of uncertainty ahead of us as a nation (good and bad), and the sea change we are just beginning to see on Wall Street, we are of the opinion that good traders will prosper and old-wall styles will slowly melt into oblivion.

And just because you feel like the environment has hit a speculative peak. Keep in mind that Allan Greenspan, the Federal Reserve Chairman during the dot-com bubble, used the term "irrational exuberance" during a televised speech on December 5, 1996. the comments were interpreted by Wall Street as a warning that the stock market might be overvalued. But, he was very early in his warning seeing as the dot-com bubble didn't fully peak until March of 2020 and in fact, between 1995 and its peak in March 2000, the Nasdaq Composite stock market index rose +400%

We hope we are clear on where we stand and welcome any feedback for those who have any questions. January 2021 has set the tone for years to come in our opinion, and we couldn't be more eager to dig in.

2021 got off to a "feel good" start across the board and across the country, aside from the events of January 6th of course. Maybe it was just the simple turning of the calendar that no longer reads "2020" that has put us all in a better mood, or maybe it's the fact that the vaccines are (too) slowly being rolled out and there is finally some real clarity that the pandemic is closer than ever to subsiding and "normal" times are coming soon. Perhaps it's the changing of administrations, that even if you don't agree with, have to concede it has brought a sense of calm and normalcy that many have been craving.

Whatever explanation one wants to assign is fine, but there is clearly a different feel in the air than say eight months ago. And this is clearly being reflected in the markets. There is a real sense of coming prosperous times evidenced by equities and some commodities getting off to respectful starts 2021 – depending on where you look of course.

So, what are the motivations for the prosperous start? Many feel the economy is set to roar back to life as the pandemic wanes and vaccinations become more prevalent. Much of this roar back has already been priced in, in our opinion, especially when you look at the industrials, retail, and energy spaces. All of which made new all-time highs at some point in recent weeks. Combine that with the ongoing surge in tech and small-caps and we feel a cogent argument can be made that the markets have gotten ahead of the economy.

That seems especially true seeing that no one knows what is in store for the economy if, when, and how it is reopened. What will the opening be like? Back to 100% normal? – hardly. It is hard to imagine commuting, traveling, gathering, and shopping roaring back to normal despite vaccines and hopefully much lower hospitalization rates.

And as much as some are pleased to have a new administration, we all have to concede that this new regime has stated they are ready to raise taxes on corporations, capital gains, and higher-income tax brackets. Also, they have committed themselves to at least attempt to pass massive spending programs on infrastructure and green energy programs that will cost trillions. This from the *Wall Street Journal* on 1/20

In the past four years, U.S. government debt held by the public has increased by $7 trillion to $21.6 trillion. President-elect Joe Biden has committed to a spending program that could add trillions more in the year ahead. At 100.1% of gross domestic product, the debt already exceeds the annual output of the economy, putting the U.S. in company with economies including Greece, Italy and Japan

We can't blame President Biden for the last four years spending obviously, but we can hold him responsible for the next four. And the early returns, especially when you consider the fact that uber-dove Janet Yellen is now our Treasury Secretary, are signaling that massive borrow and spend programs are on the horizon, debt be damned. Now to be fair, President Biden isn't the first president to come into office and promise big programs and the willingness to spend money we don't have. In fact, practically all of them do. And he certainly is taking the reins at a difficult time in history - to put it mildly. And we aren't here to judge the new president. Our only objective on these pages is to try and decipher how the economy and markets will react.

So far, so good obviously. But when we look at some of the policies, especially the taxation, we have to wonder just how justified the jubilance is. Let's keep in mind that just a few short months ago the narrative being spun that was if the Democrats did indeed pull off winning Georgia and create a "blue wave" that it would be a negative for *equities.* Well, that's exactly what happened and here we sit piercing all-time highs. However, we should all be acutely aware by now that easy monetary policy providing massive liquidity is, has been, and will continue to be the driver of these markets until that narrative changes. Regardless of who is in office or who controls the Senate.

What are the scenarios that could take away the printing presses and cause the liquidity spigot to shrink? The obvious first answer is a Fed tapering program, something that is admittedly nowhere near right now, but if the economic projections for 2021 coincide with some sharp retrenchment in Covid cases and rise in vaccinations, then one could at least broach the subject of tapering the quantitative easing program and the markets would start to wane on a different type of "new normal."

How the markets respond to this will be a true test on what kind of environment we have created and what type we will have going forward. Have we created a "spoiled" market that is addicted to cheap money and will throw a tantrum the second it is taken away? Much like we saw in December 2018, when chairman Powell tested the market with a nominal rate hike and was rewarded with an immediate equity sell-off of nearly 10%? If anything, since 2018, we have gone from dependent on cheap money to full-blown addicts that need our "fix" or else we immediately throw a tantrum until re-satiated.

It will be interesting to see how the Fed tackles this gargantuan problem when it finally does surface.

What else could cause this problem to surface quicker than anyone expected? Runaway inflation and a sharp/swift rise in rates. The Fed has constantly stated they are seeking 2%+ inflation levels for maximum monetary policy nirvana. It's too bad the Fed hasn't a clue how to calculate real inflation, because if they walked into a supermarket, got a prescription filled, or shopped for healthcare, they would be alarmed at how much inflation there really is for those who live average lives.

Rant aside, a real spike in Fed-monitored inflation rates would force their hands and compel them to raise rates despite promises of no raises until "at least" 2022. And, if you listen to pundits who are confident the economy will roar back in the second half of this year as Covid fades, then the pent-up demand for goods will be at the forefront and could easily lead to an uncomfortable inflationary environment.

The second problem the Fed could face would be an old-fashioned bond revolt. Essentially, the bond market via higher rates would effectively take away the Fed's printing press and demand fiscal saneness. This has been a narrative for years now sponsored by the bond vigilantes, but to be fair, it hasn't ever come even close to fruition. But when we look at 2021 and again point to the most unusual of circumstances of "re-opening" an economy after a global pandemic that coupled with unfathomable levels of debt, we at least have to give them a fighting chance.

We also have to question the markets sanguine reaction to a Democratic sweep, a higher taxation environment, renewed China tensions, a commitment to a stronger dollar from Secretary Yellen, and a push for a $15/hour national minimum wage (up from a national average of $7.25) when just months ago these scenarios were considered warning signs for the markets?

Well, here's a thought: Maybe the fact that the White House and government has some stability and calmness to it now, especially after the January 6th disgrace, has given investors a Zen-like moment that they are currently enjoying before they dig into the minutia of what is coming their way. This isn't meant as a political opinion either way, but more of a (amateur) psychological observation.

When does this Zen vacation wear off and is replaced by hard analysis is anyone's guess? But a reset is sooner than later in our opinion.

It was quite a month for Bitcoin. 2021 started with a 35% straight shot up in the price of Bitcoin, briefly piercing $42,000. Only to quickly retreat nearly 30% and briefly pierce under $30,0000. Much of the selling was attributed to some comments from Janet Yellen and ECB chief Christine Lagarde, both of whom questioned the legality and need for cryptocurrencies. This is hardly a new argument, and one that has plagued the space for years now – with little proof or follow through to initiate any type of change. There have long been rumblings that governments will ban the use of cryptocurrencies and immediately render them worthless for years now.

When, in reality, the fact is that most governments, including the Fed and the PBOC, are conducting studies on how to possibly incorporate some form of virtual currencies into their futures.

This month, we saw two financial superpowers both weigh in positively on Bitcoin. Blackrock, which has over a trillion dollars under management, indicated they would start adding Bitcoin exposure via futures to a number of funds they manage, claiming that *"it's going to be part of the asset suite for investors for a long time."*

JP Morgan laid out three bullish themes for owning Bitcoin in a note to investors this month. They were as follows:

1) Equity and credit valuations are "record rich"
2) Developed market bonds currently avg near 1% in yields.
3) Unseen outside shocks -cyber hit, climate chaos could lead to an asset that has "outside conventional financial channels."

Also weighing in this month on Bitcoin, was Bridgewater founder Ray Dalio, who after slamming Bitcoin last fall has done a 180 and is now comparing it to gold. Late this month he was quoted:

Bitcoin could serve as a diversifier to gold and other such store hold of wealth assets," said Dalio. "The main thing is to have some of these type of assets … including stocks, in one's portfolio and to diversify among them."

Bridgewater currently has $138 billion under management if they do indeed decide to start accumulating Bitcoin, it will just add to the supply/demand imbalance we are currently seeing.

"The argument for a non-zero Bitcoin position gets clearer over time, because among those large pools of money, the point is that even a small position can go a long way towards improving upside potential, without adding much risk to the portfolio, - Lyn Alden, Alden investment strategy.

Bitcoin enjoyed quite a ride in 2019, surging nearly 300%. Those types of moves obviously can lead to sharp, scary pullbacks, which is the price of admission if you want to dabble in new, highly emotional markets. But despite the noise and volatility attached to Bitcoin, it remains one of the better performing assets in the world -especially in 2019 and has a bright future in our opinion.

We want to take the first month of 2021 to once again reiterate our position and plan for Bitcoin, and possibly other cryptocurrencies going forward. Bitcoin has always been a very small position in our overall fund; it obviously got bigger in 2020 due solely to the price appreciation. We are not actively trading Bitcoin, although we are exploring more institutional platforms on Coinbase that could facilitate that endeavor in the future.

But for now, we are holding onto our position, that we own at much lower levels, and will do our best to ride out the significant amount of news and emotions that are associated with this space.

We simply look at it as a highly favorable risk-reward set-up that heavily favors the reward side. Yes, there are significant risks, and the possibility of Bitcoin totally collapsing are not zero. But it's highly unlikely. That's also why it remains and will remain a very small portion of the fund and act as a long-term investment rather than a trade.

If anything, recent months have supported our bullish thesis when you factor in the amount of institutional ownership that is starting to become the new defenders of Bitcoin. A trend that we have detailed in these pages for quite a while now.

One doesn't come across an investment idea that *could* literally be a game-changing event often in a lifetime. Bitcoin is one of those opportunities and therefore we plan on sticking with it - through the ups and downs. Hope that is clear for everyone.

January was a great month for the trading community. It was characterized by epic short squeezes (noted above) in GameStop, Blackberry, AMC Theaters and a swath of other highly shorted names. We certainly aren't here to complain about the volatility nor the environment we are in, but we are wary of what it is trying to signal and how to prepare for the ramifications of this.

Some "concerning" facts from January's trading:

1) SPAC IPO issuance set daily records and there are currently over 100 SPAC's listed versus just 15 a year ago.
2) Margin debt reached $850 billion, the highest it has been since 2015.
3) The group of most highly shorted equities rose well over 100% in January alone.
4) Record high call volume versus put volume.
5) AAII Investor sentiment recorded over 100% reading.
6) Wall Street Bets, Reddit message boards and Robinhood message boards are reporting record traffic and membership.

Much of the enthusiasm centers around the $1.9 trillion stimulus which appears to be on the way after some political wrangling and the hopes of economies re-opening (California lifted its SIP orders on 1/25 for example). We have already discussed this, and it isn't really new news. But the speculative fever is hitting a record pitch, in a macro environment that is far from steady, which makes it all the more interesting – and lethal.

When we look back to other periods of speculative frenzies, namely the late 1990s' internet bubble, its backdrop was more excitement based on a future of improved technology and a medium that would change the way we live, work, and communicate. It was literally a societal game-changer. We don't see that today.

If anything, our future is murky as ever, with some definite bright spots – namely the vaccines, being at the forefront.

Again, we aren't complaining about the speculation nor are we shying away from it, but it is worth pointing out and at the very least it gets our sixth sense caution radar on high alert.

We came into 2021 bullish on Twitter as a top stock pick for the year. That feel-good idea lasted of all six days, or until the Capitol riots and subsequent banning of then President Trump and many others on social media platforms. This was the acceleration of a firestorm that has been brewing in our society on how much freedom is allowed on social media and what is constitutional. It all revolves around Section 230 – which will be debated in Washington fervently this year.

It's confusing and only going to get more litigious and rancorous as time moves on. This level of uncertainty resulted in an early-year drubbing in both Twitter, Facebook, and to a lesser extent Snap. We came into the year with a small batch of Twitter call options, which quickly lost a good chunk of their value, but have rebounded respectfully since January 19th.

We still think Twitter is an undervalued medium that if could ever properly monetize, like the rumored subscription model, the stock could trade north of $100. But for every step forward, Twitter seems to quickly take a ¾ step back. We are frustrated, but small current stakeholders (call options only) and eagerly await their earnings report and analyst day in early February. Suffice to say, it's going to be a bumpy ride with Twitter and our conviction level is likely to change pending on the results.

Looking Forward and other Market Commentary: The first couple of weeks in February will be laden with more corporate earnings releases. Some of the heavyweights still yet to release include: Amazon, Facebook, Twitter, Snap, Expedia, Alibaba, Amgen, and a slew of energy names.

As for earnings expectations on the whole: FactSet puts the S&P 500 consensus now for an earnings decline of -8.8% in 2021. This is improved from expected declines of -9.7% just a few weeks ago, and -12.1% as of the end of September. But S&P 500 revenue is actually expected to grow. The street is looking for a sales growth of 0.4%, up from 0.1% a few weeks ago, and -1.1% as of the end of September.

We plan on spending a great deal of time recapping individual and the overall earnings environment next month but wanted to spend the majority of our energy this month focusing on the macro picture set-up for 2021 and also the revolution on Wall Street.

We will get a break from the Central Bankers as the vast majority held meetings in January. One interesting tidbit we came across this month is that historically February is the second weakest month for equities, with September being the first.

It's hard to pinpoint exactly why, but it's an interesting fact nonetheless. Let's see if it's different this year.

However, let's keep in mind, despite political preference, historical data going back to 1948 shows an average +14% annual gain in the stock market when the Democrats control all of Congress and at the same time the White House.

Finally, we live in interesting times no doubt. This month's chaos on Wall Street is just the latest example. There is a defined change underway on how we, and more importantly the younger generation, view traditional institutions. For example, Bitcoin is now perceived as an anti-Fed play. Fintech is anti- Wall Street. Social Media-is anti traditional media. Zoom, or other virtual platforms are anti traditional 9-5 workdays and the commutes that accompanied them.

What's the point? These are transformative moves that will define the future. Traditional institutions are getting a reset from the younger generation who will be the social and financial leaders for the coming years – this month's Wall Street chaos being the perfect illustration. They don't like fossil fuels, paying for things, cash, or reading the newspaper and watching the 5:00 news. You may not agree or like it. But they don't care and will cultivate the world they want - with or without you.

We are seeing it this year with Robinhood, Redditt, Discord, and Wall Street Bets. They aren't going away and are only having their confidence bolstered by their success (so far at least)

So instead of screaming at them to get off the lawn or get a haircut, why don't we embrace change and learn from it. Maybe they have it all wrong and their new ways of doing things are a flash in the pan and we will soon go back to gas-guzzling cars, red-tape banking, and making dinner reservations with a phone call.

But don't try and short it.