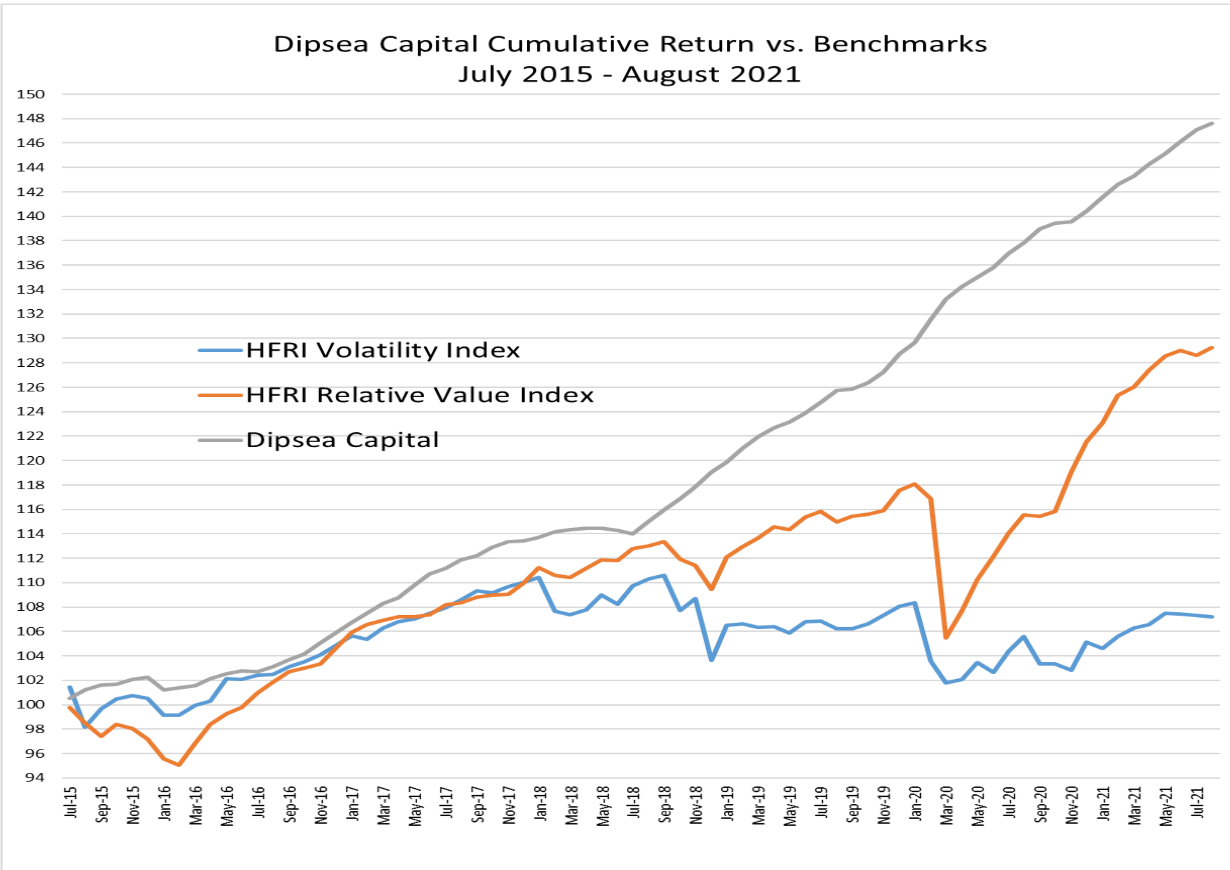
DIPSEA

CAPITAL, LLC

Dipsea Capital September 2021 Commentary



The Dipsea Capital Fund returned 0.64% in September, 5.80% year-to-date, and 6.89% to partners for the last twelve months. The Fund has compounded annually at 8.60% for the trailing three year period. Equity markets were disrupted in September as volatility rose and the S&P 500, Nasdaq, and Russell indices all bounced lower. The S&P 500 lost -4.65% and the Nasdaq -5.31%.

We are pleased that Dipsea Capital's historical negative correlation to equity markets during down months continued in September. Since inception in July 2015, the Dipsea Fund's cumulative performance of 10.4% during S&P 500 down months represents outperformance of 91.1%.

The CBOE's VIX index rose to as high as 28 on September 20th as the S&P 500 dropped 2.6% that day before making a small recovery. There were significant vol shifts – both intraday and overnight – from the 17th through the 28th with the VIX ranging between 18 and 28. Friday the 17th saw an extraordinarily high volume of single-name options expire, $750 billion, which made it the second highest volume non-January expiration date on record.

We were positioned well for this market activity as our signals since August had indicated a shift to higher volatility and we increased exposure to long Put spreads with a higher delta. For the month, our gross daily returns were in the range of +0.11% to -0.05%. Index trading accounted for 70% of September's return, with the remainder coming from single-names. Dipsea's net market exposure averaged 0.0%.

Market Landscape

The investment environment has become more dynamic recently as fundamental economic and government policies shift. We observe contrasting aspects that may impact markets.

Tailwinds supporting continued strength in the broad market:

1. The U.S. economy remains strong, growing at a real annualized rate of 6.5% in Q2.
2. The Federal Reserve remains in expansionary mode. Despite indicating in September that tapering of its open market bond purchases may be initiated soon, actual rate increases remain distant at some time in 2023, and the Fed Funds rate remains near zero.
3. Fiscal stimulus expected – despite ongoing negotiations in Congress, 51% of institutional investors expect a package with a positive reaction by equity markets and only 18% expect a negative impact (Marquee QuickPoll).
4. The economic impact of Covid-19 appears to be receding, aided by further remedies such as Merck's antiviral pill.

Headwinds to higher stock prices:

1. The U.S. stock market's cyclically adjusted P/E ratio (CAPE ratio) remains at 38x, 48% above its 20 year mean of 25.7.
2. Interest rates rose in reaction to the Fed meeting's notes - the 10-year rose from 1.30% to 1.54% in September and is currently at 1.48%. The 30-year is at 2.05%.
3. Increasing U.S. supply chain backups are expected to impact corporate earnings.
4. The latest U.S. jobs report was weak, indicating the addition of only 235,000 new jobs in August vs. expectations of 700,000.
5. China's recent regulatory tightening and the Evergrande credit default have dampened investor enthusiasm.

Strategy Thoughts

We are now in a market environment that presents heightened opportunities, in our view. With our goal of producing consistent returns, we remain committed to our investment process that utilizes high risk-adjusted return trade constructs tailored for specific volatility environments. In combination with a tight tolerance for losing positions, we expect that the short-dated equity options market will continue to be a highly attractive space in which to be involved as an absolute return investor.

Thank you for your continued trust and support.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder