Argent Capital Management LLC

Small Cap Commentary – Fourth Quarter 2020

The small cap market capped off a historical year by posting its best quarterly return ever in the fourth quarter of 2020. As we look back on the year, while it may feel as though 2020 lasted forever, a lot happened over a very short, compressed period of time. First, the Russell 2000® Index went into a tailspin at the beginning of March as the world began to deal with the uncertainty of the onset of a global pandemic. By the middle of March, the decline had bottomed and from there the market climbed over 100% from its lows through the end of the year. While it is typical for stock market rallies off the bottom to be fueled by lower quality companies – defined as those whose businesses are still losing money – the magnitude of the spread of underperformance for profitable companies is very wide as evidenced in the chart below.

Russell 2000® Index- Company Returns

	Q1	Q2	Q3	Q4	2020
Unprofitable companies	-24.5%	40.4%	7.5%	37.7%	56.9%
Profitable companies	-32.2%	21.1%	3.4%	28.4%	9.1%
Russell 2000	-30.6%	25.4%	4.9%	31.4%	20.0%
Realtive spread	-7.7%	-19.3%	-4.1%	-9.3%	-47.8%

**Source: Furey Research Partners*

When market leadership is characterized by such extremes, a strategy such as Argent's – which takes the approach of investing in high quality, profitable businesses – is likely to face headwinds and struggle to keep pace. We have always understood that there will be periods of time where our strategy is out of favor, but we believe our investment approach is well-suited for those who want to steadily grow assets over time.

One of the high quality, profitable businesses that we added to the portfolio in early October is Georgia-based Asbury Automotive Group, Inc. Asbury is one of the largest automotive retail and service companies in the U.S. The company has a track record of effective cost management and excellent capital allocation. For example, the company has improved growth prospects resulting from its recent acquisition of Park Place Dealerships, a luxury car dealership in Texas. The luxury segment is more resilient in economic downturns and tends to have higher and more stable profit margins.

Besides selling new and used vehicles, Asbury is focusing on vehicle repair and maintenance, replacement parts, financing and insurance products for customers. This is a strategy that has become particularly popular with auto dealers of late. Referred to as the "razor blade" model, auto dealers sell cars on the front-end with little profit margin, but make their profit on the back-end with servicing, parts and insurance sales. Given its record of successful acquisitions and creative "razor blade" business model, we think Asbury has plenty of growth opportunities in front of it.

We have four successful equity strategies–Large Cap U.S., Small Cap U.S., Dividend Select and Mid Cap U.S. If you have questions about any of these options or know others who might have an interest in our strategies, please call us.

Sincerely,

Peter Roy

Peter Roy
Portfolio Manager