Dear Investor,

This is the first of our semi-annual letters that we will begin providing this year in addition to our monthly market commentary. In this letter we will review our performance in 2020 including our biggest impact performers as well as our investment themes.

Rod Capital 2020 Results

In 2020, RCM returned 34.09% with a modest average net exposure of 56.25% for the year. The S&P 500 returned 18.40%.

Our top performer for the year was Tesla (TSLA) – representing a gain of 4.63% in the fund. Tesla was only around 1% of our portfolio throughout the year, placed in our 'high speculation' bucket of stocks and was never a top 20 position. It just helped that it rose an astronomical 750% in 2020 as we continued to sell it down (it is now a near zero position). Our biggest individual loser was shorting Peloton (PTON), which lost us -1.15% in that same high speculation bucket of long-short investments. Peloton rose to over 4X its early 2020 price while our modest short position took the hit.

Our second biggest gain came from IAC Interactive (IAC), which completed its planned spin-off of its position in Match Group (MTCH), removing the high 'conglomerate discount' that held the shares down for years. Combined, the MTCH/IAC position represented a net 4.11% gain in the fund. IAC is planning another spin-off of Vimeo which we believe will once again add more value as its conglomerate discount continues to fall. We continue to hold a smaller share of these positions.

Our most successful investment theme was going long air leasing companies – companies with per share book values well above their stock prices – led by AerCap Holdings (AER) and shorting cruise ships and airlines led by American Airlines (AAL) – which hold tremendous amounts of debt and trade above their pre-pandemic enterprise values. This resulted in a net 4.32% gain for the year and we are continuing this investment theme into 2021. This was a part of a broader recovery theme of our portfolio, identifying beaten down stocks that had fallen well below book value due to the pandemic. The rest of these recovery theme net positions (mostly real estate investment trusts) contributed 3.71% to our fund. Other unfairly beaten down stocks that had fallen out of favor due to the pandemic such as Live Nation (LYV), MGM Resorts International (MGM), and Walt Disney Co (DIS) contributed 2.53% to the fund results.

The shorting of exchange traded funds represented the majority of our year's losers as we navigated huge waves of buying and selling in the market. Our second worst individual performer was a small cap technology stock whose short-term results did not go in our direction. This resulted in a loss of -0.96%. However, overall, our short-term earnings event results were modestly net positive despite our short-term trading being much more conservative in size than prior years due to the dramatic 2020 inefficiencies of the stock market. Our short-term trading strategies shine in efficient markets, while our long-term investment opportunities depend more on inefficient markets.

Additionally, our inflation hedging positions in gold and a temporary position in high grade corporate bonds contributed 2.53% to our results.

2020 Review and 2021 Investment Focus by Perry Rod - January 14th, 2021

I have always thought, “wouldn’t it be nice if most of the population invested in stocks and participated in the ownership economy?” I remember when ABC’s “Shark Tank” debuted in 2009 I thought this is great – a show that encourages the public to think like investors.

Fast forward to our 2020 pandemic year and my wish seems to have come true – sort of. Be careful what you wish for! Retail investors have taken over the stock market. But are retail investors shark or bait? Stock promotion schemes and shady managements are cashing in on billion-dollar valuations right now. Cryptocurrency funds are trading at multiples of their actual asset values. Zoom and NIO are worth around $100 billion dollars each. And the mothership – Apple – trades at around 30x 2022 expected earnings with the expectation of only around 10% growth. Apple in 2013 was trading like a value stock that was discounted for being so large. Now, it is trading like a high growth company despite its market cap of 2.3 TRILLION.

Speculation is approaching 2000 level fury. Funds with a history of mediocre performance are now producing strong returns. Were these funds trading like retail speculators all along? Many established funds with decades of outperformance are now struggling. Has the world changed permanently? Are active managers with a focus on risk management becoming less useful? (I hope not!)

The reality of our time as I see it is this – governments and central banking systems have proven to be as panicky and fickle as the general public when faced with a pandemic and have resorted to policies that debase the value of currency. They are unnaturally and desperately propping up all assets. The obvious problem is not everyone owns assets, and the government will now need to step in and save most people from getting too far behind. Amidst the panic, governments have inadvertently become allocators to unprecedented amounts of scams and mismanagement. Stimulus was thrown around recklessly, and profiteers are ‘investing’ in lazy tools that further promote market inefficiency – like in exotic exchange traded funds and cryptocurrency – whose attraction from speculators, money launderers, tax evaders, and drug dealers seem to have no bounds (I still believe major innovations from cryptocurrency are coming but are still many years away).

In other words, despite the ‘recovery’ we are experiencing, the world’s capital markets are proving to be as inefficient on this upside as they were early in 2020 on that tremendous downside. How long does this play out? What will change things? Or is this a ‘new normal’?

Before the pandemic, many market professionals were very worried about wealth inequality. The problem with wealth inequality is it leads to political instability as free market capitalism becomes an enemy of the people. The 2020 pandemic has significantly increased wealth inequality. These trends lean toward further political instability, as well as a significant rise in homelessness and crime – including white-collar crime. That means government is about to further step in with taxes, restrictions on free market movement, and tighter regulations on business. This may lead to another Enron on the horizon, or even a destabilizing political uprising is not out of the cards.

All that said, the low interest rate environment encouraging risk-taking is continuing and stashing cash into savings accounts continues to prove to be a mistake. Things will change if inflation begins to injure the consumer economy or a new panic comes along. For now, the trends of 2020 will likely still need more time to play out before a shift can take place. But when that shift happens – look out!

2021 Investment Focus

In 2021, I will be carefully looking for signs of inflation and shifts in central banking and government policies that are in response to the threat of inflation and fear of disinflation. The slightest indication that central bankers are reversing course may cause absolute panic in this market. Risk-taking is clearly hovering around year 2000 levels at this time.

Finding "bargains" in this stock market is getting very tough. In fact, retail stock pickers that are moving this market are doing the opposite of bargain hunting – they are chasing winners. And so, many great innovative companies' stocks are beyond our reach in terms of reasonable valuation (TSLA is the biggest and most obvious example in the stock market right now).

Thankfully, there are still some innovative companies in growing sectors with high barriers to entry and underappreciated growth that we are rotating toward. One example is CoStar Group (CSGP) which is a top 20 investment that we've held since 2016. CoStar makes nearly twice as much money as Zillow Group (Z) but trades at a similar market value and quietly dominates the commercial real estate and rental listing marketplaces. These marketplaces are setting up for increased activity in 2021 as this pandemic disruption continues to shake things up. CoStar is a good example of our ideal company in our basket of speculative growth stocks (as opposed to our value investment positions) – A solid management whose CEO has been growing the company for 20 years; a dominating position in the marketplace making it difficult for anyone to compete; a disruptive business and sector with high growth trends transforming and redefining the marketplace; sell-side analysts who keep underestimating their growth; no leverage, and cash available for further acquisitions; 23 different brands with an intangible asset value that is mostly ignored by the market.

On the value side, we are long real estate investment trusts that still trade below their net asset values despite a rich market. American Homes 4 Rent (AMH) buys and rents single-family homes and we monitor an estimated total value of the tens of thousands of homes they own and rent using online estimators. They are trading at below their pre-pandemic level despite the fact that home prices in their suburban locations have risen according to our estimates and will likely continue to be strong into 2021 due to low interest rates. They have also reported increasing revenue and cash flow despite the pandemic. A rebound in rental rates can send this stock much higher.

In the short book are some innovative companies that are getting enormous premiums. I have been fighting the tape, frankly, positioning for a possible sudden pullback which hasn't happened (yet?). One such company is our top short position which surprises me when I say it – Apple (AAPL), the largest company in the world. Despite being a wonderful company that I've been long on and off for most of my life, today, two-third of Apple's profits come from hardware – and that hardware is reliant on Chinese goods and labor. The problem with that is Chinese goods and labor costs are trending much higher. Moreover, Apple trades at multiples that require it to double its growth to justify the price tag. Investors are betting on various subscription services and other ventures such as an electric vehicle entry to significantly increase its growth. Yet, Apple is not just another company. It's a monster that needs to increase its projected earnings by 5-10 billion each year in order to justify its price while their hardware upgrades are providing less value for more price to consumers. The burden will be on its Services segment to grow gross profit at double its current rate if its Products segment continues to remain flattish. In other words, it will be a major challenge for this company's earnings growth to catch up with its stock price.

Nevertheless, the market is on fire and it's a struggle being short ANYTHING at this time. And yet I persist with a large short book and remain distrustful of a market running this hot. I fear an enormous sudden pullback "for no reason" (except that many prices are sky high and divorced from reality). I also expect our short-term earnings-event strategy to return to higher levels of profitability when overall market volatility is reduced.

In addition to continuing some of the other 2020 investment themes, our newest focus for 2021 is on equities that will be impacted by government regulations and political and tax changes. Overall, the market is being moved by central bank and government policies in a way that we have not experienced in our lifetimes. It's an experiment with an unwritten conclusion, as we move toward further currency debasement, political instability, and more government regulation and taxes. I am doing what I can to mitigate risk.

- Perry Rod, CIO Rod Capital Management

For more information about our fund please register at www.rodcapitalmanagement.com.

Thank You,

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