



	Long	Short	Gross Return	Net Return ¹	S&P 500	Beta	Alpha	Sortino	AUM
H2 2018	-23%	+26%	-2.7%	-3%	-6.8%	.97	.18	-.2	\$50k
FY 2019	+58%	+21%	+90.9%	+75.6%	+31.2%	.64	.55	3.3	\$200k
FY 2020	+65%	+64%	+171%	+132%	+18.3%	1	.95	3.4	\$1.5m
FY 2021 ²	+80%	-17%	+49.4%	+43.8%	+28.7%	.21	.39	2.1	\$16m
FY 2022	-11%	+123%	+98.5%	+73.4%	-18.2%	.02	.68	4.3	\$43m
YTD	+28%	-22%	-.4%	-.6%	+16.8%	-.28	.06	-.1	\$51m
Total	+312%	+261%	+1,386%	+880%	+77%	.51	.56	2.58	

I'm no longer accepting new contributions except for the ones already planned. People who share ideas with me are always welcome to join.

¹ Net of .5%/year management fee and 25% performance fee above positive S&P 500 returns.

² The fund launched in February 2021. Prior to this I was investing from my personal account. Full year 2021 gross returns were 49.4% in my personal account and 87.4% in the fund. The accounts were combined at year end.

July 1st, 2023

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

1. Results from April 1st - June 30th

S&P 500 +8.7%

Militia Capital -5.3%

We made 8% on longs and lost 12% on shorts.

We're currently 210% long and 135% short.

While writing this letter I decided to drop gross leverage to 250% next week while I'm having this tough period. This environment is hard for a long term short and hold strategy, where high beta shorts are not worth the risk because they're trending up too hard.

Bankruptcy shorts have been working well this year, just as planned. I unfortunately cannot bet more since that'd be too much exposure to a single factor. However, this is the highest edge portion of my short book and I'm not going to reduce exposure to these bets.

Once I regain confidence I'll increase gross exposure again quickly.

2. Getting AI Wrong

I missed a big, credible theme shift this quarter.

I had been shorting "AI" companies since the fund's inception. After researching and figuring that 5 in a row were essentially a scam, I started assuming that all AI companies were a scam. Their AI didn't work and they were paying humans to do the work while misleading their backers³. This put me into a skeptical mindset about AI generally going into the year.

Nvidia posted shockingly good Q2 guidance in May. My mentor linked a presentation on AI that funny enough went live that same night. I recommend [watching it](#). It explains in layman's terms why the technology behind chatGPT (text), midjourney (pictures), etc is so promising and likely to keep improving rapidly. Had this video been available earlier I mostly would have dodged the AI bullet. It changed my mind that much.

Back in the 1980s researchers had this idea that you could replicate the human brain by mimicking its neuron structures using computing power. They tried this for a long time with minimal improvement. But after hitting a certain threshold of computing power - after increasing the number of neurons enough - many competing models made humanlike jumps in performance all at the same time. The implication is that the performance could continue to jump from here.

³ Note their tech has nothing to do with the AI breakthrough I'm writing about here.

Large technology companies like Microsoft don't have a choice: they have to spend a lot on computing power to develop competing models. This is an opportunity but also a threat to their monopoly profits, which currently have record margins compared to nearly all companies in the past. The threat seems far more important fundamentally. But in the short term these companies will probably jump on AI product releases that wow people - nevermind that this might be a race to zero for all of them in terms of profit.

The clear winner is the semiconductor sector. They're going to sell far more computing power for at least the next few years, and longer if the technology continues to improve. Many individual companies own a key bottleneck in the process. I will have long exposure to a basket of them. Nvidia itself seems expensive but there are still many reasonably priced companies in the sector.

Missing this theme shift cost 8% this year on direct short bets. I was short Nvidia itself and another handful of stocks jumped on predictable hype that could have been avoided, even if they're still fake tech companies.

3. May 12th email to investors on IMKTA

Last letter I suggested IMKTA as a new top idea. My thesis was that the company might not be over earning much or at all from covid and could be a growth company - yet IMKTA was already priced as if it was over earning *a lot*.

The latest quarter suggests they were indeed over earning and shares made a justified drop. I'm gradually trimming the position down to 8% since my conviction is much lower now. **Update: I reduced the position down to 6.5%. I still think asymmetry is on our side since Q1 is typically their weakest, but the edge is clearly lower now.**

I don't see a reason to rush for the exits if someone made a small or medium size bet. I still like the long term bet for those sizes. This is still a growing grocery chain for 10x earnings with a clean balance sheet. But given I explained this was a top idea, I am compelled to mention this now in case any of you bet big like me on the suggestion. The Kelly Criteria makes it clear: as the edge goes down, so should bet size.

All that said, given IMKTA is only down 8% from when I made the suggestion, it shows the asymmetry in the initial setup. Heads we were going to win a lot, and tails we lost small. And this quarter came out particularly bad. I will always bet big in these situations, even if I can't get 'em all right.

4. M/I Homes Update

Some of you followed me in getting long the US home builder M/I homes (MHO) and asked what to do now that it ran up so much. News came out well for builders generally and especially well for MHO. Thus the company still isn't expensive but it's not an extreme bargain anymore, either. Selling 50-75% of the initial position is right. You can hold onto the rest since earnings growth is still promising over the next few years. We still have 6% in Militia today and I keep trimming a little bit daily as it grinds upward.

I've been cycling into BlueLinx Holdings (BXC) for more housing exposure. They sell building materials. The stock trades for just 3 times last year's earnings and they have a strong balance sheet. This bet isn't as high confidence as M/I homes because the downside risk is higher. However, BXC is cheap enough that I want to mention it anyway - in the good outcome the stock can easily double. I'm risking 5%.

5. Broker Report

This is my longest period of losing to the S&P 500 since I began investing 5 years ago. We're about 17.5% behind YTD. That's in line with past periods of underperformance in terms of percent.

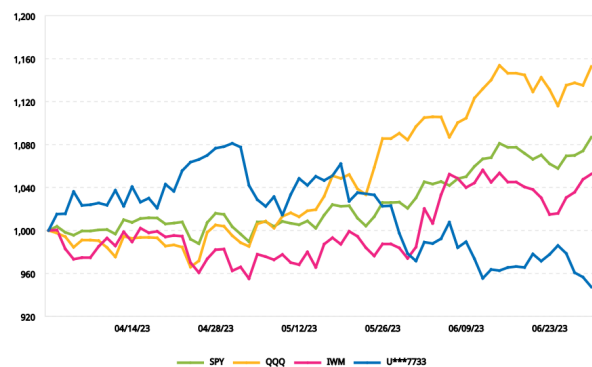
Besides the AI specific bets I mentioned earlier, another big driver of underperformance was my decision to have -.45 beta to the NASDAQ index while it went up 39% in 6 months. That's a faster YTD gain than even 1999 during the dotcom bubble. At the same time, the S&P 500 equal weight and S&P 600 small cap indexes are both only up 6% year to date. These are tough conditions for what I do. I mostly do not bet long on large technology companies - which explain almost all of the S&P 500's gain year to date - since people already get that exposure for free from index investing.

Given the tough market environment my results are reasonable. Even if I hate losing and it feels bad.

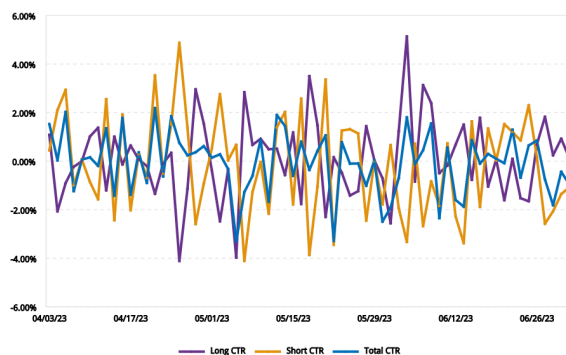
Risk Analysis

	SPY	QQQ	IWM	U***7733
Ending VAMI	1,086.82	1,152.67	1,052.57	947.36
Max Drawdown	2.60%	3.26%	4.69%	12.37%
Peak-To-Valley	04/28/23 - 05/04/23	06/15/23 - 06/26/23	04/17/23 - 05/04/23	05/02/23 - 06/30/23
Recovery	10 Days	Ongoing	21 Days	Ongoing
Sharpe Ratio	2.58	3.30	0.98	-1.17
Sortino Ratio	4.59	6.18	1.58	-1.48
Standard Deviation	0.72%	1.02%	1.15%	1.25%
Downside Deviation	0.40%	0.54%	0.71%	0.99%
Correlation	-0.25	-0.40	-0.17	-
β :	-0.44	-0.50	-0.19	-
α :	-0.10	0.03	-0.20	-
Mean Return	0.13%	0.22%	0.09%	-0.08%
Positive Periods	38 (58.46%)	36 (55.38%)	34 (52.31%)	34 (52.31%)
Negative Periods	27 (41.54%)	29 (44.62%)	31 (47.69%)	31 (47.69%)

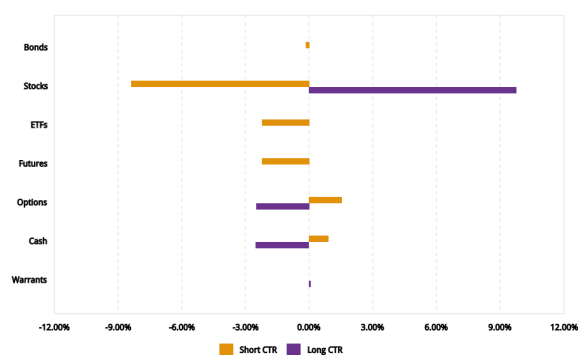
Value Added Monthly Index (VAMI)



L & S Performance Comparison



L & S Performance by Financial Instrument Comparison



As always, thanks for investing. I'll continue trying my best,

David Orr

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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.

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