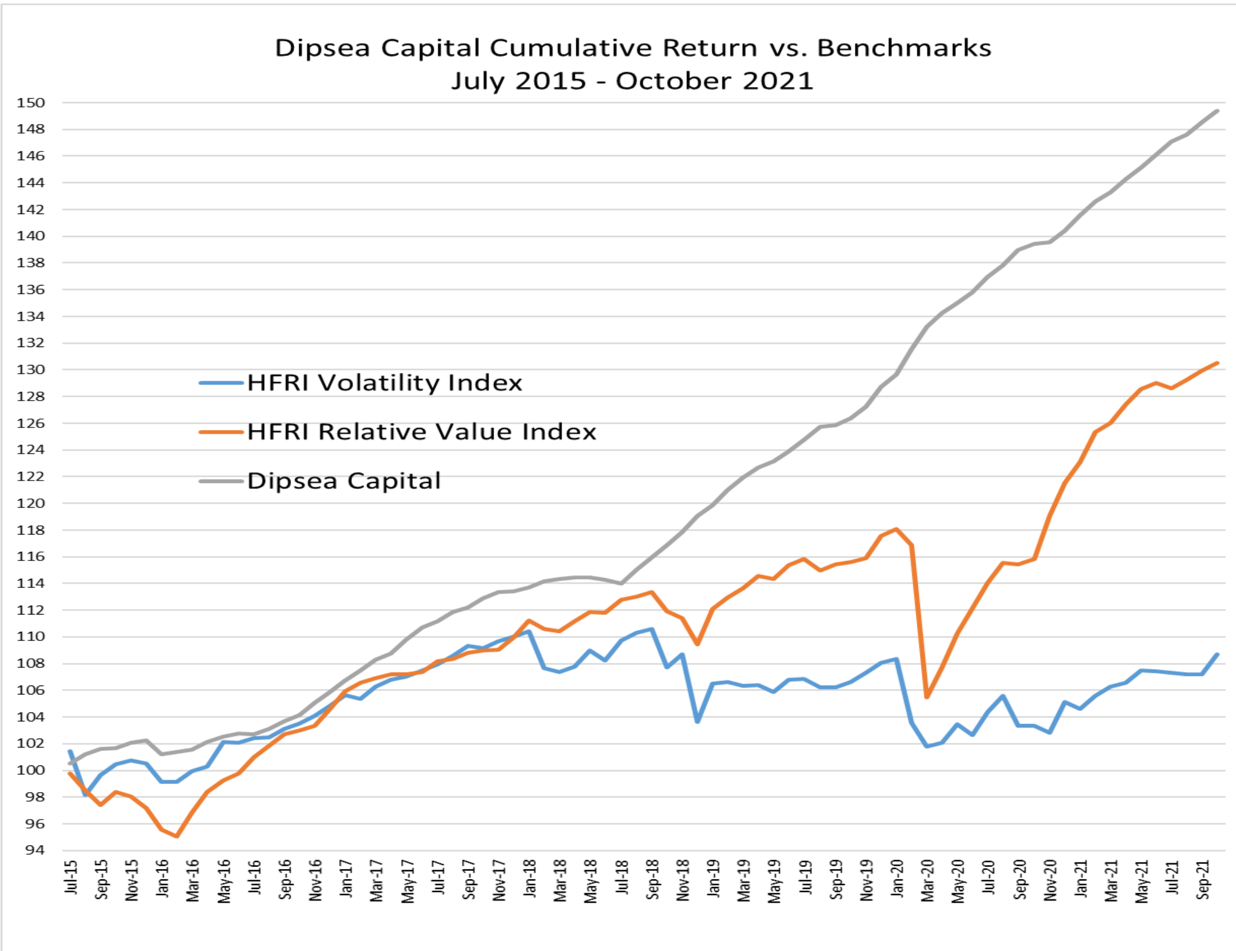
The Return of Volatility - Dipsea Capital November 2021 Commentary



The Dipsea Capital Fund returned 0.87% in November, 7.33% year-to-date, and 8.00% to partners for the last twelve months. The S&P 500 lost -0.69% and the Nasdaq was basically flat (+0.25%) in November.

November was a very eventful month. It began with the announcement of the worst U.S. CPI inflation number in 30 years, 6.2%, which the market reacted to during the second week with a selloff in stocks, a jump in gold, and a 10 bps jump in the 10-year Treasury yield to 1.56%. This nervousness was followed by a rebound in the Nasdaq, accompanied somewhat unusually by rising skew for Puts in many high flying tech names as investors bid for greater downside protection. This set up attractive trades for us as we profited on selective short Put spreads set well out-of-the-money in Tesla, Amazon, and Alibaba Group. We shifted from a short volatility orientation to a directional strategy (net long volatility, and with a higher delta) at the end of the third week, following our models' signals.

Stock market volatility picked up significantly on November 22nd as the market did not know how to react to the announcement of Fed Chair Powell's continuation – will he be hawkish or dovish going forward? This served us well as our long SPX index Put spread positions profited on the drop below 4710 and the Fund gained 0.26% for the day. Our signals indicated we should remain directionally oriented to the downside and this proved correct as the market experienced a significant drop on Friday – the worst Black Friday selloff ever – as news hit of the emergence of the Omicron Covid variant. The CBOE's volatility index (VIX) spiked from the high teens to 29 and has remained elevated in relative terms.

Despite the volatility, we were consistently profitable throughout the month. The Fund's gross daily returns were in the range of +0.26% to -0.04%. Index trading accounted for 67% of November's return, with the remainder coming from single-names. Dipsea's net market exposure averaged -1.1%.

Market Thoughts and Organizational Update

The weekly options markets Dipsea is active in continue to grow. A new development is the CBOE Options Exchange expanding the trading hours for SPX and VIX options in late November to nearly 24 hours a day. This year the average daily notional value of SPX options trading volume has been around $540 billion, as can be seen in the following graph. We expect this will continue to attract additional institutional investors to the space.

SPX Options Average Daily Volume

Source: CBOE Global Markets, notional value in USD billions

While we are not planning any significant change to our strategy's implementation due to the expanded trading hours, it does provide us with the enhanced ability to adjust our exposures as needed during the "overnight" hours, so it is a welcome development.

We are very pleased to share that the Dipsea Capital Fund was selected as *top Volatility Fund at the HFM 2021 European Quant Performance Awards* in November. For our newer readers, Dipsea's competitive advantage is our ability to seamlessly combine both directional (delta) and volatility (vega, theta) inputs to equity options trading in order to create positive returns in all market environments. Our algorithms and the investment process that incorporates them have been specifically built for this cross-dimensional approach.

Separately, I recently shared some thoughts on our investment strategy in a short video which is posted on our website: *dipseacapital.com*. We wish everyone a very happy holiday season and start to 2022!

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder