CANNELL &CO.

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FOMO, THE FEAR OF MISSING OUT

Dear Clients

Stock markets have felt FOMO's influence countless times. The Nifty Fifty and the Dot Com bubble are but two examples. However, in the last year we have witnessed FOMO impact financial markets in unique ways. The pandemic, financial stimulus, broadening access to financial markets and lifestyle changes all worked together to raise the level of social anxiety with respect to missing out.

No single event exemplified FOMO as dramatically as the first quarter's price volatility surrounding GameStop Corporation's (GME) stock price. The most visible of the so-called meme stocks, GME dominated the headlines with wild price swings, accusations of market manipulation from both Robinhood traders as well as hedge fund operators, and Congress's inevitable opportunistic involvement in the controversy created pandemonium surrounding the stock.

Though visible, the meme stocks were by no means the only example of extreme market behavior. The appetite for the most expensive stocks in the market continued into the start of the first quarter, following their rocketlike performance from the depths of the pandemic lock-down. Then, in mid-February, there was an abrupt change and many of those companies came crashing back to earth. Nowhere was this better illustrated than by the highly publicized ARK Innovation ETF, which invests in many of these companies. This ETF was up over 25% mid-quarter only to finish the quarter down by almost 10%.

This manic behavior also found its way into the IPO market, though through the back door in the form of Special Purpose Acquisition Companies (SPACs). Historically, this was a rarely used way for private companies to access the public markets. SPACs have exploded in recent years, from 12 deals in 2016 to 248 in 2020 to 298 in just the first three months of 2021. Athletes, movie stars and a myriad of celebrities joined high-profile Wall Street investors to launch these blank-check companies with the hope of merging with private companies and reaping the financial rewards. As with any market that sees an influx of too much capital, the recent stock results for these transactions are far more modest than when this was a niche market. According to data from the financial services company Jefferies, more than 50% of the SPACs they track are trading below their initial offering price. We have spent considerable time analyzing several SPACs over the past year that have come to our attention not

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because of the hype, but because of their professional managements with whom we have a history and their business plans in which we have confidence. We believe that we have identified a few that trade at reasonable valuations and will therefore provide good long-term rates of return.

We would be remiss if we didn't touch on an asset that seems to be the manifestation of FOMO itself: crypto-currencies. The most well-known, Bitcoin, was about $5,000 in mid-March of last year (having dropped from $10,000 the month before). In just over a year, it has risen to just under $60,000, having nearly doubled in the first quarter of 2021. While the near-term price of Bitcoin is impossible to predict (it should be noted that Bitcoin has experienced 50%+ declines over the short-term with regularity), there are several thoughtful and successful investors with opposing longer-term points of view as to its value, if any.

While FOMO has driven many of the market's headlines over the past year, we have subscribed to the perspective below, which was wonderfully articulated by Charlie Munger of Berkshire Hathaway:

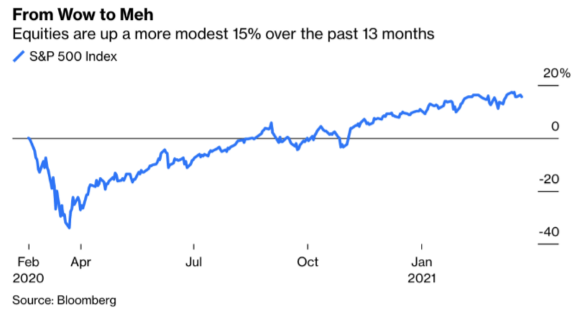
> Missing out on some opportunity never bothers us. What's wrong with someone getting a little richer than you? It's crazy to worry about this.
>
> — Charlie Munger

Focusing on the hottest new investment trend or chasing the best performing asset class does not constitute a strategy. Worse, often one finds themselves buying assets at inflated prices, which results in disappointing future returns. It is a far better idea to focus on your long-term financial needs and build a strategy that allows you to achieve those goals without worrying if you're missing out on the hottest new trend. Taking this approach has the added benefit of allowing thoughtful investment decisions without undue emotional influence.

To illustrate how the impact of taking a "longer-term" view can help control emotional decision making, we draw your attention to the following two snapshots of the S&P 500 Index's performance.

The first captures the once in a generation 75% increase in the index over the 12-month period from March 2020 to March 2021.

However, a considerable amount of perspective is gained in the second graph by merely adding a single month to the timeline. By indexing the returns to February 2020 as opposed to March 2020, that historic return normalizes to a healthy 15%.



An investor analyzing a return of 75% might consider a far different set of future investment decisions than one contemplating a 15% return over a similar period.

We commit ourselves to analysis rather than FOMO. Our investment discipline helps us focus on longer- term factors that impact a company's financial performance. To that end, we acknowledge that governments throughout the globe have unleashed a firehose of monetary and fiscal stimulus to douse the economic effects of the pandemic. We realize the programs bring with them longer-term headwinds such as higher taxes, higher interest rates, and inflation. These are all issues that the companies in which we invest must reckon with, and thus factor into our thought process. The markets remain fickle, one day favoring the reopening stocks and the next day hiding in the stay at home stocks. As always, there is a lot to consider while we remain diligent in our efforts to identify strong, reasonably valued, well managed companies on your behalf.

Thank you for your continued trust. We look forward to being able to meet with you in person as we return to a more normal world.

Sincerely,

The Partners of Cannell & Co.