

## The Long and Short of It

The financial headlines were packed last week with earnings results, short squeezes, and vaccine news. The end results left all major U.S. market averages in the red for the week. The Dow Jones Industrial Average, S&P 500 Index, and NASDAQ 100 Index were all down 3.3%.

We are almost halfway through the fourth quarter earnings reporting cycle. Of the 184 companies in the S&P 500 that have reported quarter-to-date, 84.2% have reported earnings above consensus. This week, another 112 companies in the S&P 500 are scheduled to report earnings. Fourth quarter earnings are expected to decline 1.6% year-over-year, an improvement from the expectation of a 5.7% decline last week. Strong earnings reports from several large companies have helped narrow the expected decline. Revenue for the quarter is now expected to grow 0.2% year-over-year, a switch from an anticipated decline previously. Full-year 2020 earnings are expected to decline 13.1% year-over-year and full-year 2021 earnings are expected to rise 23.7% year-over-year.

Initial unemployment claims during the week of January 23rd declined to 847,000 versus 914,000 the previous week. Continuing claims for the week of January 16th were 4.771 million versus 4.974 million the week prior. Unemployment has been higher in tourist destination States like Hawaii and Nevada, as well as States that have had tighter lockdown and business restrictions such as California and New York. We will see additional data when the January Employment Report is released this coming Friday.

In our *Dissecting Headlines* section, we look at what a short squeeze is.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-3.3%	-1.0%	Aggregate Bond Index	0.0%	-0.6%
Dow Jones Industrial Average	-3.3%	-2.0%	U.S. Dollar Index	0.4%	0.7%
NASDAQ 100	-3.3%	0.3%	WTI Crude Oil	0.4%	8.2%
Russell 2000 (Small Cap Index)	-4.4%	5.0%	Gold	-0.4%	-2.7%
International Stocks (MSCI ex-US)	-4.0%	0.3%	Real Estate (US REIT Index)	0.3%	1.2%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Short Squeeze

Short selling is when an investor borrows shares of a stock to sell, hoping to buy it back for a lower price to profit from the downward price movement. When a stock that has a high short interest, meaning a large number of investors have borrowed and sold shares they do not own, starts to rally, it can cause a short squeeze.

The sharply increasing price of the stock can force the short sellers (those who have borrowed and sold the stock) to scramble to buy the stock back in order to stem losses of the stock moving in the wrong direction for them. The competition to buy shares of the shorted stock by both those trying to cover their short positions as well as buyers trying to profit from the short squeeze can exacerbate the price movement of the stock.

The trigger for the short squeeze can be any type of news such as unexpectedly good earnings, an announced acquisition of the shorted company, a new management team, or other positive changes. In the cases we saw in the market last week, it was the coordinated effort of traders to trigger a short squeeze without news and force short sellers to capitulate on their positions.

## The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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