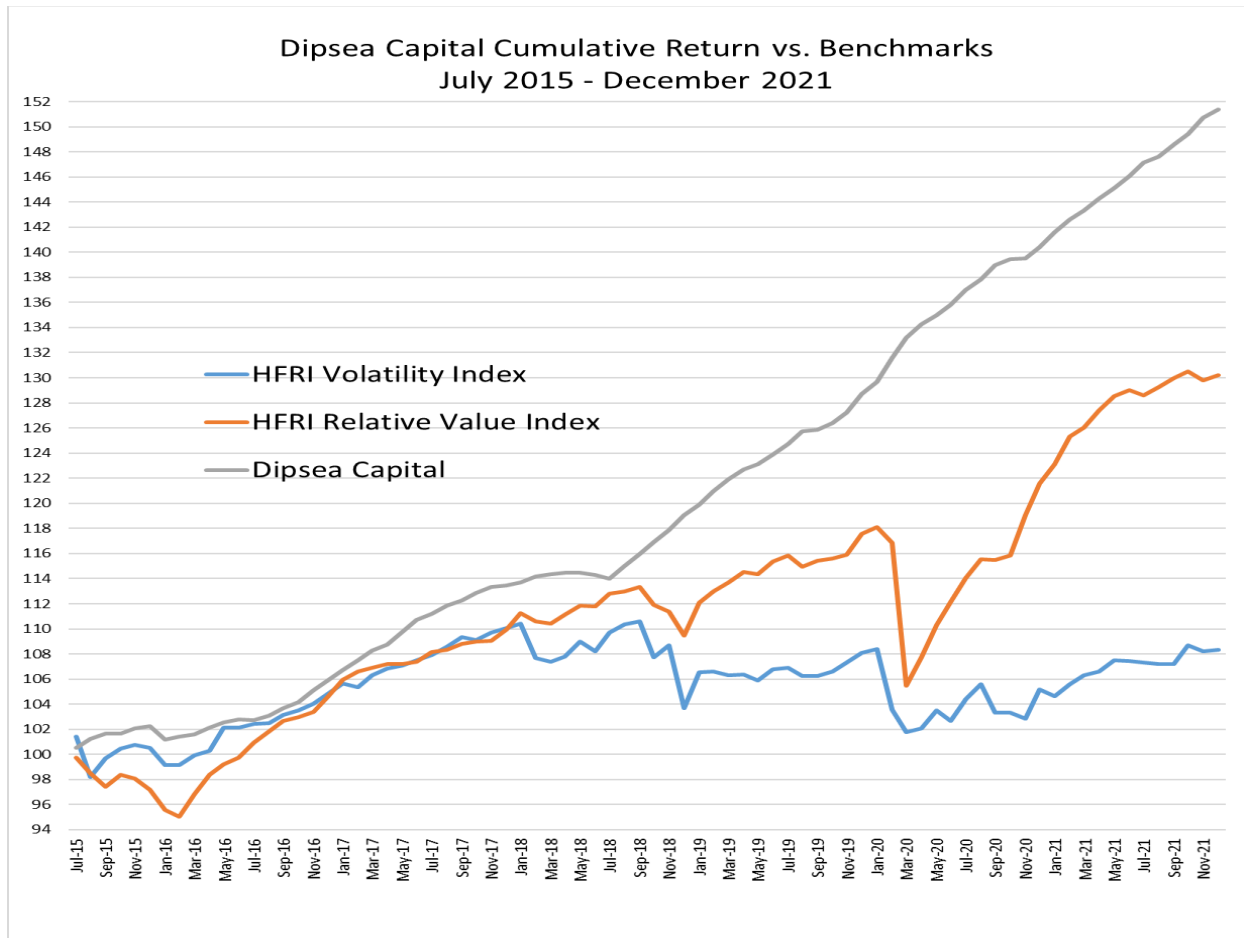




Gamma Trading Market Reversals - Dipsea Capital January 2022 Commentary



The Dipsea Capital Fund returned 0.57% in January. Both the S&P 500 and Nasdaq suffered their worst losses since March, 2020 with the S&P 500 down -5.17% and the Nasdaq -8.98% after recovering from a sharper drawdown in the last two days of the month.

The CBOE's volatility index (VIX) spiked the second half of January, from the high teens to a peak of 32, returning to its early December level. However, the VIX did not reflect the higher intraday volatility which saw three of the biggest S&P 500 intraday reversals of the decade. The reversal on Monday the 24th was a particularly rare event, as the S&P 500 moved down more than 4%

and then rebounded to close up on the day, a phenomenon that has only occurred eight times since 1928. The last time this happened was during November, 2008.

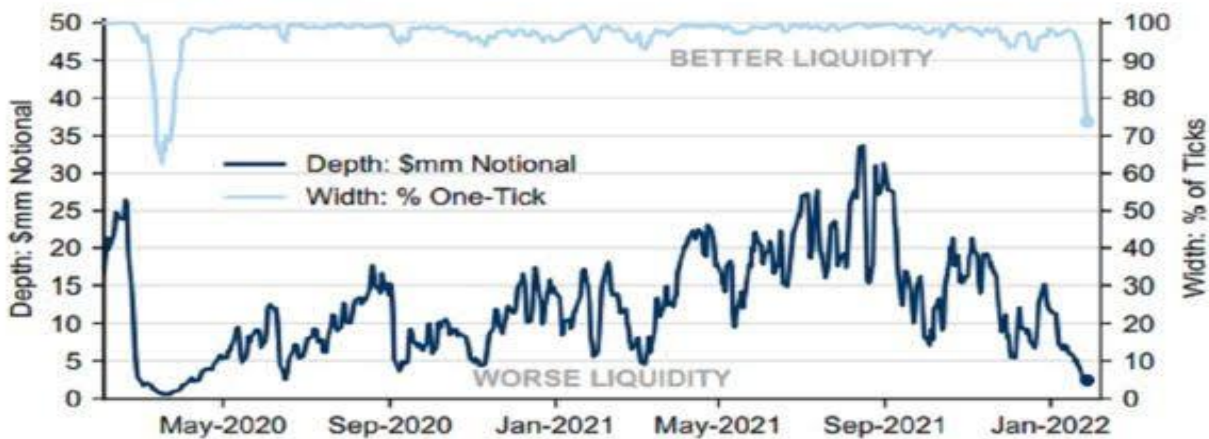
Our volatility signals and market intuition led us to cut gross exposure from 41% to 14% on the 21st and we maintained a low level of gross and net exposure through the following week. The market's intraday reversals provided attractive gamma trading opportunities as we profited on names such as Tesla, Peloton, Netflix, Ford, and Amazon. We were consistently profitable throughout the month, with our strongest performance during the third week, prior to the spike in market volatility. The Fund's gross daily returns were in the range of +0.10% to -0.02%. Index trading accounted for 68% of January's return, with the remainder coming from single-names. Dipsea's net market exposure averaged -2.2%.

Market Observations

During late January's stock market volatility, the S&P 500 futures market saw worsening liquidity, to a degree not seen since the 2020 pandemic market crash. The chart below shows how volumes in SPX futures dropped precipitously and their bid-ask spread widened significantly. One effect of this can be a continuation of amplified market moves, particularly as options dealers seek to hedge their positions.

Exhibit 5: On top of weakening top-of-book depth, the width of SPX futures markets has increasingly been more than one tick wide - as it had been in 2020

3-day rolling E-mini future median top-of-book depth (\$mm notional) and width (% of ticks exactly 25 cents wide), based on 1-minute intraday snapshots



Source: Goldman Sachs Global Investment Research, Reuters

Strategy Thoughts

As the market grapples with shifts in Fed policy, potentially slowing growth, and geopolitical

tensions we note that central bank tightening cycles typically lead to increases in the skewness of equity options due to the heightened uncertainty these cycles produce.

Increased skew benefits Dipsea's trading strategy as it raises the volatility risk premium along an options price curve, creating a wider range of trading options as well as a higher payoff to the options seller.

We expect the market's dynamics to provide ample opportunity for Dipsea's absolute return strategy, regardless of market direction. We remain vigilant in our portfolio construction yet poised to profit with our tactical approach in the short-dated options space.

Please reach out to us with any questions. We look forward to serving our existing and new investors in 2022.

Sincerely,

Christopher Antonio

Chief Investment Officer and Founder