Aristides Capital LLC

General Partner to Aristides Fund LP and Aristides Fund QP, LP

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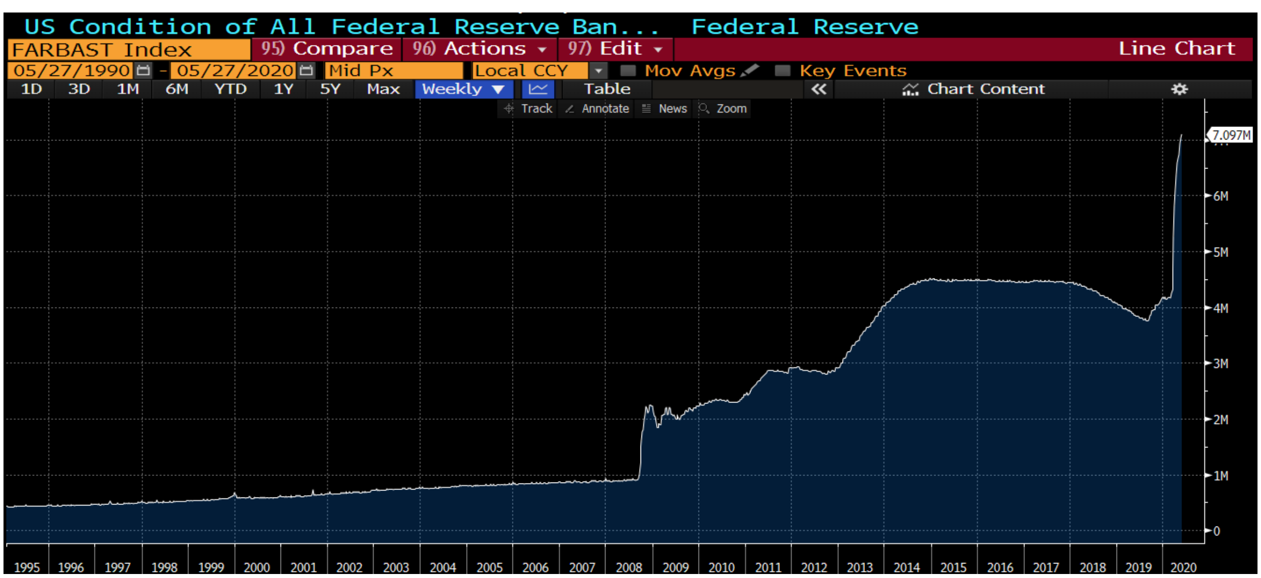
Dear Partners,

For the month of May, Aristides Fund LP gained 1.18% and Aristides Fund QP, LP gained 1.21%. Year-to-date, Aristides Fund LP has lost 4.93% and Aristides Fund QP, LP has lost 4.10%. The Aristides Composite has gained 424.95% cumulatively or 15.04% annualized since August 15, 2008.[1] As of 1 June, assets under management were $135.1 million.

On a dollar-weighted basis across the two funds, we added approximately 72 basis points of net alpha last month.

The disconnect between the strength of U.S. equity indices versus the economic condition of the typical working-class American has been somewhat stunning of late. In the last 15 years, we've spent trillions of dollars on asinine foreign conquest, recapitalized the banking system after the bursting of a debt-fueled housing bubble, diluted the currency to pay for it, systematically promoted extreme wealth disparities with monetary and fiscal policy, and then, just in the last five months alone, we've suffered a very expensive contagion and diluted the currency again, while protests and riots have broken out in the streets of nearly every major city because of persistent racial injustice.

The stock market, meanwhile, is doing basically fine because it is priced in nominal terms. Three trillion dollars of assets have been recently purchased by the Federal Reserve, and all of the resulting cash has flowed everywhere, like water over a poorly maintained rust belt dam.



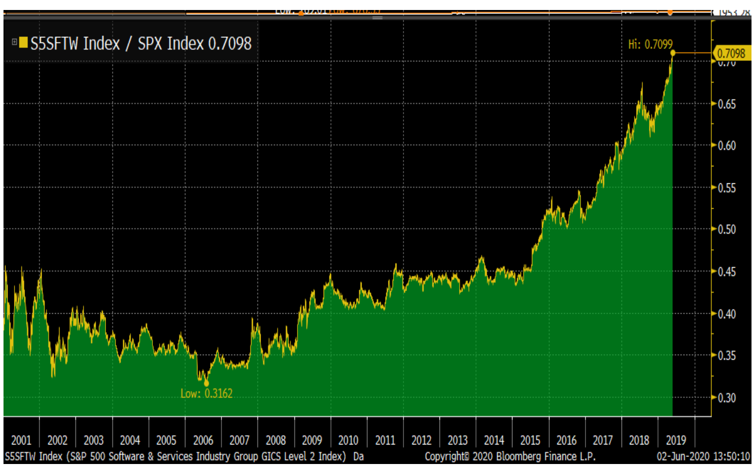
Aggregate assets of the Federal Reserve increased from $4 trillion at the beginning of March to $7 trillion at the end of May

[1] These data are preliminary and unofficial, and are net of fees and expenses, including accrued pro forma incentive allocation. Official figures will be reflected in statements from Perennial. Performance of partners' accounts will vary depending the timing of investments. Alpha calculations are constructed from position-level data. The Aristides Composite consists of (1) before the launch of Aristides Fund QP, LP in 2014: the performance of Aristides Fund LP from its inception in 2008 to the launch of Aristides Fund QP, LP, and (2) after the launch of Aristides Fund QP, LP: an average of the performance of the two funds weighted according to the assets under management of both funds.

The social fabric that holds us together has taken a beating. The last four decades have brought increasing financialization and leverage along with increasing profits to those with easy access to capital and stagnant real incomes for everyone else. Our shared cultural institutions are now less shared. Politicians have become more extreme. Regulatory capture is ubiquitous. Honesty, moderation, integrity, and financial prudence are in a severe downcycle, while alternative facts, extremism, influencers, and privatized profit with socialized risk are quite popular.

On the streets, there are chants of "Stop killing black people!" and "No justice, no peace!" Meanwhile, behind a computer, one of the millions of new day traders buys a stock because the chart is quickly moving higher. The cognitive dissonance is overwhelming at times. This is what happens when a government decides to pursue high asset prices as a policy priority. At the margins, for assets priced in nominal terms, it doesn't matter how bad the government is at promoting education, employment, health care, and security, if the government is buying enough assets to keep supply-demand dynamics in favor of higher prices.

Prior to Covid-19 and then riots in the streets, it felt to me like technology stocks were in the midst of repeating the runup to the March 2000 blowoff top in equities. It still feels that way. The ratio of the software sector to the S&P 500 is at all-time highs [graph at left], day trader participation is the second-highest ever (only the first quarter of 2000 was higher), and factor volatility (in particular, growth vs. value) has exploded upward. Meanwhile, U6 unemployment is 22.8%.



As a long-short manager, this is one of the most interesting and most difficult market environments I have ever seen. The investors doing incredibly well are the ones who are buying story growth stocks with no consideration whatsoever about valuation. It's a trend that can intensify even further from here, but one day it will reverse without warning and never look back. Growth stocks without earnings are one step above a Ponzi scheme; in order for you to profit, someone else needs to be willing to buy shares and give the company capital at an even higher price.

Factor volatility during May was absolutely insane. At one point on May 14, the Russell 2000 Value index was down 18.61% month-to-date (!!!), at the same time the Nasdaq was slightly up month-to-date. As many of our long positions are small and micro-cap value stocks, our portfolio also dipped considerably during the month, as much as -5.9% month-to-date intraday on May 14, before recovering in the latter half of May. That is an exceptionally unusual level of volatility for us.

I don't think it's an exaggeration to say that we, at Aristides, are generally very good at our job. We have a diverse set of tools that have helped us, historically, to achieve among the best risk-adjusted returns in the industry. And whether or not our overall performance number shows it, those tools have helped us a lot this year as well. While small cap value has been nothing short of a hurricane this year (it might be helpful to give a YTD figure for Small Cap Value),, our arbitrage book shined yet again last month, and has now gained over five percentage points year-to-date.

Looking forward, in the near-term I continue to see the potential for above-average volatility in our portfolio (versus our historical norms) on both the upside and the downside. We are long some very cheap value stocks that are definitely not market leadership here, and we are short some very expensive growth stocks, which are fairly tightly correlated with what has been doing well recently. In the long-run, this makes a lot of sense, as the things we own will be in a position to distribute a lot of cash to shareholders, whereas the things we are short will not, and in most cases will need to continually issue shares in order to fund their business. But in the short run, when the stocks you are long and the stocks you are short are acting negatively correlated with one another, that's more of a "Texas hedge" (i.e. two bets in the same direction) than we'd ideally prefer. Realizing that shorts that should usually work are often not working in the current environment, I'm trying to be pickier about what the shorts we do put on, but nevertheless all growth stocks seem pretty highly correlated some days in this environment. I'm also being more willing to take off shorts at certain technical breakout levels, and put them on again later. This "risk management" technique is itself risky, in that you end up taking consistent small losses on the trades you are forced to close, and may eventually miss the important move lower.

In the intermediate-to-long run, we are glad for this period when value stocks are underappreciated, growth stocks achieve unsustainable valuations, and frauds prosper, because this sort of market should lend itself to a lot of good entry prices on positions that we think will likely do well in the future. If you can muddle through periods when the market is largely inhospitable to your investment style, it's likely that you'll prosper when headwinds abate.

I've chosen to let our net portfolio exposure drift up more towards our historical norms. Especially given the factor disparities between our long book and our short book, being less than 20% net long feels a little "overhedged." The downside to that is if Congress is stingy with fiscal support when expanded unemployment benefits expire, having any positive beta may be a bad idea at that point, assuming the Fed doesn't come in again and buy even more assets. The annoying part of this market for me isn't the speculative day trading bubble; I enjoy trading mispriced assets against amateurs. The annoying part is the policy-dependency; broad asset prices will be whatever Jerome Powell and Mitch McConnell make them, and I am not close buds with either.

Thank you, as always, for your partnership. Please do what you can to aid the liberty and freedom of all of our fellow Americans, and to support the values our country aspires to on its best days.

Christopher M. Brown
Managing Member, Aristides Capital LLC

Aristides Funds May Performance Attribution

Strategy	# of positions*	gain/loss (gross basis points)	alpha (gross basis points)
Arbitrage	29	+48	+55
Event Driven	24	+19	+10
Fixed Income	6	+8	+5
Fundamental Community Bank	9	+39	-2
Fundamental Other	85	+195	+19
Hedges, Beta Mgmt., and Macro	17	-49	-27
Traditional Quant	1	-30	-41
Single Name Shorts	76	-97	+67

Top May Aristides Funds Winners & Losers (% represents gross % gain/loss as entirety of Funds)

Winners	Losers
+0.40% short CEL-SCI Corporation common stock; bearish options	-0.72% short Beyond Meat Inc. common stock; bearish options
+0.37% long Hingham Institution for Savings common stock	-0.49% Credit Acceptance Corp. common stock; bearish options
+0.37% long Visa Inc. common stock	-0.22% Russell 2000 index futures and options hedges
+0.34% long Citi Trends, Inc. common stock	-0.18% long coffee futures
+0.26% long Facebook, Inc. common stock	-0.15% short a microcap biotech common stock