Forbes
SPECIAL SITUATION SURVEY

Special situation investing is like venture capitalism. From the broad spectrum of possibilities, only those with the greatest promise are selected. However, with greater potential for reward, there is usually also greater risk. But by rigorously cutting out investments falling short of expectations and taking profits where indicated, risk can be moderated without diminishing ultimate reward. We believe the investor willing to reduce exposure to less promising stocks even if this means sometimes selling at a loss and concentrating investments in the most promising situations will over the long run prove to be the most successful.

June 3, 2021

MONTHLY RECAP

	MAY	MTD
Forbes Special Situation Survey	1.6%	0.3%
S&P 500	0.6%	-0.3%
Dow Jones Industrial Average	1.9%	0.1%
NASDAQ	-1.5%	-1.0%
Wilshire 5000	0.2%	-0.3%
Russell 2000	0.1%	0.5%

Following its strong move higher in April, the stock market did a whole lot of nothing in May. Indeed, the S&P 500, Wilshire 5000 and Russell 2000 were barely up while the NASDAQ actually fell 1.5% for the month. Only the highly-concentrated Dow Jones made any real additional headway, gaining nearly 2% in May. Against this lackluster market environment, the *Forbes Special Situation Survey* fared relatively well with its 1.6% gain last month only falling short of the latter.

Nevertheless, in a month where the clear area of strength was small-cap value—as evidenced by the 3.0% rise in the Russell 2000 Value index in May—we really should have performed better. In fact, our best gainer for the month wasn't even a small-cap stock. It was DXC Technology (DXC), which was by far the biggest company in terms of market capitalization of all our recommendations and likely benefited from the expectation for a strong quarterly announcement as a result of several recent positive developments. This ultimately led to our decision to close out the stock ahead of the company's report on May 20.

Yet DXC notwithstanding, the biggest factor holding our portfolio back was the more inconsistent and muted investor reactions to the quarterly reports by our recommended companies than I was anticipating. For example, stronger-than-expected earnings and/or favorable guidance were likely responsible for the outperformances in Sterling Construction (STRL), ACCO Brands (ACCO), Deluxe (DLX) and Resources Connection (RGP) in May. However, all but the latter finished the month well off their post-earnings highs.

LEADERS

Symbol	Company	MAY
DXC[1]	DXC Technology	11.9%
SPTN	SpartanNash	8.3%
STRL	Sterling Construction	7.9%
ACCO	ACCO Brands	6.2%
UEIC[2]	Universal Electronics	3.9%
DLX	Deluxe	3.5%
RGP	Resources Connection	3.3%

[1]Reflects month-to-date gain in DXC before the stock was closed out on May 20, 2021.

[2]Reflects gain in UEIC from May 20 through the end of the month

What's more, a good chunk of these gains was offset by the post-earnings declines in four other stocks, which comprised all of our underperformers for the month.

LAGGARDS

Symbol	Company	MAY
CLW	Clearwater Paper	-14.7%
HBI	Hanesbrands	-7.2%
CSGS	CSG Systems	-4.2%
VEC	Vectrus	-2.5%

However, as noted in their respective reviews on May 6 and May 12, both CSG Systems (CSGS) and Vectrus (VEC) reported quarterly profits that comfortably beat their consensus expectations and appeared more confident in their prospects for the remainder of the year than they did three months earlier. And while the drops in Clearwater Paper (CLW) and Hanesbrands (HBI) are more understandable in light of the earnings miss and lower outlook provided by the former and similarly weaker-than-expected forecast for the rest of the year given by the latter, neither have been deserving of their steep subsequent sell-offs in my view. This is why we maintained our favorable ratings on these stocks in their latest reviews, which were also posted on May 6 and May 12, respectively.

While the selective rewarding of strong earnings by some firms but not others isn't unusual, there tends to be obvious underlying reasons as to why. However, this appeared more random during the past earnings season. When combined with the lackluster performance by equities overall in the past six weeks (even as it encompassed what was one of the best earnings seasons on record in terms of exceeding expectations), it suggests a market searching for direction as it still grapples with the uncertainty over the pace of the post-pandemic economic recovery and faces growing concerns over rising inflation and other fluid, but potentially damaging headwinds. Such environments are often the toughest to find stocks that can quickly outperform due to the uncertainty on what will lead the market higher in the near term.

It doesn't help that we've just entered the worst four-month stretch of the year for stocks since 1980. Indeed, contrary to popular opinion, May didn't build its reputation as the time to sell and go away because it has historically been a poor month for stocks. How could it when the S&P 500 has in fact averaged a gain of almost 1% (which makes it the sixth best month over this time frame). Rather it's because of what has followed with three out of the next four months being the three worst months in terms of performance since 1980, including averaging virtually no gain in June and declines in August and September. Furthermore, the next earnings season doesn't begin for another month-and-a-half. Coupled with the fact that June has historically been low in company-specific news for the kind of small-cap value stocks we tend to recommend, this means the performance of our portfolio is likely to be influenced far more by global/macro factors. Thus, in the absence of favorable individual developments, I wouldn't be surprised if we move more in tandem with the broader market this month and have a tougher time pulling ahead.

That said, one thing May also made clear is that valuations still matter. Indeed, a key reason for the strong post-earnings gains enjoyed by several of our stocks is because of the attractive valuations they were selling at prior to their respective quarterly reports. The good news is, as highlighted in the updated intrinsic value table below, our portfolio is not lacking in stocks trading well below what we think they're worth.

Symbol	Company	Price on 6/3/2021	Intrinsic Value	Implied Upside	Current Rating
HBI	Hanesbrands	19.50	22.01	12.9%	BUY
ACCO	ACCO Brands	9.02	11.28	25.1%	BUY
DLX	Deluxe Corp	46.16	52.19	13.1%	BUY
CSGS	CSG Systems	43.23	50.10	15.9%	BUY
VEC	Vectrus	49.79	62.65	25.8%	BUY
SPTN	SpartanNash	20.18	22.37	10.9%	BUY
RGP	Resources Connection	14.65	15.27	4.2%	BUY
STRL	Sterling Construction Company	24.49	28.17	15.0%	BUY
CLW	Clearwater Paper	28.80	39.02	35.5%	BUY
UEIC	Universal Electronics	50.28	57.28	13.9%	BUY
Average				17.2%	

As long as this remains the case and the market doesn't succumb to a major and lasting downturn, I'm optimistic that our portfolio will be able to continue overcoming any smaller pockets of weakness it may see from market forces outside of our control like rising inflation and the rate environment. This has helped our portfolio gain 24.6% through the first five months of the year for its best showing through this span since it climbed 24.9% in 2009. And while the much loftier valuation of the overall equity market now makes it doubtful that we'll be able to double this gain by year's end like we did back then, I think our performance the rest of the way will still be good enough to make it worth your while.

Lastly, listed below are the *SSS* stocks that have been closed out so far in 2021.

Symbol	Company	CO Date	CO Price	Rec Price	Return	S&P 500
BCOR	Blucora	1/11/21	16.13	21.27	-24.2%	22.4%
CPSI	Computer Programs & Systems	2/5/21	32.35	21.84	48.1%	38.8%
KNL	Knoll	2/11/21	15.22	20.81	-26.9%	61.0%
GLDD	Great Lakes Dredge & Dock	2/16/21	15.59	8.61	81.1%	33.4%
UEPS	Net 1 UEPS Technologies	3/19/21	5.95	15.78	-62.3%	32.7%
SWM	Schweitzer-Mauduit Int'l.	4/15/21	49.61	37.29	33.0%	13.7%
DXC	DXC Technology	5/20/21	36.83	25.81	42.7%	6.4%
Average					13.1%	29.8%