



OFF WALL STREET

QUARTERLY PERFORMANCE

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OWS QUARTERLY PERFORMANCE: 4Q23

The market roared in 4Q23 as investors became convinced that not only was the Fed done with interest rate hikes, but also that 2024 would see three or more rate cuts. The S&P 500 index rose 11.2% in the quarter while the Nasdaq increased by 13.6%. For all of 2023, the S&P 500 and the Nasdaq soared 24.2% and 43.4%, respectively.

Shares of lower-quality stocks performed especially well in 4Q23's risk-on environment. These are the kinds of names we focus on. Consequently, OWS's short recommendations underperformed in 4Q23. An equal-weighted basket of OWS short ideas was down 14.0% in the quarter, and trailed the inverse of the S&P 500 index by 3.8 percentage points.

For all of 2023, an equal-weighted basket of OWS short ideas was down 3.2%, and outperformed the inverse of the S&P 500 index by 11.1 percentage points. [REDACTED] and [REDACTED], likely the lowest-quality names in our portfolio, outperformed the most in 2023. We think our strong 2023 outperformance relative to the S&P 500 index short demonstrates OWS's ability to select stocks with weak underlying businesses.

In 4Q23, OWS initiated three short recommendations [REDACTED], [REDACTED], and [REDACTED]. We closed one short idea, [REDACTED].

Although our primary focus will always remain on the short side, we will continue to publish a handful of long ideas each year. In 4Q23, there were no long initiations. Currently, there are two names in the OWS long portfolio, [REDACTED] and [REDACTED]. An equal-weighted basket of these OWS long ideas was up 5.9% in 4Q23, and trailed the S&P 500 index by 5.3 percentage points.

At the end of 4Q23, OWS had 19 short recommendations and 2 long recommendations outstanding.

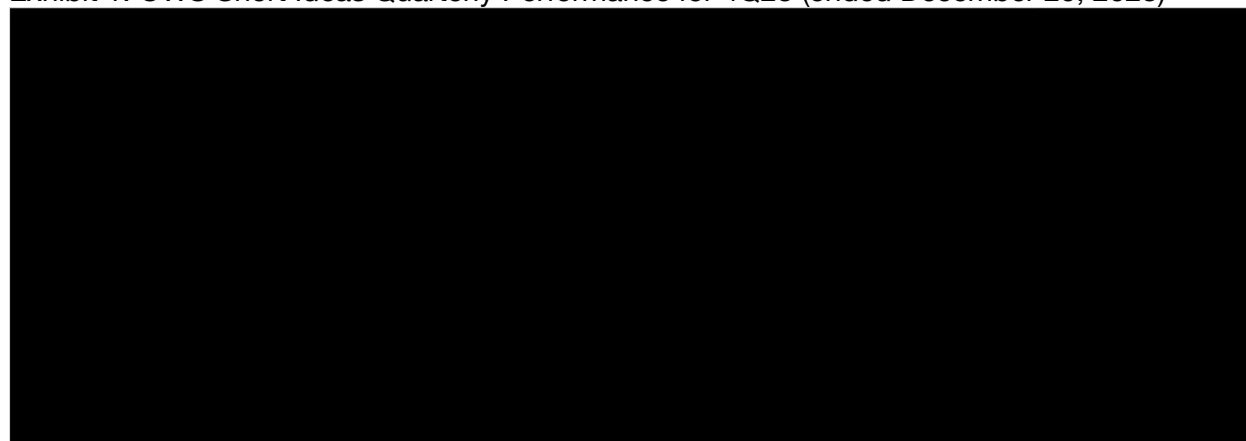
OWS Notes details our work on names we worked on, but did not publish. We hope that our commentary speeds up the research process for clients who wish to investigate these names. In 4Q23, we wrote 3 OWS Notes: [REDACTED], [REDACTED] and [REDACTED].

The AI mania and goldilocks economy narrative has lifted the shares of many companies in the technology, business services and consumer discretionary sectors, without regard to quality. OWS has enjoyed success in identifying weaker players in these sectors in the past. We are focusing our attention on finding short ideas in these areas, and have many names that we are examining currently.

Additionally, many stocks with Cyclical setups have rebounded and we are examining such names to identify instances where such a rebound might be unsustainable or unwarranted. As a case in point, on January 2nd we published a short initiation report on [REDACTED]. We define our setups at the end of this update.

In Exhibits 1 and 2 below, we list our short and long ideas as of December 29, with associated performance data.

Exhibit 1: OWS Short Ideas Quarterly Performance for 4Q23 (ended December 29, 2023)



Source: Bloomberg, Google Finance, OWS

Exhibit 2: OWS Long Ideas Quarterly Performance for 4Q23 (ended December 29, 2023)



Source: Bloomberg, Google Finance, OWS

Setup definitions:

“Competition” is when your returns are getting competed down by other players, but the business remains essentially the same. Most competition stories are about new players either coming in via a new channel [e-commerce], having a better mousetrap, or simply catching onto and copying whatever it was that generated the excess returns for the company in question.

“Structural” is when the playing field itself is changing. You’re shackled to an obsolete technology. The end market is going away because people are doing something else now.

“Misunderstood Business” is when the business model is not what people think it is. Examples are accounting fraud, misrepresentation (such as organic growth figures with rollups), or broken business models being touted as something else.

“Cyclical” is when investors extrapolate cyclical strength too far into the future.

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