October 2020 Commentary

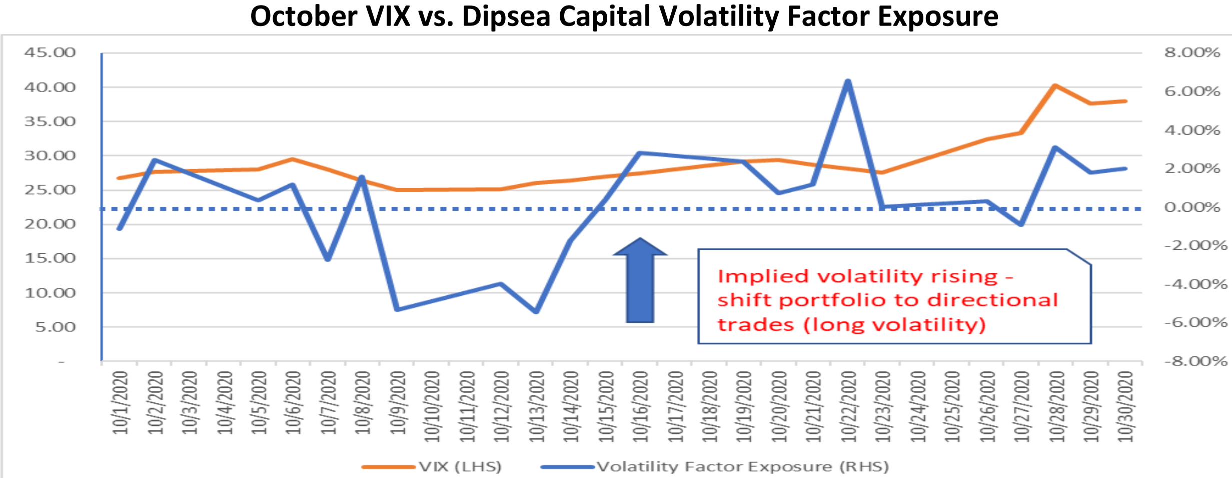
Dipsea Capital posted its 27th consecutive positive month in October. The Dipsea Capital Fund returned 0.35% to partners for the month, 8.34%% year-to-date, and 10.33% for the last twelve months. Equity markets experienced a strong rebound during the first week and a half of October, after which they tumbled back near the lows of September. The S&P 500 lost -2.77%.

Mega-cap tech names drove the initial rally, as their options once again experienced significant upside skew on bullish bets, creating further impetus for the rally due to the circular relationship with dealer desk gamma hedging. However, this reversed as third quarter earnings announcements were overall disappointing and expectations of near term relief from Covid-19's impact dampened.

The U.S. elections volatility peaked in the days just prior to November 3rd, with the CBOE's VIX index spiking to 40. Since then, it has returned to its prior mid-20s level, with an upward sloped curve through January of next year, indicating the stock market retains a high degree of uncertainty regarding its future path.

During the first half of October, we positioned the portfolio for positive carry volatility oriented trades, but as implied volatility later broke out of its mid-twenties range, we shifted to directional, long volatility trades. These were particularly effective for names announcing earnings, such as Snap. This flexibility enabled us to be more profitable during the second half of the month as implied volatility rose.

October VIX vs. Dipsea Capital Volatility Factor Exposure



Source: General Risk Advisors

Dipsea's net market exposure for the month averaged -0.4%. Index trading accounted for 56% of October's return, with the remaining 44% coming from single-names.

Our opportunity set remains robust as uncertainty continues to be high regarding the changing dynamics in Washington, fiscal and monetary policy outcomes, and Covid-19's further devastating effects. Volatility skew is on the rise and as of early November is in the mid-130s - the highest it has been since mid-September.

Market and Strategy Thoughts

As we look across the investing landscape, we are intrigued by the resilience that sovereign debt markets have shown in the face of weakened economies and skyrocketing debt issuance. It makes us wonder if this will remain the case as there are currently 31 countries (including Australia, Spain, Italy, and Mexico) for which S&P has issued "negative outlook" ratings that could very well lead to rating downgrades. A repricing of risk and increase in market volatility would be the inevitable result.

To those investors not yet involved, we offer that the Volatility Risk Premium (the premium above realized volatility priced into implied volatility) creates a highly attractive asset class. It offers investors a distinct source of alpha. Due to the ebb and flow of investor sentiment for the market and in individual names, opportunities are created through the pricing of volatility that have nothing to do with stock market direction, interest rates, or credit spreads, for example. Therefore, it is attractive to diversified investors as another source of alpha, when managed appropriately.

As always, we remain committed to our goal of generating consistent, uncorrelated returns through the application of our investment process that leverages a systematic component with our decades of trading experience. Thank you for your continued support.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder