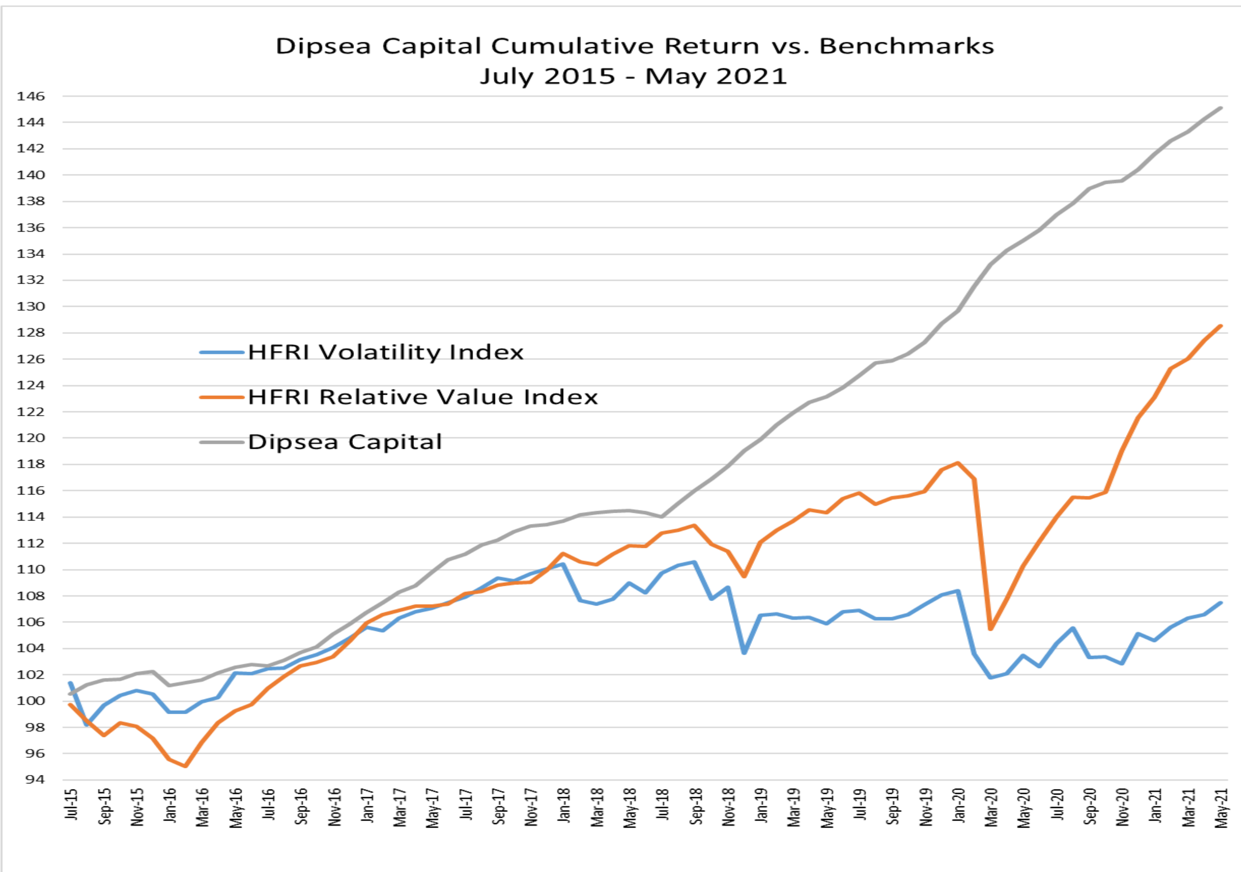
<u>The Return of Skew – Dipsea Capital June 2021 Commentary</u>

Jeff Bezos: "Your investment thesis is so simple. You're the second richest guy in the world, and it's so simple. Why doesn't everyone just copy you?"

Warren Buffett: "Because nobody wants to get rich slow."



I've been reminded of this insightful quote by the Sage of Omaha a number of times recently while observing the exuberant sentiment measures among retail investors. The Dipsea Capital Fund returned 0.67% in June, 4.06% year-to-date, and 7.58% to partners for the last twelve months. Other than a brief dip at mid-month for the S&P 500, stocks were bid up steadily during June with the major indices hitting all-time high after all-time high – the Nasdaq gained 5.49% and the S&P 500 2.33%.

The VIX ranged between 16 and 21 during June and the S&P 500 stayed in a +-2.5% range. Rising skew in SPX options directed us to a theta collection strategy while maintaining very conservative exposure to market stress scenarios. The CBOE Skew Index rose from 149 to as high as 170 during June as investors bid up protection further out the price curve. Index trading accounted for 61% of June's return, with the remainder coming from single-names. We had steady performance throughout the month with our most profitable days during the S&P 500's mid-month dip. Dipsea's net market exposure averaged -7.4%.

<u>Market Landscape</u>

As the U.S. reopens, we observe contrasting aspects in the economy and markets.

Tailwinds supporting continued strength in the broad market:

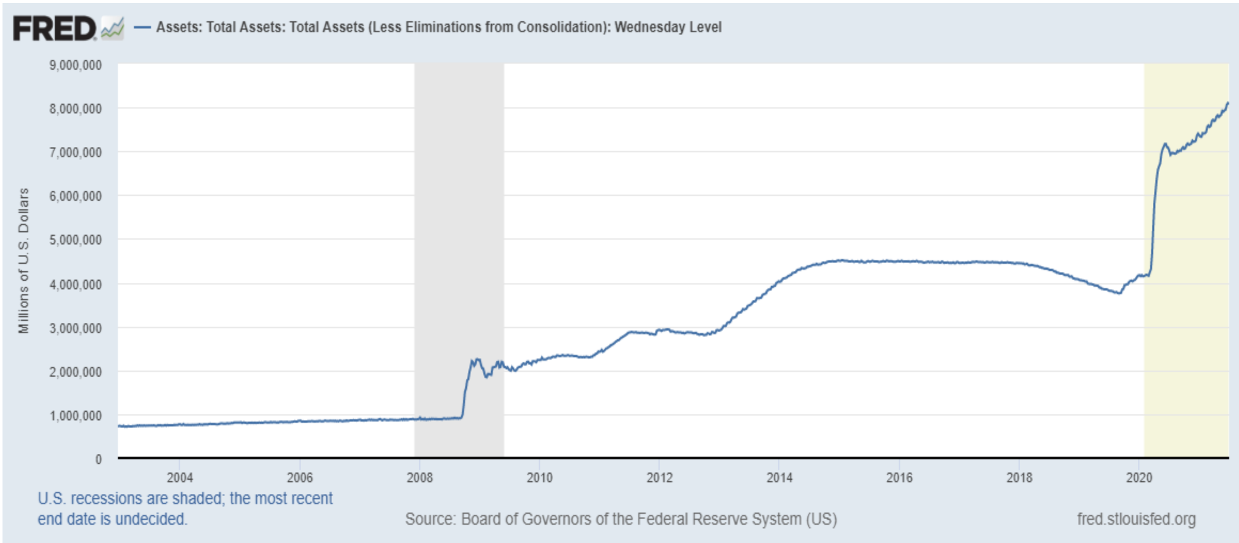
1. U.S. economic growth continues to accelerate – Q1 growth came in at an annualized rate of 6.4% and the Congressional Budget Office just doubled its growth forecast for 2021 to 7.4%.
2. Though the Federal Reserve in June indicated a sooner timeline for a rate increase, it still remains distant at some time in 2023, and the short-term borrowing rate remains near zero.
3. The latest U.S. jobs report was strong indicating the addition of 850,000 new jobs in June.
4. The $715 billion INVEST in America Act looks set to pass Senate approval soon, the first of the current administration's planned infrastructure spending bills totaling $6 trillion.

Headwinds to higher stock prices:

1. The U.S. 10-year yield dipped slightly to 1.48% in Q2, however it now represents the largest gap with the inflation rate (currently 5%) since 1980, suggesting it is artificially low.
2. The U.S. stock market's cyclically adjusted P/E ratio (CAPE ratio) has risen to 38x, 49% above its 20 year mean of 25.6.
3. Commodity prices have spiked, with WTI crude rising above $73/barrel.
4. Sentiment indicators are maintaining their bullish bias as the marginal, smaller traders spend nearly half their volume at the open on Calls.

The Federal Reserve's role in markets is unprecedented due to the massive jump in its scale, as the chart below indicates, with balance sheet assets of $8 trillion now.

Federal Reserve Total Assets, 2003 - Present



We believe this trip into uncharted territory is likely to bring unfavorable consequences. The following June 29th piece on the evolving nature of money creation by Gavekal's Charles Gave ("When Money Becomes Spending Coupons") is highly insightful:

In the old system (based on bottom-up credit creation)*, money was created by the private sector for the private sector, and those who could not service the debt disappeared through the creative destruction process, with their assets disposed to new risk-takers. Hence, at the heart of the process was a risk-taker who could lose everything.*

In the new system (based on top-down money and credit creation)*, growth springs from spending created by the merged central bank-treasury Leviathan, which allows governments to distribute spending coupons that will never be repaid and do not meet the test of being either a unit of account or a store of value, as no assessment can be made on the risks of time or credit* (due to rates approaching zero and credit risk being effectively backstopped by the government)…. *We shall see the end results, but I will admit to a feeling of trepidation.*

Organizational Update

June 30th marked the Dipsea Fund's six-year anniversary. We are grateful to those investors who have been with us since the beginning and to those who have joined more recently - Dipsea continues on a solid growth path as our assets under management have grown by 38% since January 1st and 118% compared to one year ago.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder