The Sizemore Income Letter

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Bed Bath and BEARISH

By Charles Lewis Sizemore, CFA

One of the weirder developments in 2020 – and one that stubbornly refuses to die – is the rise of the meme stock. GameStop, AMC, Dogecoin… and more recently Bed Bath & Beyond (Nasdaq: BBBY). Bed Bath & Beyond was up 200% in August, due mostly to meme-stock traders piling in.

Their trade thesis wasn't crazy. Yes, retailer has really struggled in recent years, and the post-pandemic spending shift towards experiences and away from home goods only made it worse. But the company insiders had been aggressively buying the stock… and it was also an absurdly heavily shorted stock, meaning it was ripe for a potential short squeeze. Fully half the available float was already sold short.

The trade worked! For a while…

But in case you missed it, the shares are down about 40% today after closing down about 20% yesterday.

It seems that that insider buying that got the meme traders so excited just went into reverse. News broke yesterday that Chairman Ryan Cohen liquidated his 12% interest in the company, effectively using the August price spike to dump his shares on the meme traders.

Ouch!

Now, you know me. I'm no ideologue. I don't think any style of trading is inherently bad. If you can make money, then why not do it!

It comes down to risk management. I had no interest in Bed Bath & Beyond because I knew it was a short-term trade at best. The company's fundamentals are awful, and there is no sign of improvement. There's not light at the end of the tunnel.

But to any trader that saw an opportunity to latch on to an explosive momentum trade, I would say go for it. Just be smart about it. Keep your position size modest and take profits along the way.

My best guess is that most of the meme traders failed to do either.

At any rate, it remains to be seen what this means for the broader market. We use a market timing model for one of our in-house hedge funds. The model is probabilistic and based primarily on institutional money flows. When we see evidence that large institutional investors are piling into the market, our model gives us the “risk on” signal to trade. When it fails to detect that big money buying, we would tend to view any market rally with suspicion. In those cases, we sit on our hands and wait.

Well, even as the market has rallied hard over the past two months, it’s interesting that our risk model is failing to see that all-important institutional buying. The big money isn’t selling, to be sure. But they’re not buying either. They seem to be in wait and see mode.

This tells me that most of the market’s rise over the past two months is due to short covering and to trading by smaller retail investors.

Of course, all of this can change tomorrow. I could log in Monday and see that the big money has jumped in with gusto! But for now, the data is telling me that we should be careful.

Does this mean we’re running for the hills?

No. I’ve been selectively recommending new positions when I see pricing I like. But I absolutely recommend caution. If the meme traders get spooked and leave the market again, we could absolutely be in for more downside.

So for the time being, be careful. Follow my advice to keep a little more cash on hand and to keep your position sizes modest.

That’s all I have for now. So, until next time, keep cashing those dividend checks!

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you’d like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$53.01	$33.01	6.92%	$ -	14.02%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$52.97	$32.57	4.39%	$ -	11.89%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$63.95	$47.91	5.73%	$ 0.94	-0.94%	Yes	Buy
Digital Realty Trust	DLR	3/24/2022	$136.79	$130.33	$118.15	3.57%	$ 1.22	-3.83%	Yes	Buy
Vertical Capital Income Fund	VCIF	1/27/2022	$9.99	$9.49	$8.95	9.23%	$ 0.37	-1.30%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$11.79	$7.79	7.42%	$ 0.38	49.03%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$49.08	$33.92	6.28%	$ 1.83	6.54%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$159.17	$130.77	4.62%	$ 4.18	58.09%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$30.00	$20.49	7.10%	$ 1.65	44.26%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$52.12	$41.78	8.65%	$ 6.20	31.32%	No	Buy
Healthcare Realty Trust	HR	7/20/2022	$24.37	$26.57	$22.12	4.72%	$ -	9.03%	Yes	Buy*
Physicians Realty Trust	DOC	11/20/2020	$17.80	$17.90	$15.30	4.49%	$ 1.38	8.29%	Yes	Buy
Main Street Capital	MAIN	9/25/2020	$29.74	$42.80	$35.50	5.93%	$ 4.63	59.47%	Yes	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$54.96	$42.57	5.30%	$ 4.95	98.24%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$23.76	$18.15	7.38%	$ 3.36	72.74%	Yes	Buy
Dow Inc.	DOW	6/24/2020	$38.45	$55.44	$48.78	4.53%	$ 5.60	58.75%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$15.00	$12.53	6.14%	$ 1.79	56.41%	Yes	Buy
LyondellBasell Industries	LYB	5/22/2020	$60.39	$89.94	$79.23	4.27%	$ 15.11	73.95%	Yes	Buy

* Position resulted from merger with HTA

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