WINTER 2021

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

What Can We Learn from the GameStop Short-Selling Drama?

Hedge funds are alternative investments using pooled funds to employ different strategies to earn active returns, or alpha, for their investors. Some of those strategies are to sell stock short, use leveraged and structured investments, and use derivatives. There are stories of great success but also some spectacular implosions. The recent controversy surrounding a retail video-game store adds several more hedge funds to the list of those who have lost billions of dollars. For the long-term investor, this situation shows how quickly information gets priced into stocks and how the active stock picker can be taken by surprise.

Around August of 2019, GameStop announced its plan to restructure its organization. It would close numerous locations and lay off 120 employees to regain solvency and return to a profitable business model. Investors cheered, and the stock rose in price. However, several large hedge-fund managers were skeptical of the struggling retailer being able to turn things around, and they began to short the stock. This is essentially when stock speculators borrow shares of a stock from a broker and then sell the shares. Then they wait until the stock drops in price, buy the shares back, return the shares to the broker with interest, and keep the profit. Essentially, they inverse the winning formula for stock picking: sell high and buy low.

Here's the risk. If the speculators cannot buy the shares back at a lower price, they are forced to buy the shares for more than they sold the borrowed shares for. This is called a short squeeze. Enter a little-known chat room on a blog site called Reddit. Here, millennial investors grew angry that hedge funds were targeting GameStop and collaborated to buy the stock in mass. They used a favorite trading app among younger investors called Robinhood to begin buying up GameStop stock. This drove the price significantly higher and squeezed hedge funds out of their positions for losses. It began a few months ago, but the squeeze crescendo peaked in late January. Some hedge-fund managers lost billions and were forced to turn to banks and other investment houses for loans.

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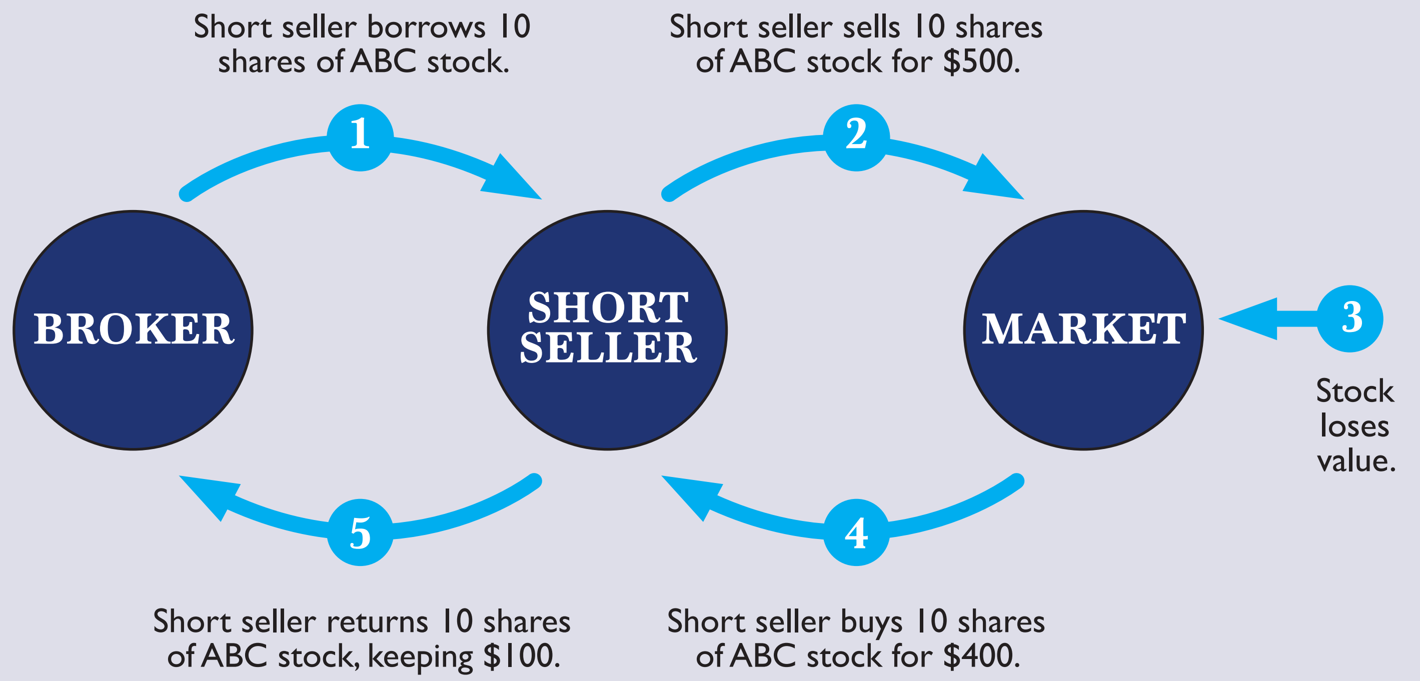
What makes the story notable is the David versus Goliath aspect: the little guy seeking to save the retailer and punish the wealthy hedge-fund investors. In a stunning and surreal moment, hedge-fund managers went on national media outlets and decried these millennials for manipulating stock prices without any self-awareness of their own manipulation through shorting. Brokerage firms heard the cries and began to limit how much GameStop stock small retail investors could buy. The Robinhood app set the limit at one share. This infuriated traders. It appeared brokerage firms were in cahoots with hedge-fund managers. In its defense, Robinhood said it created the limit to protect investors from taking on significant losses in GameStop once the frenzy died down and the stock returned to a more normal price. It will be up to the SEC to sort it out; lawsuits have already been filed.

In our opinion, the take-away from the whole ordeal is understanding how fast information gets priced into a stock position. Once brokerage firms announced the limits for buying GameStop stock, the price crashed. When they announced the restriction had been lifted, the price exploded upwards. While not to these extremes, this happens to all stocks every day. Information about stocks is quickly priced in, often at breathtaking speed. This is why most mutual-fund managers, even hedge funds, don't outperform their index. The lesson here is to avoid the drama, hold stocks for long-term growth, and stay out of the frothy world of day traders.

What is Short Selling?



Is This Time Different?

Is the current crisis all that different from the other crises of the last century? How should we respond?

With 2020 ending, we wanted to take time to review an unprecedented year. We were hopeful going into 2020 with significant equity-market gains, and the U.S. economic outlook was bright. Unemployment had hit lows not seen since the great recovery on the heels of WWII. Wages were up, and consumer confidence saw record highs.

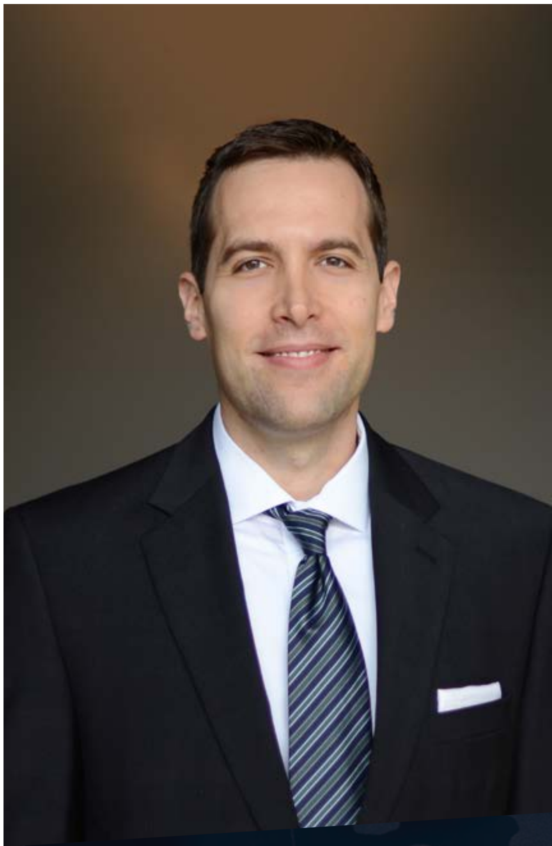
Unfortunately, shortly into 2020, the COVID-19 pandemic spread globally. The social and economic impact drove investment markets lower and brought unprecedented governmental action to contain the virus. Due in part to the quick passage of an economic stimulus bill to the tune of several trillion dollars, the markets recovered at such a rapid pace that many were caught flat footed. In addition to the chaotic economic year, the Presidential campaign drove an already-divided country further into the trenches.

Despite the uncertainty, stock markets continued to hit all-time highs. Growth stocks like Amazon, Apple, and Google rebounded quickly from March's lows to soar to record highs.

We are often asked how stocks could recover so quickly. The temptation during a crisis is to think, "This time, it's different." However, history tells another story. It shows us that people have rallied to better their lives. In the last century, the world has weathered two World Wars, the Spanish-flu pandemic, a cold war, the 9-11 terror attacks, and the subsequent war on terror. Despite it all, humans have sought to recover and rebuild. That same tenacity resides in us today. It is the human condition.

History also demonstrates that free people making financial decisions create significant wealth. Henry Ford's decision to take a fledgling idea of gas-powered buggies to the masses created the assembly line and changed manufacturing forever. The idea of placing a computer in every home drove International Business Machine (IBM) to create the personal computer, and technology never looked back. Today, we have more computing power in our cell phones than the engineers at IBM could have imagined possible. While these inventions created significant wealth for some, they also destroyed the livelihoods of others as Kodak and the manufacturers of buggy whips can attest. It is the ebb and flow of free-market economies.

As we move into the next decade, the possibilities are boundless. Yes, we will see significant market disruptions, political rancor, and unexpected events. But we will also see significant breakthroughs in medicine and technology. We do not have a crystal ball to tell you who the next Steve Jobs will be or what the next hot tech stock is. We will not be able to predict the next crisis. Instead, what we do is provide our clients with sound investment advice using diversification to capture market gains during good times and provide downside protection for when markets fall. The reason we have such confidence is because despite what the media may tell you, this time is not all that different.



Seth Jentner, CFP®
Vice President and COO

Jentner Wealth Management
3677 Embassy Parkway, Akron, Ohio 44333
330-668-1000 1-866-JENTNER

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New Standards of Conduct for CERTIFIED FINANCIAL PLANNERS™

Jentner Wealth Management has acted as a fiduciary for 100% of its clients 100% of the time for decades; however, this has not been true for all financial advisors. We are pleased that the CFP® Board has released a new Code of Ethics and Standards of Conduct that all CERTIFIED FINANCIAL PLANNER™ professionals must comply with. The revised Code and Standards require CFP® professionals to act as a fiduciary at all times when providing financial advice to a client. The prior standards required CFP® professionals to act as fiduciaries only when they were providing financial-planning services, not when they were selling investment products without providing financial advice.

A fiduciary is a person or company with a legal and ethical relationship of trust with someone. In financial services, this definition includes always acting in the best interest of clients.

Financial advice can be developing a financial plan; providing advice about financial assets, investment strategies, and portfolios; retaining other professional service advisors; and exercising discretionary authority over a client's assets. There are specific disclosure requirements under the new Code and Standards that dictate the information a CFP® professional must communicate to a client when providing either financial advice or financial planning.

Under the new requirements, there are 15 duties fiduciary advisors owe to their clients. A CFP® professional's fiduciary obligation includes acting in the best interests of the client by putting client interests first (duty of loyalty); acting with the professional skill, care, prudence, and diligence a prudent professional would exercise based on client's circumstances, goals, objectives, and risk tolerance (duty of care); and a duty to follow client instructions even if the advisor did not recommend the actions the client chooses. Included in the duty of loyalty are changes in the requirements for CFP® professionals to disclose material conflicts of interest, obtain the client's informed consent, and manage the conflicts.

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