



Epsilon Theory

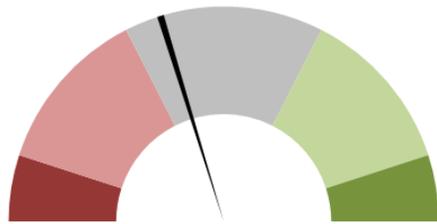
# Security Analysis Methods

## Narrative Structure Analysis for February 2021

### Dominant Narrative Structure for February 2021

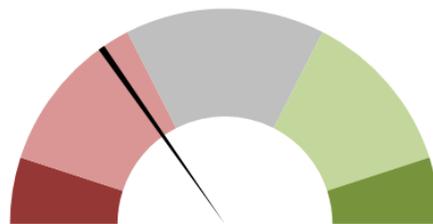
#### *Multiples-Focused Regime*

#### Narrative Strength



Average (4)

#### Narrative Cohesion



Weak (3)

#### Narrative Sentiment



Very Positive (9)

### Analysis and Commentary

Last month we wrote that we think that the narrative today is “risky, speculative, growth assets are in a bubble, and if you’re not playing it, you’re a fool.”

We think that came to pass in spades in the month of January. We also think that it hasn’t changed a bit.

Our analysis of the language used to describe investment theses continues to be aligned with multiples-focused language, which means that we continue to witness people talking about the presence of expensive sectors and stocks. We continue to observe substantial language describing bubbles, language which only increased in the wake of the late-month excesses of GameStop and AMC. But in almost uniform fashion, we think that language is part of a narrative which is arguing that *no one seems to be paying attention* to the existence of stretched valuations or bubbles.

In short, the belief that markets no longer reflect fundamentals has traversed that well-trod path from fringe to common knowledge.

What does that mean? Probably not a lot. We wrote in our last update that we would be (1) actively identifying positions vulnerable to a shift in preferences toward cheapness on fundamental metrics, and (2) actively looking for a shift from advisors and managers toward ‘fundamental catalysts’.

We would be doing the same as we looked for an inflection point from this narrative. And we are *not* finding this language in our review of news and research. Your mileage may vary.

What we are finding is very similar to what we observe in our Central Bank narratives monitor. The questions just now being considered are “what happens when fundamentals and valuations matter again and how do we prepare”, just as the questions in Central Bank policy land are “what happens when inflation returns and how do we prepare?”

So beyond thinking about the inflection points above, we’d be actively putting our investment committee in the shoes of the one-time fundamental investors who have chosen to “play along.” What would cause *them* to change their framework?

**Important Disclosures:** This research is general in nature and does not reflect the analysis of any individual investor’s situation and does NOT represent advice to purchase or sell any security. Investors should consult a financial advisor to discuss their individual situation before making any decision. The S&P 500 and Barclays Aggregate Bond Index are total return indices tracking US Large Cap stocks and US domestic, investment-grade fixed income securities in the United States, respectively. They are indexes, and it is not possible to invest in an index. Products tracking those indices may charge additional fees which are not included here. Any returns presented represent historical periods, and such **historical performance is no guarantee of future results.** The regimes highlighted are determined using natural language processing-based techniques which are new and which may be riskier than more traditional analysis techniques.

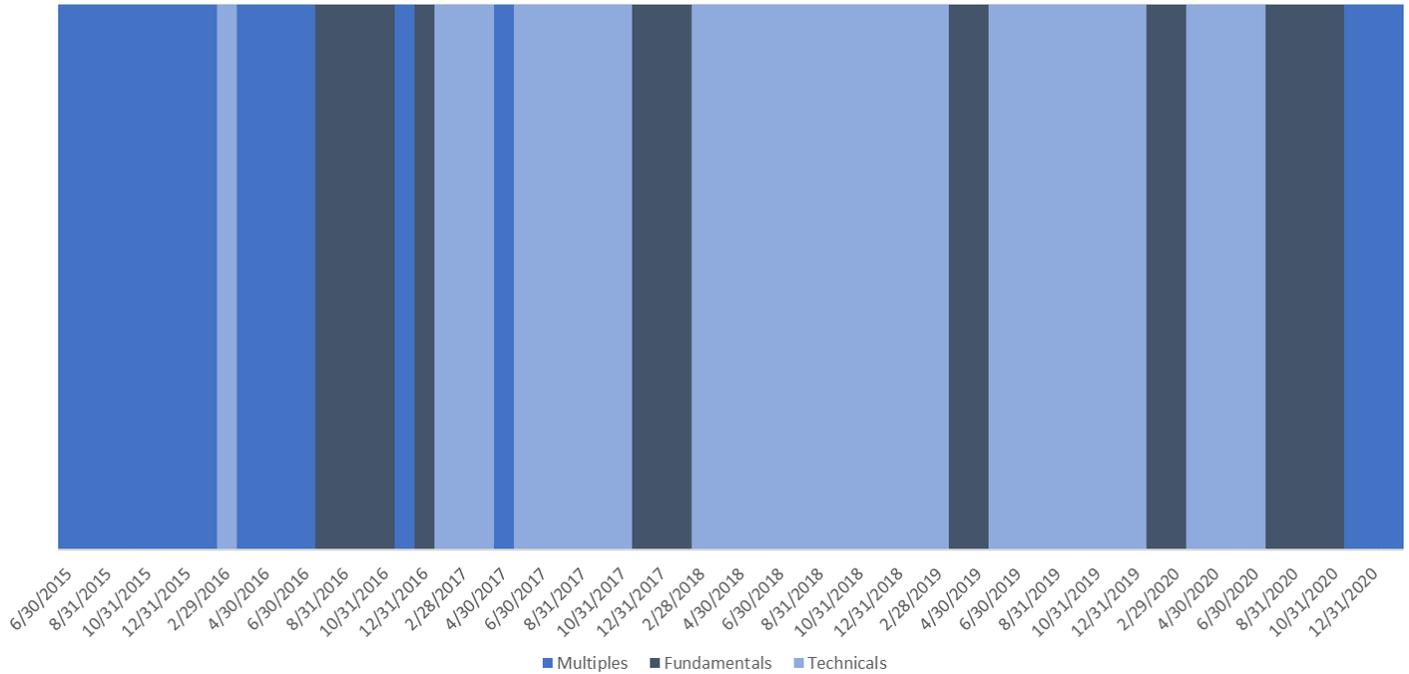


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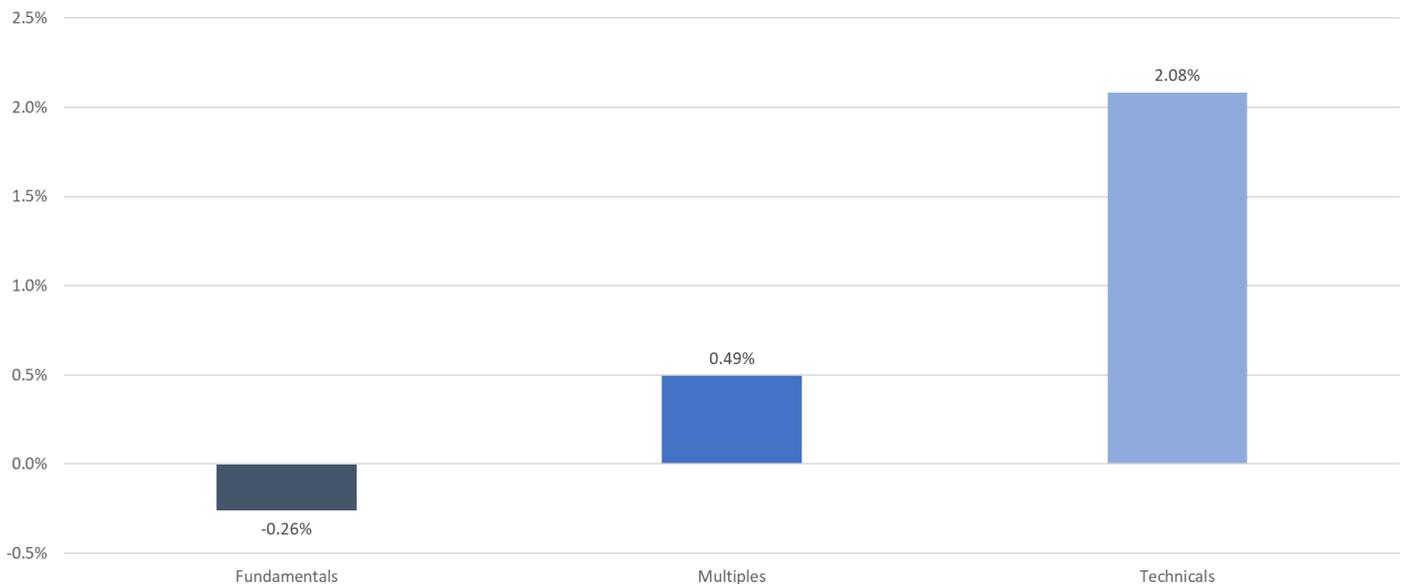
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## Narrative Structure Analysis for February 2021

### Dominant Security Analysis Methods Regimes (June 2015—January 2021)



### Subsequent Month S&P 500 Index Returns By Narrative Regime (June 2015 —January 2021)



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## Narrative Structure Analysis for February 2021

### Most Indicative (On-Narrative) News

Headline	Outlet	Link
The Stocks Bubble-O-Meter Is Flashing Bright Red	Bloomberg	Article <a href="#">Here</a>
Short Sellers Face End of an Era as Rookies Rule Wall Street	Bloomberg	Article <a href="#">Here</a>
How Warren Buffett's uphill battle against the S&P 500 is changing	CNBC	Article <a href="#">Here</a>
Biden's agenda could send growth, stocks and interest rates higher	CNBC	Article <a href="#">Here</a>
Why Apple became a \$2 trillion company in 2020, and what could come next	CNBC	Article <a href="#">Here</a>
Biden Stimulus Adds Fuel to Copper Rally	DJ Newswires	Article <a href="#">Here</a>
Analysis: Value stocks surge boosts 2020's losers as investors bet on economic revival	Reuters	Article <a href="#">Here</a>
The stock market's rally to a record on stimulus and vaccine hopes leaves little room for error	CNBC	Article <a href="#">Here</a>
The wealthy are investing like a market bubble is here, or at least near	CNBC	Article <a href="#">Here</a>
How to Manage Your Investments Late in a Cycle	Bloomberg	Article <a href="#">Here</a>
E*TRADE Study Reveals Most Investors Believe the Market Is in Bubble Territory	Business Wire	Article <a href="#">Here</a>

### Narrative Structure Measures by Archetype

	Strength	Cohesion	Sentiment
Fundamentals-Focused	Extremely Weak (0)	Weak (3)	Very Positive (8)
Multiples-Focused	Average (4)	Weak (3)	Very Positive (9)
Technicals-Focused	Extremely Weak (0)	Weak (3)	Extreme Positive (10)