
Is the Growth Selloff an Opportunity to Buy?

In our latest video Chief Investment Officer, Steve Johnson, talks to Analyst on the International Shares Fund, Chloe Stokes, about the stock markets recent selloff of a number of last year's best performing momentum stocks.

Steve and Chloe discuss the key factors contributing to the selling spree including the collapse of Archegos Capital Management and the subsequent announcement of Credit Suisse's expected multi-billion dollar loss.

Watch the video to find out some of the stocks that have been sold off and how the team have used it to their advantage.

<https://youtu.be/HCOL5RPolBA>

Transcript:

Steve

Hi everyone and welcome. It's Steve Johnson here, Chief Investment Officer at Forager Funds and I'm joined by Analyst on our International Fund, Chloe Stokes.

It's been a crazy first quarter out there on stock markets. You're not seeing dramatic moves in the overall index levels, but some of last year's really big winners have been hammered so far this year. We've seen a large hedge fund called Archegos Capital blow up. First of all, Credit Suisse were out yesterday saying they've lost \$4.7 billion against this one hedge fund. How does that happen?

Chloe

It's actually very hard to piece together how they could have lost so much money. But as you mentioned, what we have seen is the sell off in a number of large stocks that we haven't been able to see at an overall index level.

Steve

[I wrote a blog back in February](#) talking about our selling some of our big winners from last year ourselves, Farfetch, Gan, Celsius, for example. Those three stocks are all completely out of our portfolio. They are in that cohort that are sold off a lot this year. What else have you seen?

Chloe

A crazy example is Stitch Fix. It's a US retailer that's quite different because they use data to sell clothing. So during COVID the share price was down as low as \$11. And then back in December, it was trading at \$35 before they released earnings for their first quarter. They released some pretty impressive results. They had good revenue growth and good guidance

and a lot of growth in new customers. The stock rose very significantly on the day and continued rising over the next two months. It got as high as \$113 at the end of January, it started declining based on no news, really after that peak of \$113. And there was another significant dip when they released their second quarter earnings, where revenue growth wasn't quite what the market was expecting and they lowered their guidance for 2021.

The stock is now less than half of what it was, it's at \$50. We were kind of loosely interested in the stock back before the crazy price rise. And it's getting to the levels where we might start looking at it again.

Steve

Up 100% and down 50% - it's been pretty common out there amongst some of these stocks now. Viewers are going to be very surprised to hear this, but I'm much older than you and this sort of market activity, it does worry me and it makes me nervous. And I think there's a lot of stuff going on under the surface that investors should be worried about here. It is not normal for large numbers of stocks to be doubling and then halving and I think you're seeing a lot of leverage, like these hedge funds that we've seen. I think a lot of retail leverage as well, which is a fairly new phenomenon of people being able to buy options and CFDs and things at a retail level. And also just this whole environment, anyone that's seen the Wolf of Wall Street knows about the pump and dump, where you create this excitement about a stock and then sell your stock into it.

But I think these new social media platforms like Twitter and Reddit have created the ability to do that on a scale that we haven't seen before. It's got me quite nervous that these are not isolated incidents. They're all related to the same thing.

Chloe

I'll let you worry about the systemic issues. From my perspective, it's been great. It's meant we could buy Farfetch back below \$20 in June last year, we sold it above \$60, and now we're getting a chance to buy it back again at significantly lower prices. So it's great from my perspective.

Steve

It hasn't all been crazy. There's a large chunk of our portfolio invested in businesses that are getting on with making profits and paying dividends. One of those Chloe's is going to write about it in our upcoming quarterly report. Hallenstein Glassons Holdings is still trading on very sensible multiples and showing some interesting growth optionality into the US. We'll have that, a bunch of other sensible, boring businesses, as well as some further commentary about the madness we've been seeing out there. We've had a lot higher than usual turnover over the past 12 months. And I guess as long as this craziness keeps happening, you're going to see more of it. Thanks for tuning in. Keep an eye out for our quarterly report out over the next couple of weeks and get in touch if you've got any questions.

