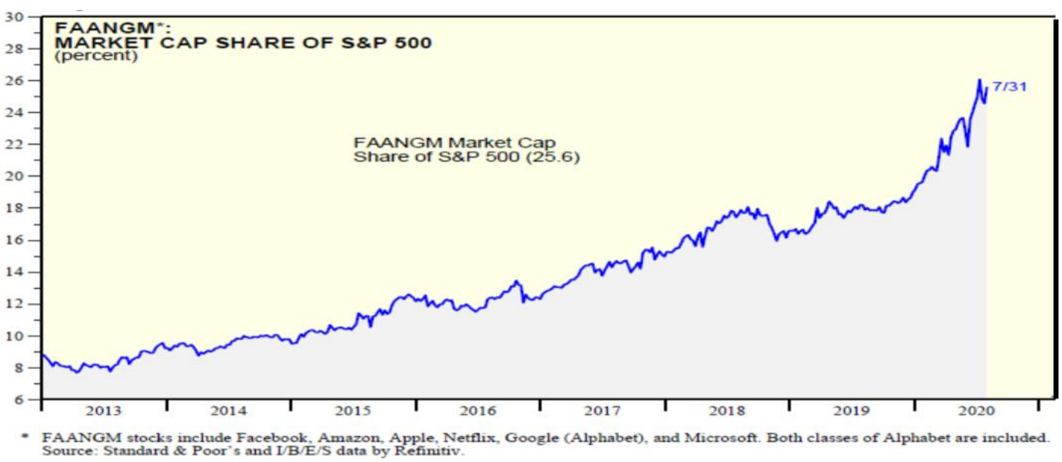
July 2020 Commentary

Dipsea Capital posted its 24th consecutive positive month in July. The Dipsea Capital Fund returned 0.86% to partners for July, 6.42% year-to-date, and 9.80% for the last twelve months. U.S. equity markets rallied strongly through the first three weeks of July, then stayed basically range-bound through month-end; the S&P 500 ended with a gain of 5.64%. The market's breadth has narrowed considerably in just the last few months, as just six names (Facebook, Amazon, Apple, Netflix, Alphabet, and Microsoft) have accounted for most of the S&P 500's performance. This greater concentration could potentially lead to higher volatility in the index.



The CBOE's volatility index (VIX) trended down in July, ending at 25. Dipsea's signals correctly anticipated that volatility was on a declining path, creating the opportunity for increased exposure to volatility oriented trades. S&P 500 1-month realized volatility experienced a steep drop in July, from 30% to 14%, providing a tailwind for this sub-strategy. However, our directional trades to both the upside and downside were also profitable in July. A pickup in S&P 500 convexity towards month end, in particular, allowed us to profit from the long Call legs of ratio spreads. Net exposure for the month averaged 0.2%. The month's gain was balanced between indexes and single-names (48%/52%, respectively).

Portfolio Thoughts

The opportunity set for Dipsea's strategy continues to be attractive. The CBOE's skew index remains elevated at 142. This can create attractive trading opportunities by using a higher level of skew to set up long gamma profiles at minimal to no cost.

Looking ahead, VIX three month futures are signaling a significant rise in market volatility this fall. Clearly the uncertainty of the election and the trajectory of the pandemic are contributing factors. We remain watchful of the emergence of potential unintended consequences related to the unrelenting liquidity provided by all the world's large central banks.

Given the continued reach for yield by investors, we thought it would be interesting to analyze the Dipsea Fund's correlation to fixed income. The gyrations in both interest rates and fixed income spreads have been fascinating to watch recently given the market and policy forces at work. We ran our daily returns over the last five years against a benchmark high yield index.

Correlation coefficient (R)
Dipsea Capital Fund, LP gross daily returns vs. BofA U.S. High Yield Total Return Index

Last twelve months	Last 36 months	Last 60 months
-0.013	0.008	0.036

Over each of these time frames, Dipsea's correlation to high yield bonds has basically been zero. BarclayHedge, using monthly returns, reports Dipsea's correlation to another fixed income index, the J.P. Morgan Global Bond Index, as -0.04 since inception (July, 2015). We believe this absence of correlation can serve investors seeking diversification well.

Organizational Update

We wanted to give an organizational update as we recently welcomed two additions to the team. Eugene Rekhtman joins as Director of Operations with a dozen years' experience working with and at multi-billion dollar as well as small hedge funds based in the Bay Area, including specifically with equity option strategies. Cameron Grimes joins the Dipsea investment team as a Trader. He previously spent six years as an equity derivatives trader at a prop trading firm in Chicago, where he held broad trading and risk management responsibilities. Both settled in immediately and are training hard for their initiation run up and over Mount Tam on the nearby Dipsea Trail.

We continue to invest in the firm as we endeavor to provide investors with institutional quality service, operations, and returns. Have an enjoyable rest of the summer.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder