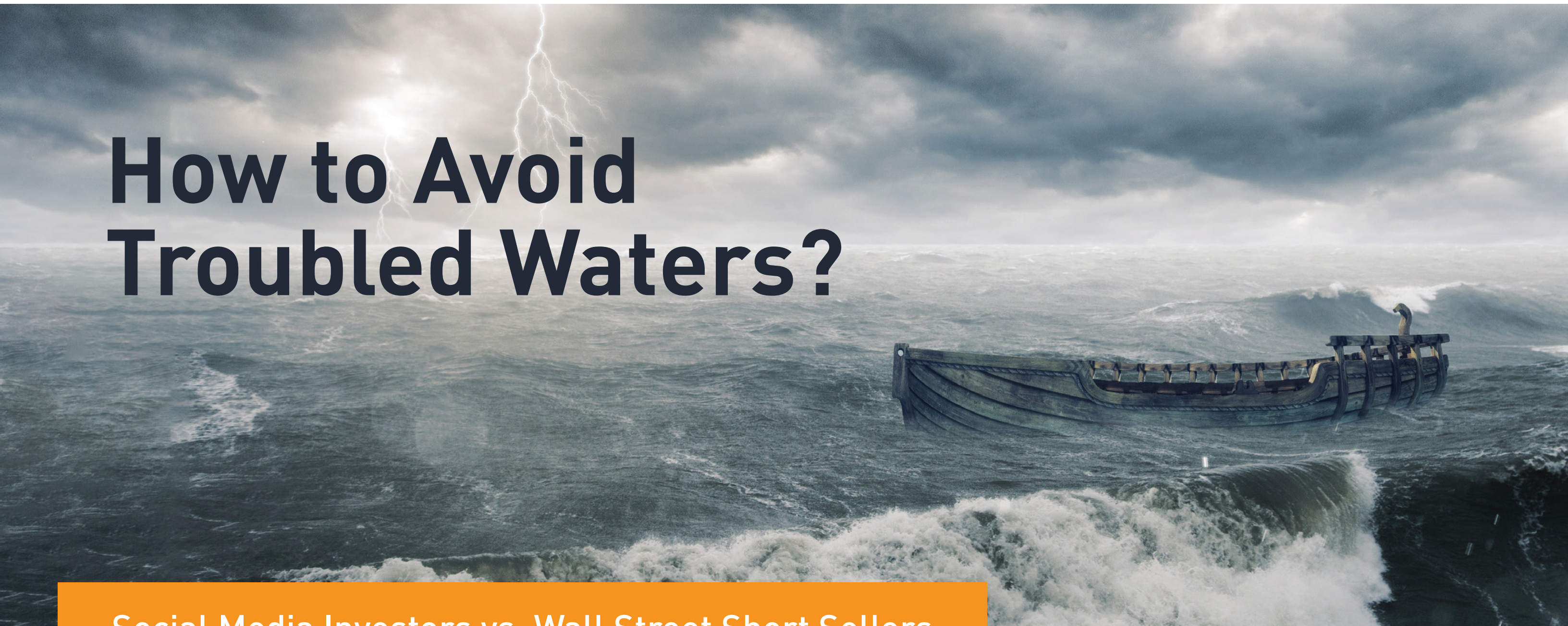

How to Avoid Troubled Waters?

Social Media Investors vs. Wall Street Short Sellers

Don't board the ship.

Short squeezes are not new. (We experienced them in high numbers in 2000 and 2009.) What is new: retail traders rallying online against short sellers, and in record numbers, manipulating prices of specific stocks (and now commodities) creating wild swings in value. It's the biggest short squeeze in the last 25 years.

B&G Portfolio Manager Kevin Gade says it's important that long term investors remain focused on this fundamental belief: Purchasing stock means owning a real financial interest in a company... and such ownership should demonstrate confidence in that company's long-term economic opportunity.

Many funds take a more magnified and, perhaps, riskier approach by borrowing shares of stock they believe will ***lose*** value. Such investors often then leverage the shorted stock proceeds to purchase equities they believe are better bets. Gade points out, "In good times, it works." In the last 10 months work-from-home tech stocks did well, for example, while retail struggled. "The result," says Gade: "amplified returns in 2020 by correctly funding winning stock picks with the worse-performing securities."

In rolls 2021 and we realize anew, short selling is risky. If the stock price rises, there's no limit to how much money the short seller could lose. "These same funds not only lost billions of dollars from Reddit/retail traders targeting highly-shorted stocks, but they had to sell the stocks they liked and owned to "unwind" (or cover) their short bets," says Gade.

The typical US equity long/short fund returned -7% the last week of January and has returned -6% year to date, according to Goldman. Is there an upside? Yes, says Gade, who notes, **"the pain for these players may result in the opportunity to buy good stocks at discounts for patient, long-term investors."**

At present the SEC is "monitoring" the situation and "reviewing the activities of market participants." Reddit users continue to seek what some call "economic justice," while the underlying value of the companies being bolstered remains questionable.

The lesson perhaps: don't rock the boat when it comes to your hard-earned wealth. Gade advises, **"Be careful with leverage. Easy come can just as easily mean easy go."**

It's important to note: Bahl & Gaynor does not engage in leveraged investing with its client capital. We believe our time-tested philosophy of long-term dividend growth stock ownership provides the safest path to a growing stream of income and future security in unpredictable markets.

Kevin Gade
Portfolio Manager