CAN ANYTHING STOP THIS BULL?

HEDGE FUNDS (Inception)	AUGUST 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**14.8%**	**26.7%**	**11.7%**
Venator Select Fund (September 2013)	**12.5%**	**22.7%**	**16.3%**
S&P/TSX Total Return (March 2006)	2.3%	-1.1%	5.5%
Russell 2000 (March 2006)	5.6%	-5.6%	6.8%
S&P Toronto Small Cap (March 2006)	4.1%	-4.2%	1.4%
S&P 500 (March 2006)	7.2%	9.8%	9.4%

ALTERNATIVE MUTUAL FUNDS (Inception)	AUG 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**4.0%**	**-2.1%**	**0.1%**	**3.3%**	**4.8%**	**7.9%**
B of A Merrill Lynch High Yield Index (August 2008)	1.0%	0.7%	3.7%	4.5%	6.3%	6.7%

As of August 31, 2020
***Venator Investment Trust is available as an extension of the Founders Fund strategy, its monthly performance mirrors the Founders Fund, and it is eligible to be held in both registered & non-registered accounts*
****Performance data prior to January 24, 2020 relates to Class F Units of Venator Income Fund, which was distributed to investors on a prospectus-exempt basis in accordance with National Instrument 45-106*

Earnings season was good to the Venator equity strategies - a combination of a rebounding market, low expectations, some relatively reasonably valued technology stocks, along with hedges that fortunately were not too punitive (we averaged less than 50% net invested across our equity mandates in August), led to one of the better months in our history. Venator Alternative Income Fund also had a great month and while it has been a tougher climb back to breakeven, we are optimistic that this ‘capital preservation’ strategy can exit 2020 with a positive calendar-year result.

In a market in which the winds continue to blow in the same direction, technology remains the standout. While the overall market has experienced a strong rebound off the bottom as participants discount a post-pandemic world, the beat-up-cyclicals money flows haven’t detracted from big-tech enthusiasm. It takes a lot more money to move a $1 trillion dollar market cap company than a $20 billion business (which is the median market cap of the S&P 500), which gives you a sense of how much money needs to move into the mega-tech 5 in order to keep it moving so much more than the other 495 companies in the index (the market cap-weighted S&P 500 is up 10% YTD; while the equally-weighted S&P 500 remains down 4% YTD).

The multiple expansion among the top three market caps has been extraordinary - Apple stock is up over 100%, on expected revenue growth of 5%; Microsoft stock is up 45%, with expected revenue growth of 10%; and Amazon stock is up 84%, with expected revenue growth of 31% (Tesla, while not in the S&P 500, is up 450% with expected revenue growth of 21%; here in Canada, Shopify is up 175% on expected revenue growth of 66%). Remember, your average stock is still down on the year as exemplified by the year-to-date negative performance of the equally weighted S&P 500 (and Russell 2000 for that matter). Apple, Amazon & Microsoft currently represent $5.4 trillion in market cap, which is equivalent to roughly 240 median-sized S&P 500 companies. Put another way, those three stocks have added $2.4 trillion in market cap this year, which means that over 125 S&P 500 companies (25% of the companies in the index) could effectively go bankrupt and the gains of those three businesses alone (0.6% of the companies in the index) would keep the S&P 500 flat on the year, all else being equal.

To be clear, these three mega-caps are great companies. You don’t want to label everything doing well as being in a ‘bubble’ just because the stock seems to be going up parabolically. Google and Facebook, by way of example, appear to have seemingly reasonable valuations relative to their current size and growth prospects, while Tesla is single handedly transforming transportation forever. However, when you see such a rapid escalation of valuation beyond the underlying actual financial growth of the respective companies, it raises alarm bells for us.

As mentioned in some of our previous letters, the financial market is probably the only market in the world where higher prices *increase* demand; in every other market, people want stuff that's 'on sale'. There is a price above which you would not be willing to buy an iPhone, a Tesla, or products sold on Amazon or at Walmart, but apparently there is no price ceiling above which people are unwilling to buy these stocks. I realize that, academically speaking, low interest rates translate into higher valuations, but this would apply even more so to cyclical businesses, which have largely underperformed this year (although we would note that some rate sensitive industries such as housing and auto retail have done well, much to our benefit).

With your average stock still down on the year, and an economic rebound seemingly in the cards, there are plenty of opportunities out there for further gains if you are willing to venture off the beaten path (with the largest stocks being the path well beaten). That's not to say current trends favoring mega-caps can't continue; only that better forward-looking opportunities likely lie elsewhere.

Stay bullish, stay hedged, and stay safe - and, as always, we reserve the right to change our mind!

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