Aristides Capital LLC

General Partner to Aristides Fund LP and Aristides Fund QP, LP
Registered Investment Advisor

25 S. Huron St. Suite 2A
Toledo, Ohio 43604
tel (419) 708-9773
fax (844) 533-0471


Penn State players celebrate after a muffed punt bounces into the hands of Drew Hartlaub, en route to their first win of the season, in an empty Michigan Stadium.

3 December 2020

Dear Partners,

For the month of November, Aristides Fund LP added 3.78% while Aristides Fund QP, LP gained 4.02%. Year-to-date, Aristides Fund LP is up 2.16% and Aristides Fund QP, LP is up 2.79%. Since the inception of Aristides Fund LP, August 15, 2008, the funds we manage have gained 463.6% cumulatively, or 15.05% annualized, on a net, dollar-weighted basis. We generated a small amount of net positive alpha last month. As of 1 December, assets under management were $128.0 million.[1]

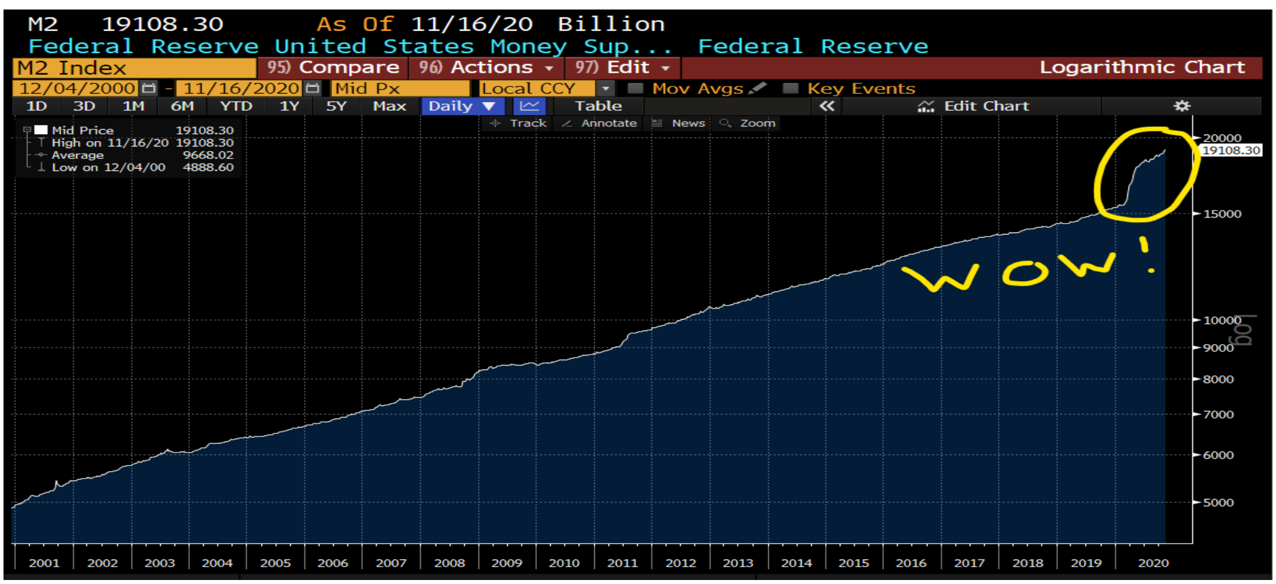
In addition to November's gain, capital letters for the period ended October 31, 2020 reflected approximately 50-60 basis points more return than we had previously anticipated at the end of last month. This was due to an unusual series of events in which, some months ago, a nearly-worthless SPAC warrant ended up in "transfer agent purgatory" (not the technical term) instead of posting clearly to our account. By the time we figured out what had happened, the

[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.

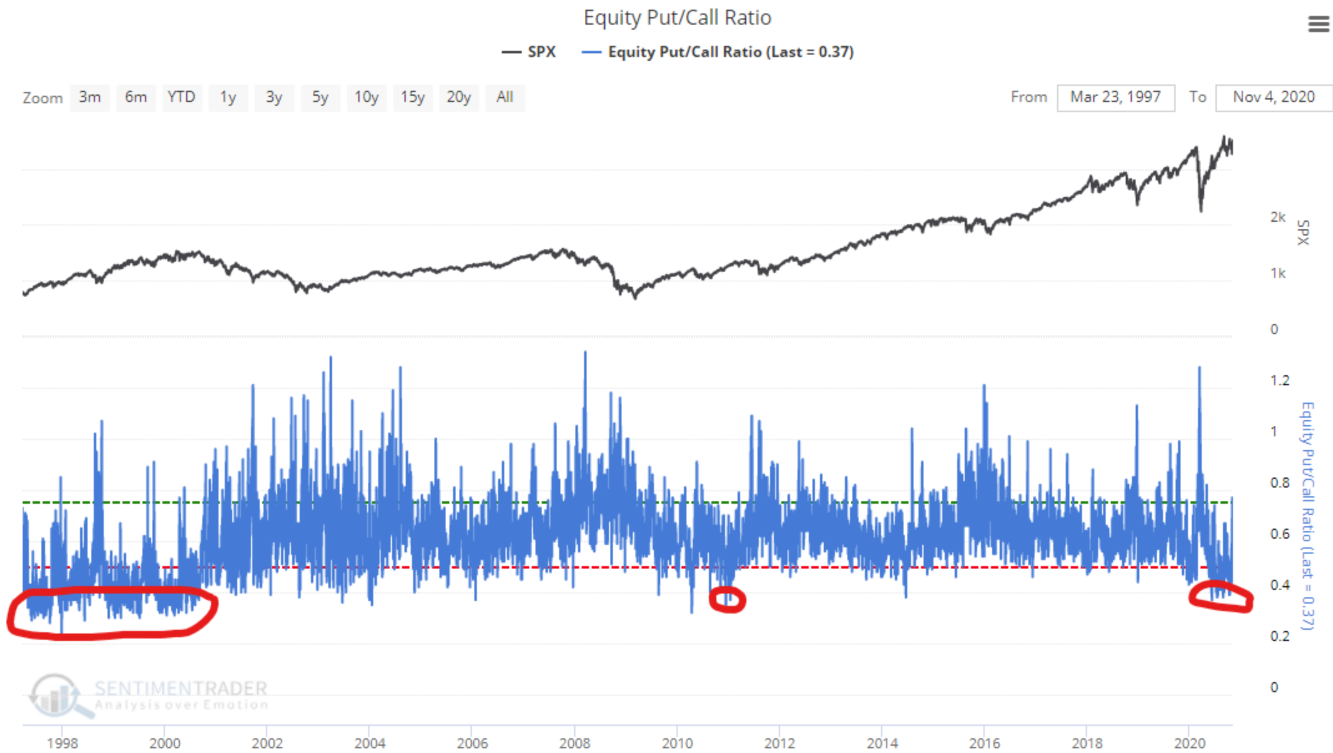
underlying stock had gone to the moon, and we cashed out at all-time highs, thus proving the old adage that sometimes it is better to be lucky than to be good.

I'm happy with our performance the last two months, though how exactly to position the fund in this macroeconomic backdrop is still challenging. The people who have chosen to put the pedal to the metal this year have been hugely rewarded, while those who have been cautious have looked dull. At month-end, we're slightly more net long than usual (40% on a beta-adjusted basis), and part of me wonders if we should crank that exposure up even further, as financial conditions remain extremely loose. M1 money supply (graph below), a measure of cash available to spend, is up 42% year-over-year, more than double the previous all-time high,

while M2 (below), a broader measure of cash and cash-like instruments, is up 25% in the last year. On a long-term log chart, you can see just how exceptional the past 9 months have been.



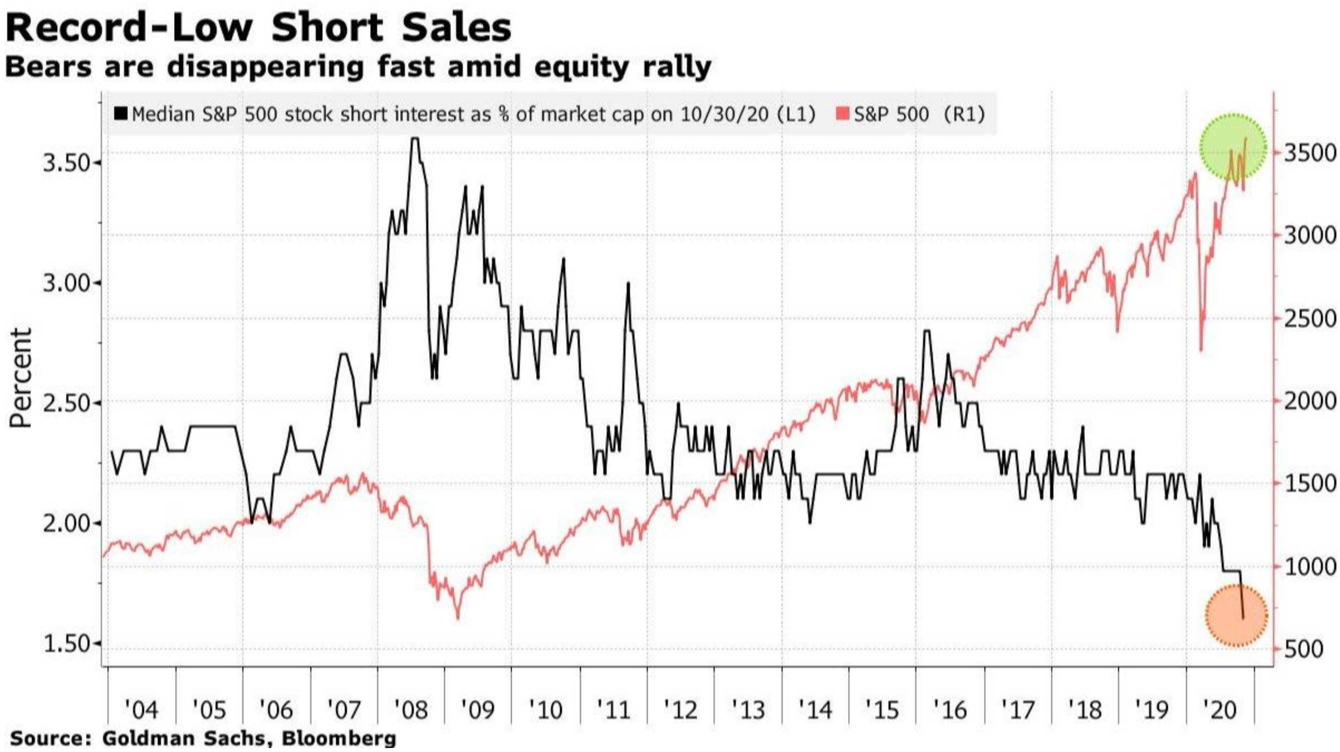
The catch is that most market participants with a pulse already realize how loose monetary conditions are right now, and are positioned betting that stocks will rise further. Sentiment indicators are stretched, and measures of speculative behavior, like the CBOE equity put-to-call ratio, suggest that we are in a period of wild gambling reminiscent of the dot com bubble era.



Shorting any stocks in this environment has been insanely challenging and was especially so during November. An index (graph below) of the most shorted stocks in the Russell 3000 was up more than 28% (!!!) last month and has gained 180% from the March lows.

As you would expect, we lost money on our individual shorts (-287 bps), on broad index hedges (-102 bps), and on our traditional long/short quant factor strategy (-49 bps) last month, while we made money on our fundamental longs (+456 bps), our bank stocks (+121 bps), and our event driven trades (+113 bps). A continuing bright spot in the portfolio was the arbitrage book, which gained 202 basis points, most of which was pure alpha. Arbitrage positions continue to be a huge point of emphasis at the present time, and have contributed around 1,100 basis points of return to the portfolio this year. In a year when we've gotten many, many things wrong, finding great arbitrage opportunities has absolutely saved our butts.

Why do we even bother to try to short stocks at this point? Because almost everyone has given up doing so. Short interest on the median S&P 500 stock has fallen by nearly half over the last decade, and by 20% over just the last year. It's not just S&P 500 names, though. Short interest in even some of the worst, most speculative, money losing companies has fallen precipitously because nobody wants to fight the wall of money rushing to buy everything.



Remember that scene in The Big Short where someone asks who is buying all of the completely awful subprime mortgage backed derivatives and the answer is "Dusseldorf"? A broker friend reports that while these European buyers are no longer chasing credit, now they are throwing their money at deeply unprofitable cleantech equity, including electric vehicle stocks, battery manufacturers, and fuel cell companies. It's not just Robinhooders and Redditors buying absolute crap; institutions are doing it too because it has been working so well.

Earlier today, I was researching a company losing eight figures a year in an intensely competitive, commoditized industry, with less than $10 million in revenue and a market cap of a quarter of a billion dollars. Two years ago, this sort of company would have been trading for pennies, and raising money via toxic warrant deals just to keep the lights on. Now, they are flush with cash and likely looking to raise more soon, after investors recently traded the entire company's float in one day, on a minor news announcement. And guess what? I didn't short the stock. Leaving aside the short managers who have gone out of business this year, or the ones who have lost 40% of their capital to redemptions from investors who think they can do better elsewhere, even the folks like us who have been relatively unscathed are completely gun-shy at this point. We know that betting against small stocks with a transparently bogus story and near certainty of massive cash burn is a recipe for possible obliteration in today's market. I might short this stock someday, but probably not until/unless its market cap gets considerably nearer to $1 billion, and there's some sort of technical or fundamental catalyst.

Anyhow, here's the deal: we've had our worst performance ever this year, and yet, with a strong December, it's still possible that we end up generating some small amount of positive alpha—i.e. adding value, relative to the amount of equity market risk we take—for the year 2020. Looking forward to the future, I am extremely inclined to believe that owning profitable companies at reasonable prices (and that may mean a 3% free cash flow yield to enterprise value for something like Google, but also it might mean a growing illiquid microcap stock with mid-teens return on invested capital and an earnings yield of more than 10%) and betting against promotional garbage that is completely dependent on more shares being sold to fund the huge cash burn from operations—I believe that strategy is very likely to do well. Especially when paired with all of the other things we do well at this firm.

Thank you for your partnership. Thank you for all of the kind words and encouragement this year; it has meant a lot to me and to our team. Thank you for entrusting part of your financial future to us. And if you are lucky enough to be in the position to have extra capital to deploy, please consider our funds. 2020 is unlikely a "new paradigm" that will persist for years to come.

Have a safe, healthy, peaceful, and joyous holiday season!

Christopher M. Brown
Managing Member, Aristides Capital LLC

Aristides Funds November Performance Attribution

Strategy	# of positions*	gain/loss (gross basis points)	alpha (gross basis points)
Arbitrage	29	+202	+136
Event Driven	69	+113	+11
Fixed Income	5	+18	+4
Fundamental Community Bank	10	+121	-2
Fundamental Other	63	+456	+97
Hedges, Beta Mgmt., and Macro	16	-102	-40
Traditional Quant	basket	-49	-81
Single Name Shorts	65	-287	-52

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

Winners	Losers
+1.32% undisclosed arbitrage	-1.30% short Workhorse Group Inc. common stock; bearish options
+0.56% long Hingham Institution for Savings common stock	-1.14% short FuelCell Energy Inc. common stock; bearish options
+0.55% undisclosed arbitrage	-1.13% various bearish Russell 2000 Index futures and options
+0.45% long Visa Inc. common stock	-0.49% traditional long/short quant factor strategy
+0.44% short Nikola Corp. common stock; bearish options	-0.38% short Beyond Meat Inc common stock; bearish options

the same regulatory requirements as a mutual fund, including the SEC's registration and disclosure requirements. The Fund is subject to various other risk factors and conflicts of interest that are fully disclosed in the Fund's offering memoranda and subscription documents.

Market indexes are included in this report only as reference reflecting general market results during the period. The Fund may trade in securities that are not represented by such market indexes and may have long or short concentrations in a number of securities and in asset classes not included in such indexes. Accordingly, no representation is made that the performance or volatility of the Fund will track or otherwise reflect any particular index. The index information has been obtained from sources believed to be reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. The Fund and Aristides Capital LLC expressly disclaim any liability, including incidental or consequential damages arising from errors or omissions in connection with the inclusion of any index in this publication. Performance results are net of all fees and expenses, and are unaudited after December 31, 2019.