



December 31, 2022

I use rough numbers to save time and they don't include fees. See the administrator's statement for precise numbers.

2022's theme was inflation and rising rates, which resulted in an enormous [drop in liquidity](#) and collapse in speculative investments. But bankruptcies were rare.

There's about to be a major theme shift. Several hundred public companies will run out of cash and go bankrupt in the next couple of years. I will focus on the two best hunting grounds. First, nearly a thousand companies went public via SPAC in the last couple of years. Many are not viable businesses. And second, zero percent interest rates over the last decade created an army of zombie companies that could only survive because they refinanced repeatedly. They can't anymore.

I expect this to play out in three phases, which I see as a gigantic tidal wave:

Phase one - The tidal wave will start building but most shorts don't understand bankruptcies and will not ride the wave early on. That's good for us because bankruptcies will be uncrowded while there are fewer opportunities.

Phase two - At the tidal wave's peak there will be several bankruptcies per week. Envy will kick in and many shorts will join, yet with so many targets the edge will still be high.

Phase three - Shorting bankruptcies will become most popular right as the tidal wave is dying down. Shorts will get too crowded; borrow costs and squeezes will become extreme. I plan to back off at this point. Tech and growth shorts will also be over by then so I will pause short selling generally. My guess is that this happens sometime in 2024¹.

¹ I have a few strategy ideas to segue into when short selling temporarily becomes a suboptimal strategy. I'm putting this into writing for myself, to reinforce that there will be a time to walk away from short selling for a while.

This will be the best opportunity set since I began investing. There should be no scale issues in this environment, so I'm going to allow people to continue making contributions to Militia Capital. I know this goes against my fund's soft cap but I really want to take advantage of this situation while it lasts. Plus I'm running into fewer scale issues than I expected a couple years ago.

Fourth Quarter

Results for October 1st - December 30, 2022

S&P 500: +7.5%

Militia Capital: +43.7%

We made 26% on longs and 14% on shorts.

Currently we're 220% long and 155% short.

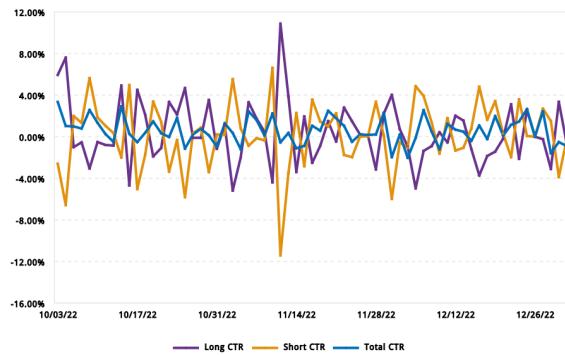
Risk Analysis

	SPY	ARKK	ICLN	U***7733
Ending VAMI	1,075.67	827.99	1,041.61	1,437.70
Max Drawdown	7.18%	27.34%	13.60%	3.88%
Peak-To-Valley	11/30/22 - 12/28/22	10/04/22 - 12/28/22	10/04/22 - 10/14/22	11/29/22 - 12/05/22
Recovery	Ongoing	Ongoing	19 Days	6 Days
Sharpe Ratio	1.13	-1.00	0.56	7.20
Sortino Ratio	1.94	-1.58	0.90	15.82
Standard Deviation	1.54%	3.79%	1.87%	1.24%
Downside Deviation	0.90%	2.41%	1.15%	0.56%
Correlation	-0.09	-0.44	-0.30	-
β :	-0.07	-0.14	-0.20	-
α :	1.46	1.35	1.47	-
Mean Return	0.12%	-0.22%	0.08%	0.57%
Positive Periods	28 (43.08%)	27 (41.54%)	29 (44.62%)	45 (69.23%)
Negative Periods	37 (56.92%)	38 (58.46%)	36 (55.38%)	20 (30.77%)

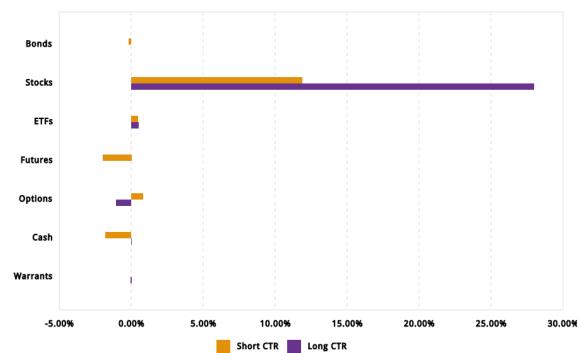
Value Added Monthly Index (VAMI)



L & S Performance Comparison



L & S Performance by Financial Instrument Comparison



Full Year

1. 2022 Results

S&P 500: -18.2%

Militia Capital: +98.5%. Long -11%, Short +123%

There were [bets on 600 ticker symbols](#) this year.

This year's tax estimate is that net realized capital gains will be close to zero. The breakdown:

1% realized gains from stocks and options.

9% gains from futures contracts.

Less 8% interest deduction.

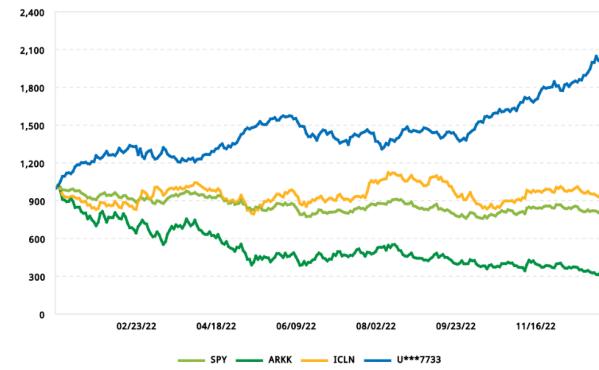
Paying taxes on 10% of your 2022 Militia profits should leave a safe buffer while the accountant comes up with the final answer.

I mentioned in an email that I was considering getting a new accountant because they prepared our taxes so slowly. However, after talking it through with a few credible sources, it seems that last year's delay was common so I'm giving them another shot.

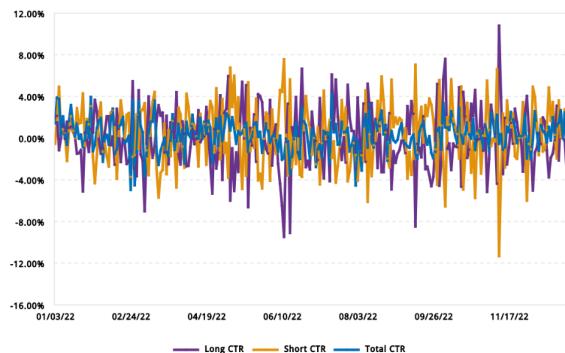
Risk Analysis

	SPY	ARKK	ICLN	U***7733
Ending VAMI	818.28	330.27	945.89	1,985.51
Max Drawdown	24.50%	69.44%	25.71%	16.76%
Peak-To-Valley	01/03/22 - 10/12/22	01/03/22 - 12/28/22	08/10/22 - 10/14/22	06/06/22 - 08/05/22
Recovery	Ongoing	Ongoing	Ongoing	53 Days
Sharpe Ratio	-0.88	-1.36	-0.09	2.75
Sortino Ratio	-1.20	-1.90	-0.15	4.31
Standard Deviation	1.50%	4.18%	2.20%	1.53%
Downside Deviation	1.09%	3.00%	1.44%	0.97%
Correlation	0.02	-0.35	-0.33	-
β :	0.02	-0.13	-0.23	-
α :	0.68	0.56	0.67	-
Tracking Error	2.12%	4.94%	3.07%	-
Information Ratio	55.16	33.53	33.89	-
Turnover	-	-	-	433.19%
Mean Return	-0.07%	-0.34%	0.00%	0.28%
Positive Periods	119 (45.77%)	113 (43.46%)	123 (47.31%)	156 (60.00%)
Negative Periods	141 (54.23%)	147 (56.54%)	137 (52.69%)	104 (40.00%)

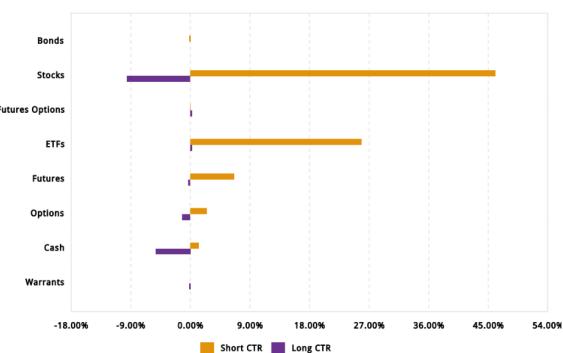
Value Added Monthly Index (VAMI)



L & S Performance Comparison



L & S Performance by Financial Instrument Comparison



2. Two More Fund Suggestions

In Q1 I outlined how much to bet with Militia Capital, to trim on the way up and suggested Alluvial Capital as an option to diversify. He ended up losing with the market last year - which is the expectation for long only funds - but he still outperformed the index. So long as he keeps outperforming like that, his long term result will be great.

Another couple funds I suggest:

Adar1 - A biotech long/short fund run by Daniel Schneeberger. He doesn't have a website, so you can contact him directly. He's a medical doctor that shares many alpha generating ideas on Twitter that I've used. He uses a lot less gross leverage than me but is showing just as high of an edge adjusted for leverage. This is great because he won't be so correlated to the general market and doesn't share my fund's tail end risk. The only downside of Adar1 is that the fee is high - nearly the traditional 2/20, which I think is very hard for most funds to beat the index with long term. But I think it's worth it while he has low AUM.

Bireme Capital - A generalist long/short fund. I've liked many of Evan's individual long picks and have seen that he can easily change his mind when he's wrong or when the thesis changes. Their results have been strong. Evan is an ex-poker player like me.

I'll have more funds to suggest in the future, particularly a couple of people I work closely with who are going to launch their own funds.

My first couple years investing I burned cash while learning, and I had no idea what would become of my new passion. This year I personally made \$4.5 million. Such big, sudden success is surreal. But I'm still hungry and want to grow my net worth for at least another couple of years. Besides that, this game is still very fun and I will keep playing so long as that's true.

Many old friends told me that I'm making them life changing money which feels even better than all the money I'm making for myself.

As always, thanks for your investment. I'll keep trying to kill it,

David Orr

LEGAL DISCLAIMER

The information contained herein reflects the opinions and projections of David Orr, founder and portfolio manager at Militia Capital as of the date of the letter. Mr. Orr's opinions and projections are subject to change without notice.

All information provided in this letter is for informational purposes only and should not be interpreted as investment advice or a recommendation to purchase or sell any specific security. While Mr. Orr believes that the information presented herein is reliable, no representation or warranty is made concerning the accuracy of the data presented. Indeed, this letter is NOT an offer to sell or the solicitation of an offer to buy any interests in any Fund managed by Militia Capital or David Orr. Any such offer to sell or solicitation of an offer to buy will be made only pursuant to definitive subscription documents between the Fund and the Investor.

Performance returns – gross and net – are computed by Mr. Orr. Net returns are net of performance fees and management expenses, if any. Upon request, Mr. Orr can provide additional information regarding how gross and net returns are computed.

Except for the year end 2021-2024 net returns at the top of this letter, the figures provided are unaudited.

Past performance is not indicative of future results.

Each investor / Limited Partner will receive individual statements from the funds' administrator showing actual returns.

Reference to the S&P 500 does not imply that Militia Capital will achieve returns, volatility, or other results similar to that index. Indeed, while the S&P 500 is a long-only index primary of large capitalization companies, Militia Capital takes long and short positions in many securities. As such, Militia Capital's portfolio may often differ materially from the S&P 500, hence the manager's consistent reference in this letter to a lack of correlation.

The specific investments identified and described in this letter are not a representation of all potential positions or strategies used by the Fund and, to the contrary, may represent a small percentage of activity. This information is presented to provide insight into explaining the Fund's performance, Sharpe ratio, or commenting on investment principles such as valuation.