



## **October 2019 Commentary**

The Dipsea Capital Fund returned 0.41% to partners for the month of October, 6.18% year-to-date, and 8.13% for the last twelve months.

The U.S. equity markets were positive for the month of October for the most part in a steady grind upward. Open to close volatility was very modest – with over 65% of the S&P 500's trading days having a range from high to low of less than 1%. Our strategy dictated a low exposure during the month as low market volatility provided fewer attractive risk/reward investment opportunities.

There are times when fewer opportunities present themselves in the market. During these periods we can feel impatient like anyone else, yet we remind ourselves that research, patience, and persistence add to our knowledge base. Our consistent approach throughout the quiet month helped. Our daily Profit/Loss distribution was:

Profitable	62%
Break Even	21%
Loss	17%

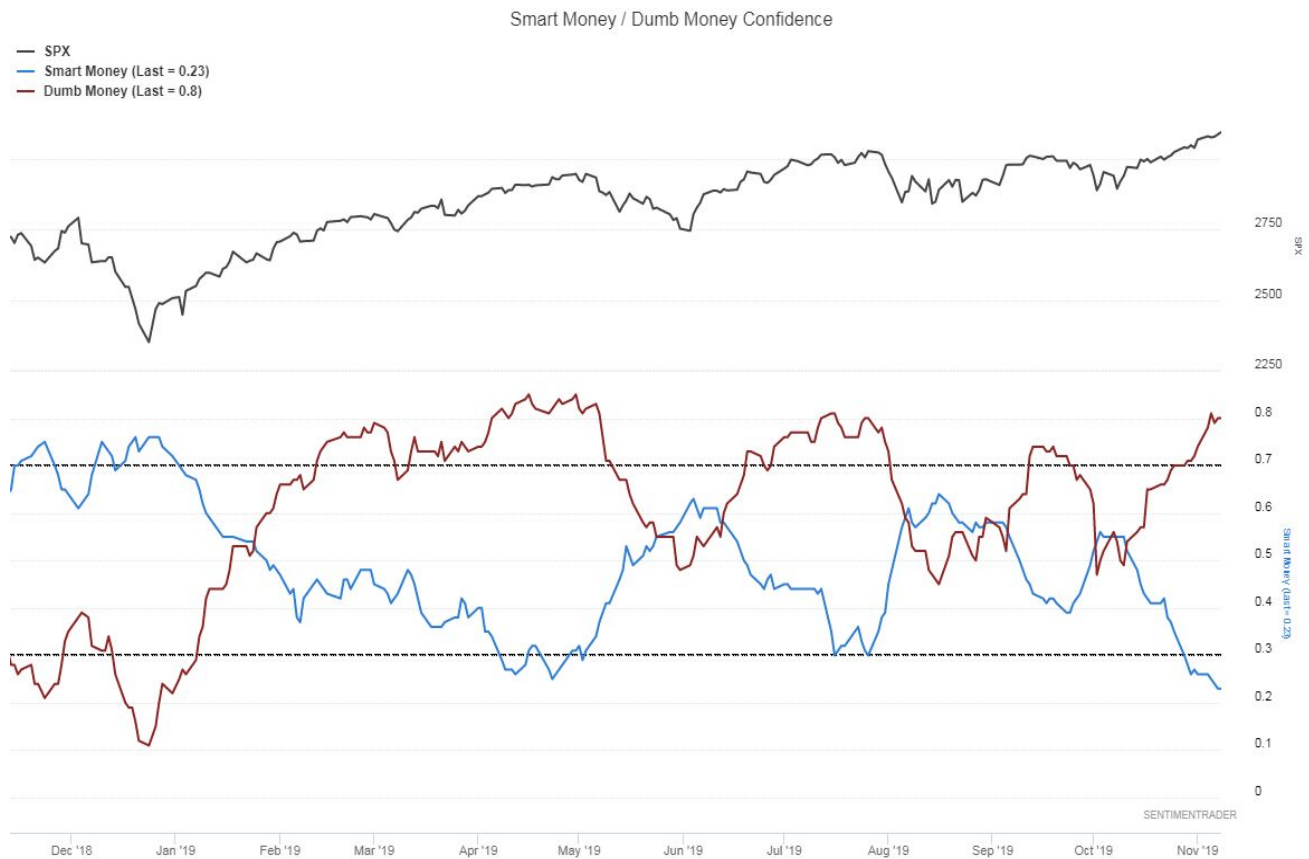
## **Market Landscape**

Tailwinds supporting higher stock prices:

1. Economic growth remains positive in the U.S. Although soft (sentiment based) data remains muted, hard data continues to support an expanding U.S. economy. The two-ten year yield curve is positive and steepening, indicating sustained economic growth.
2. Central banks continue to signal a willingness to provide accommodative monetary policy. The U.S. Federal Reserve cut interest rates by 0.25% again in October.
3. Trade discussions have recently embraced a more conciliatory tone, lowering apprehension and facilitating future investment decision making.
4. Favorable seasonality - Historically if the Dow is up 15% for the calendar year through the end of October, it goes on to gain an average of 5.5% in November and December.

## Headwinds to higher stock prices:

1. Earnings growth remains elusive. According to FactSet, reported earnings through October fell -2.4% year-over-year. There have now been three straight quarters of falling earnings, the longest consecutive sequence since the fourth quarter of 2015.
2. The valuation for the S&P 500 is not extreme, but it also doesn't reflect fundamental value. The S&P 500 trades at 18.2x estimated forward twelve-month earnings, which is a 15% premium to its 20-yr average.
3. Sentiment measures have changed markedly and have become skewed to overt bullishness, a contrarian indicator. The ratio between call and put volume has increased to levels not seen in over a year. Another indicator with a solid track record published by Sentimentrader.com, shows a large disparity between "smart and dumb money" (shown below). This tool identifies when too many market participants have become overly optimistic, signaling an increased likelihood of a pullback in prices.



We anticipate two captivating behavioral forces potentially expanding market volatility as we enter the final stage of 2019. The first is the fear of missing out, as fund managers scramble to generate returns in line with the appreciating stock averages. On the flip side, sentiment has become very lopsided which creates the potential for a reversal in short order, at least temporarily.

## **Power of Compounding**

Our track record of generating consistent, uncorrelated returns over the past 4+ years (and prior to fund launch) provides our investors with the opportunity to harness the power of compounding. Great results are empowered through the virtue of participating in an equity curve with no meaningful drawdowns. As Albert Einstein said, “Compound interest is the eighth wonder of the world”.

## **Firm Update**

Dipsea Capital’s prime broker is now DASH Prime, after the recent close of its acquisition of eRoom Securities. DASH Prime is a leading industry provider of trading solutions, routing approximately 14% of the daily Options Clearing Corporation volume with an additional 25% touching its workflow and compliance interfaces.

We are also pleased to report that the Dipsea Capital Fund is among eight finalists this year for HFM’s annual best quantitative fund managing under \$1 billion award. The award evaluates both quantitative and qualitative aspects of candidate fund managers.

We thank you for the opportunity to be a trusted steward of your capital and wish you and yours a special upcoming Thanksgiving holiday.

Chris Antonio  
Chief Investment Officer and Founder