MARKET INSIGHTS
from Ziegler Capital Management

The Retail Stock Frenzy, What Does it 'Meme' for Your Small Cap Portfolio

WRITTEN: JUNE 3, 2021

If you are an investor in the small cap space, June 2, 2021, was another eye-opening day for some companies that are often referred to as "Meme" stocks. A "Meme" stock is a company that has seen an increase in trading volume not because of the company's performance or valuation, but rather because of hype on social media and online forums. The speculative surge in these "Meme" stocks has resulted in outsized and historically high weights for them in small-cap indexes, while at the same time they are manifesting extreme volatility.

The combination of these two aspects has resulted in a significant increase in day-to-day tracking error of excess returns for active managers, particularly those that do not own these stocks within their portfolios. As an example, AMC began yesterday at a relatively high 0.79% weight in the Russell 2000 Value, then nearly doubled by the end of the day. Any manager not owning AMC was automatically in a 0.75% excess return hole versus the index just for that one stock. Other companies that have followed a similar pattern but have not had as dramatic a price increase are Bed Bath & Beyond (BBBY) and Game Stop (GME).

Here is some data to digest:

- On June 2, 2021, AMC Entertainment (AMC) returned 95.22% for the day. The stock began the day with a 0.79% weight in the Russell 2000 Value and a 0.42% weight in the Russell 2000. Not holding this stock caused a lag of 75 and 40 basis points versus each benchmark, respectively. This pattern of behavior was also seen, albeit at a lesser level in Bed Bath & Beyond which returned 65.22% for the day. Not holding this stock caused a 13-basis points lag versus the Russell 2000 Value and a 7 basis point lag versus the Russell 2000.

- Since May 21, 2021, these trends are even more pronounced. AMC has returned 417.80% through June 2nd. Not holding AMC would cause a 127-basis point lag versus the Russell 2000 Value and a 67-basis point lag versus the Russell 2000 over that same time frame. Investors avoiding AMC, BBBY, and GME lagged the Russell 2000 Value by 174 basis points and by 97 basis points versus the Russell 2000 during this time frame.

This is very similar to what we saw in January this year where a number of heavily shorted names were bid up due to a buying frenzy by speculative investors that had

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absolutely nothing to do with fundamentals. The stocks with the greatest moves had been heavily shorted because of the poor fundamentals of their business.

At Ziegler Capital Management, we believe that we need to have an intellectual position/opinion on all stocks including AMC, BBBY, and GME. Ours is that the market valuations of these particular companies far exceeds their economic value. We would expect the stocks to revert to lower levels as fundamentals SHOULD matter again at some point but whether that is in hours, days, weeks, or months is simply not known, nor are the ultimate levels at which the stocks settle.

ZIEGLER CAPITAL MANAGEMENT, LLC
30 South Wacker Drive | Suite 2800 | Chicago, Illinois | 60606 | www.zieglercap.com

21-02047
Printed Internally