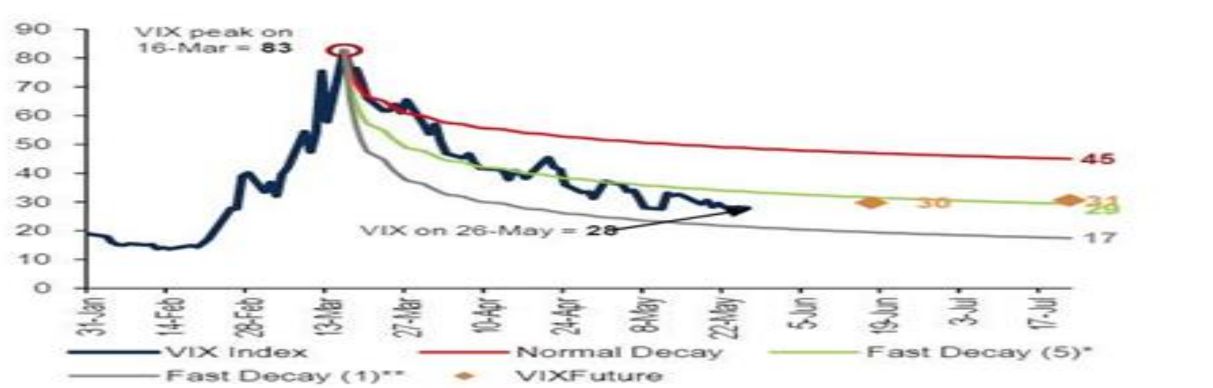
May 2020 Commentary

"Knowing what we don't know is better than thinking we know what we don't."
— Philip Tetlock

The Dipsea Capital Fund returned 0.54% to partners for May, 4.88% year-to-date, and 9.64% for the last twelve months. U.S. equity markets continued to rally in May and the S&P 500 gained +4.76%, reducing its year-to-date loss to -4.97%. Crude oil staged a spectacular 85% rally to $35/barrel (WTI). At Dipsea, our investment philosophy is to defer to market price action (knowing what we don't know) but as we wrote last month, in our view there is a meaningful contrast between the economy's realities and the buoyancy of the stock market's price action.

Dipsea Capital posted its 22nd consecutive positive month in May. In declining volatility environments, we actively position the portfolio to profit from volatility, rather than directionality. Similar to April, our models did not signal increased risk-taking, so we maintained modest gross exposure throughout the month and net exposure averaged -1.1%. This served us better with stronger gains during the first half of May as the S&P 500 was range-bound, however we also experienced steady gains through month end. Both indexes and single-names were profitable, with indexes accounting for 59% of the gain.

The CBOE's volatility index (VIX) declined in May and ended the month at 28, a decline of 28%, as investors gained further confidence in the Federal Reserve's backstop to markets and a hoped for economic rebound. The following graph from Bank of America captures very well the speed of the decline in market volatility:



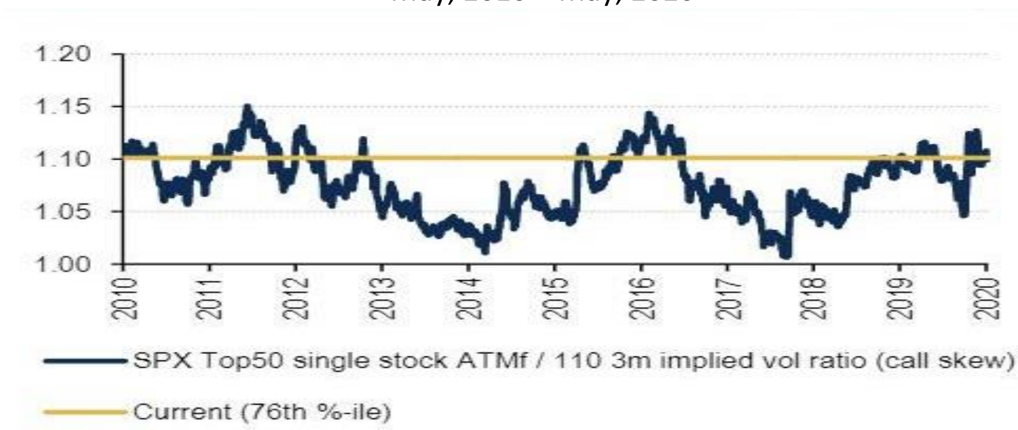
Source: BofA Global Research. VIX futures data as of 26-May-20. Historical data from 1987-
2020. *Fast Decay (5) is representative of the 5 fastest vol decays. **Fast Decay (1) is representative of the single fastest vol decay, which was Oct-87.

In other words, the VIX has dropped precipitously this year compared to previous crises. What is interesting is that the VIX futures curve has flattened, priced at 30 three months out and indicating it is expected to remain around the current level - significantly higher than its long-term average of 19.

Portfolio and Market Thoughts

The opportunity set remains attractive for Dipsea's strategy, particularly as we maintain the ability to shift substrategies depending on the market environment. As the long term graph below shows, on average, individual name volatility and upside skew remain elevated.

May, 2010 – May, 2020



Source: BofA Global Research. Daily data from 19-May-10 to 25-May-20.

This signals an opportunity to profit from, for example, both volatility and directionality given that the upside skew makes call spreads relatively cheaper than usual.

Dipsea's strategy combines high efficiency quantitative signals and discretionary management to benefit from our team's combined 87 years of qualitative pattern recognition experience. We believe a unique feature of our quantitative signals for options trading is their combining of the vega and delta vectors.

We remain focused on generating returns that by virtue of their consistency, can provide a reliable source of diversification. Thank you for your support and we look forward to hearing from you.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder