Hedge Funds' Top 0.1% – Dipsea Capital March 2021 Commentary

The Dipsea Capital Fund returned 0.48% in March, 2.07% year-to-date, and 7.59% to partners for the last twelve months. The S&P 500 gained 4.24% but the Nasdaq experienced a tumultuous month and ended up 0.41% at 13,247, remaining significantly down from its 14,095 high in mid-February.

With Q1 having concluded, we share Dipsea's positioning in the Preqin database below but first review briefly the events of March and our thoughts on the market landscape.

After an initial jump in volatility to 29 to start March, the VIX index experienced a pronounced downtrend for the rest of the month, finishing at 19. Overall, it was a steady and uneventful month for us, despite news of the failure of hedge fund Archegos on Friday March 26th, which inflicted several banks with large losses. Index trading accounted for 69% of March's return, with the remainder coming from single-names. Dipsea's net market exposure averaged +3.5%.

We initiated a significant net long position the final two days of March (12%) as our signals indicated the potential for an upside breakout – this positioning was helpful as the market proceeded to rally strongly and the fund was +0.08% on April 1st to start this month.

Market Landscape

Our broad market view reflects the competing forces outlined below. We remain close to neutral in our positioning of the portfolio except for short-dated adjustments based on intra-day market action.

Tailwinds supporting continued strength in the broad stock market:

1. By most metrics, economic growth is accelerating substantially. The U.S. economy grew at a 4.3% annualized rate in Q4 2020 and consensus estimates for 2021 have been raised over the last month to 4.2%.
2. The Federal Reserve has committed to maintaining a zero interest rate policy into the foreseeable future in spite of its and the market's expectation of 2%+ inflation.
3. Massive fiscal stimulus has been approved and additional amounts for infrastructure spending are expected to be approved.

4. Covid-19 vaccination rates are accelerating.
5. Seasonally, April is the most favorable month of the year for equities.

Headwinds to higher near term stock prices:

1. Interest rates have risen on expectations of increased inflation; the U.S. 10-year yield jumped in Q1 from 0.92% to 1.69%.
2. The U.S. stock market's cyclically adjusted P/E ratio (CAPE ratio) has risen to 36x, 42% above its 20 year mean of 25.6.
3. Sentiment remains profoundly bullish, which often is a contrarian indicator. For example, the AAII Sentiment Survey showing bullish stock market expectations for the next six months is at its highest level in three years.

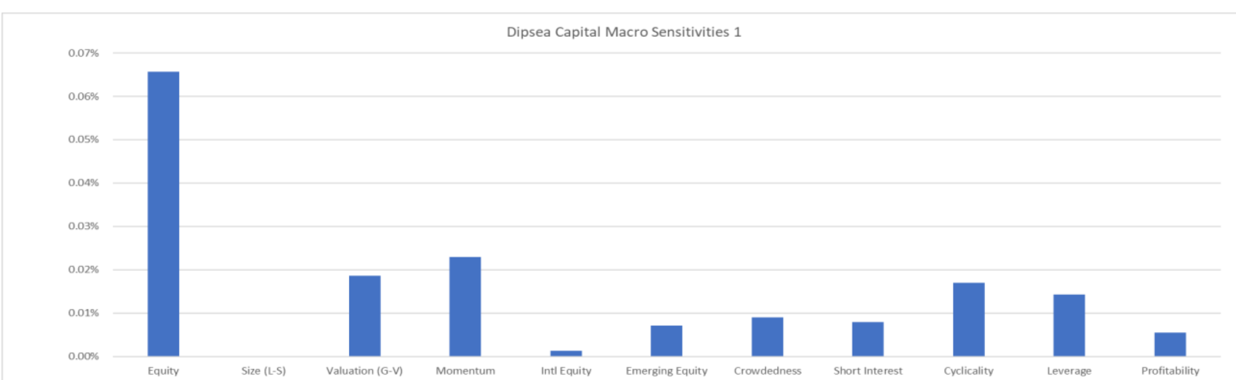
Portfolio and Strategy Thoughts

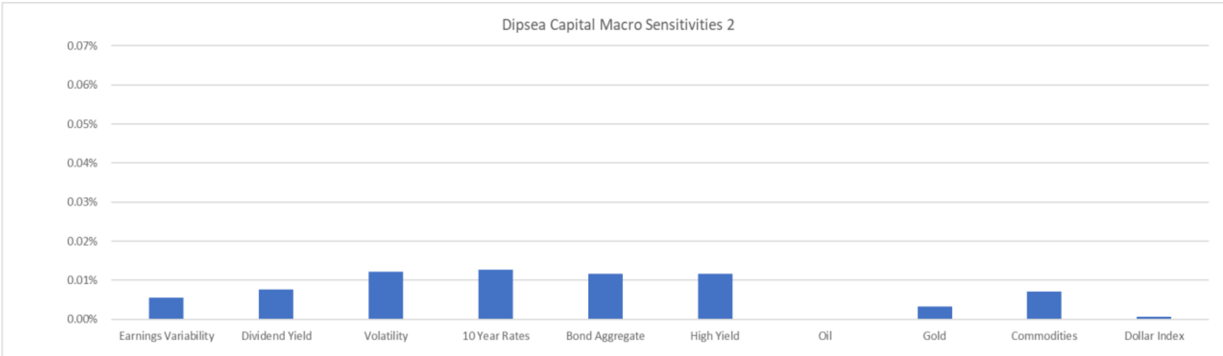
As no doubt many of our readers know, Dipsea presents a unique risk/return profile. In fact, we found it interesting and worth sharing that Dipsea's consistency and minimal drawdowns place the Dipsea Capital Fund in the top 0.1% of all funds on the Preqin database (12000+ funds) as one of the very few that has a liquid strategy, minimal drawdowns, and a long vol profile as defined by significant profits during each equity meltdown since 2015. We believe these characteristics provide an attractive basis upon which to compound wealth, particularly in a vehicle that provides investors access to their capital on a monthly basis.

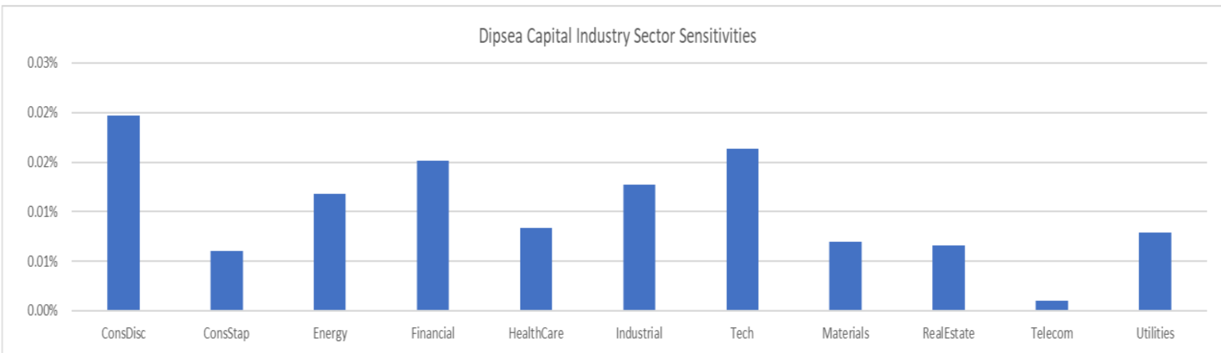
This consistency has demonstrated our strategy's zero correlation and zero beta to the market. But taking it a step further, investors may seek to understand if Dipsea's returns represent a unique source of risk and return, in other words, alpha. One way of answering this is to evaluate, by means of a portfolio holdings analysis, the underlying risk factors - such as Value, Momentum, Leverage, or Volatility, for example - that Dipsea's returns may be correlated to.

Here is a sample of the third party reporting we receive describing Dipsea's factor risk:

Dipsea Capital Portfolio Factor Sensitivities, March 25th 2021







Source: General Risk Advisors LLC

The above graphs show the risk exposure Dipsea's portfolio has to each of the factors, a result of the portfolio's beta to the factor multiplied times that factor's volatility. As can be seen above, our risk exposure to any factor is extremely low, the highest being to broad equity market exposure at 0.065%. This indicates that, left alone, the portfolio is expected to be up or down by this much in a day for a one standard deviation move in the S&P 500 due to its equity market exposure. Historically, a one sigma day for the S&P 500 is approximately 0.85%, though recent market volatility would make this figure higher.

The broad implication of the above discussion is that Dipsea's returns are not due to any significant known and quantifiable source of systematic return that would explain their source.

Thank you for your continued trust and support. We welcome feedback from our readers and wish everyone a happy start to spring.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder