| | Long | Short | Gross | Net | SP500 | Beta | Alpha | Sortino | AUM |
|---|---|---|---|---|---|---|---|---|---|
| H2 2018 | -23% | 26% | -3.0% | -3.2% | -7.0% | 0.97 | 0.18 | -0.2 | $50k |
| FY 2019 | 58% | 21% | 91.2% | 75.6% | 31.0% | 0.64 | 0.55 | 3.3 | $200k |
| FY 2020 | 65% | 64% | 170.6% | 132.0% | 18.0% | 1 | 0.95 | 3.4 | $1.5m |
| FY 2021 | 80% | -17% | 49.4% | 43.8% | 29.0% | 0.21 | 0.39 | 2.1 | $16m |
| FY 2022 | -11% | 123% | 98.5% | 73.4% | -18.2% | 0.02 | 0.68 | 4.3 | $43m |
| FY 2023 | 58% | -27% | 15.3% | 14.8% | 26.2% | -0.23 | 0.15 | 0.73 | $58m |
| YTD | 1% | 12% | 13.1% | 11.4% | 6.9% | -0.10 | 0.67 | 7.12 | $63m |
| Total | 413% | 278% | 1842% | 1158% | 105% | 0.37 | 0.52 | 2.70 | |

*Militia Capital isn't accepting new LPs right now. However, once I'm more comfortable with the mechanics of backing portfolio managers I will be looking for 1-2 new large LPs. They should want to scale up their investment over a couple of years and want to be invested for many years.*

*I'm happy to accept more money from current LPs - a few have already asked given recent developments.*

March 1st, 2024

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

**1. Results from January 1st - February 29th, 2024**

S&P 500 +6.9%
Militia Capital +13.2%

We made 1% on longs and 12.2% on shorts.

We're currently 190% long and 115% short.

**2. New Portfolio Manager (PM) Update**

This quarter I'm updating early to give more detail on Militia's new PM since it's working so well.

Last letter I wrote that our new PM's strategy is likely negatively correlated or at least uncorrelated to mine.  [This sheet](#) shows our monthly results and why this is so powerful:

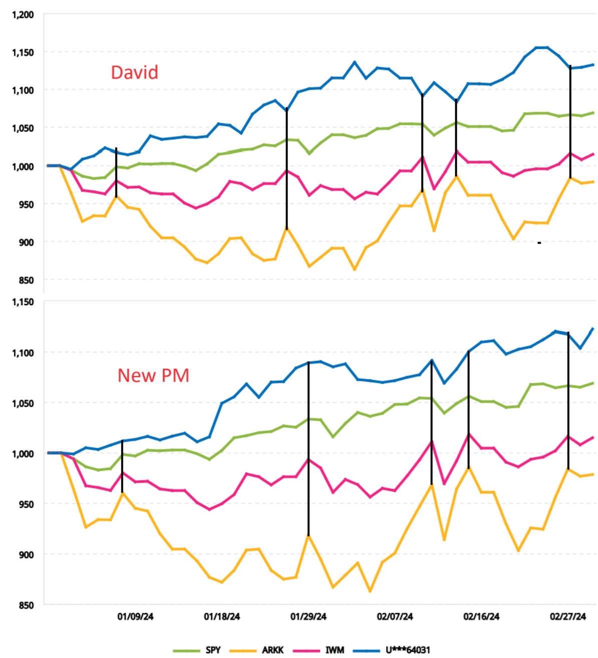
| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Bold = Negatively correlated on 5%+ monthly drops** | | | | | | | | | | | | | |
| | | Red = One big drop together | | | | | | | | | | | | | |
| David | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Total | Gain to Pain | 3.2 |
| 2020 | | | **12.9%** | 32.7% | 19.1% | 6.1% | 2.5% | 10.8% | **-5.8%** | 2.9% | 26.7% | 7.3% | 183.3% | Sharpe | 1.7 |
| 2021 | **-29.3%** | 12.2% | 19.4% | 8.6% | 7.7% | **-5.8%** | 5.4% | 0.7% | 4.7% | 0.0% | -3.2% | 18.0% | 32.5% | | |
| 2022 | 23.4% | 1.5% | -1.9% | **9.9%** | 15.7% | *-8.6%* | 0.5% | 0.8% | -4.5% | 16.4% | 12.5% | **9.7%** | 98.5% | | |
| 2023 | -0.9% | -2.7% | 9.0% | 7.7% | **-9.1%** | -3.2% | -4.1% | 6.4% | 5.5% | -1.0% | 6.4% | 2.1% | 15.3% | | |
| 2024 | 10.0% | 2.9% | | | | | | | | | | | 13.2% | | |
| Total | | | | | | | | | | | | | 972% | | |
| New PM | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Total | Gain to Pain | 3.4 |
| 2020 | | | **-25.0%** | -3.5% | 1.2% | 9.1% | 3.8% | 7.7% | **7.8%** | 5.7% | 13.7% | 17.7% | 36.2% | Sharpe | 1.8 |
| 2021 | **18.70%** | 14.1% | 4.0% | 5.5% | 0.2 | **3.8%** | 1.1% | -1.1% | 3.1% | 10.4% | -3.1% | 5.7% | 115.8% | | |
| 2022 | -1.5% | -4.6% | 7.5% | **-6.7%** | 5.5% | *-12.8%* | 27.8% | 3.3% | -4.5% | 21.7% | 2.3% | **-6.2%** | 27.7% | | |
| 2023 | 11.0% | 9.2% | 2.1% | -4.0% | **12.7%** | 3.7% | 19.0% | -1.5% | 4.2% | -0.5% | 28.0% | 10.6% | 138.9% | | |
| 2024 | 8.5% | 3.4% | | | | | | | | | | | 12.2% | | |
| Total | | | | | | | | | | | | | 1006% | | |
| Combined | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Total | Gain to Pain | 7.8 |
| 2020 | | | **-6.1%** | 14.6% | 10.2% | 7.6% | 3.2% | 9.3% | **1.0%** | 4.3% | 20.2% | 12.5% | 104.8% | Sharpe | 2.7 |
| 2021 | **-5.3%** | 13.2% | 11.7% | 7.1% | 13.9% | **-1.0%** | 3.3% | -0.2% | 3.9% | 5.2% | -3.2% | 11.9% | 76.2% | | |
| 2022 | 11.0% | -1.6% | 2.8% | **1.6%** | 10.6% | *-10.7%* | 14.2% | 2.1% | -4.5% | 19.1% | 7.4% | **1.8%** | 63.1% | | |
| 2023 | 5.1% | 3.3% | 5.6% | 1.9% | **1.8%** | 0.3% | 7.5% | 2.5% | 4.9% | -0.8% | 17.2% | 6.4% | 69.9% | | |
| 2024 | 9.3% | 3.2% | | | | | | | | | | | 12.7% | | |
| Total | | | | | | | | | | | | | 1127% | | |

Our overall negative correlation is only -.15. This gets skewed much closer to zero because both of us are generating so much alpha that it's positively correlated on a monthly basis. However, our negative correlation *at key moments* - what actually matters - is probably -.5 or greater.

The charts below show the same idea on a daily basis. ARKK and IWM are proxies for a basket of speculative stocks - the pink and yellow lines. When they're spiking our new portfolio manager tends to do well while I do poorly. The black vertical lines show this clearly:

| | SPY | ARKK | IWM | U***7733 |
|---|---|---|---|---|
| Ending VAMI | 1,068.94 | 978.61 | 1,015.05 | 1,132.45 |
| Max Drawdown | 1.71% | 13.69% | 5.60% | 4.61% |
| Peak-To-Valley | 01/29/24 - 01/31/24 | Start - 02/05/24 | Start - 01/17/24 | 02/05/24 - 02/15/24 |
| Recovery | 2 Days | Ongoing | 20 Days | 6 Days |
| Sharpe Ratio | 2.92 | -0.25 | 0.24 | 3.64 |
| Sortino Ratio | 5.01 | -0.36 | 0.34 | 6.36 |
| Standard Deviation | 0.67% | 2.36% | 1.30% | 1.09% |
| Downside Deviation | 0.39% | 1.68% | 0.95% | 0.62% |
| Correlation | -0.09 | -0.60 | -0.58 | - |
| β: | -0.15 | -0.28 | -0.48 | - |
| α: | 0.69 | 0.61 | 0.66 | - |
| Mean Return | 0.14% | -0.02% | 0.04% | 0.27% |
| Positive Periods | 31 (64.58%) | 27 (56.25%) | 27 (56.25%) | 29 (60.42%) |
| Negative Periods | 17 (35.42%) | 21 (43.75%) | 21 (43.75%) | 19 (39.58%) |

| | SPY | ARKK | IWM | U***64031 |
|---|---|---|---|---|
| Ending VAMI | 1,068.94 | 978.61 | 1,015.05 | 1,122.13 |
| Max Drawdown | 1.71% | 13.69% | 5.60% | 2.06% |
| Peak-To-Valley | 01/29/24 - 01/31/24 | Start - 02/05/24 | Start - 01/17/24 | 02/12/24 - 02/13/24 |
| Recovery | 2 Days | Ongoing | 18 Days | 2 Days |
| Sharpe Ratio | 3.10 | -0.25 | 0.28 | 4.31 |
| Sortino Ratio | 5.31 | -0.36 | 0.38 | 7.51 |
| Standard Deviation | 0.70% | 2.47% | 1.36% | 0.92% |
| Downside Deviation | 0.41% | 1.76% | 0.99% | 0.53% |
| Correlation | 0.31 | 0.30 | 0.52 | - |
| β: | 0.42 | 0.11 | 0.35 | - |
| α: | 0.50 | 0.65 | 0.62 | - |
| Mean Return | 0.15% | -0.02% | 0.04% | 0.27% |
| Positive Periods | 27 (61.36%) | 23 (52.27%) | 23 (52.27%) | 31 (70.45%) |
| Negative Periods | 17 (38.64%) | 21 (47.73%) | 21 (47.73%) | 13 (29.55%) |




Part of our performance difference during speculative surges comes from a moderate difference in beta. I could add this beta myself by buying speculative ETFs but that wouldn't generate the same alpha that he does. That'd just be exchanging squeeze risk for market risk which doesn't provide a real edge and wastes margin.

After watching our portfolios work together daily for 2 months **I'm the most excited I've been since April 2018, when I first came up with the portfolio strategy that I'm still using today**. At this point it seems very likely that backing uncorrelated PMs is going to work. I believe our future results could be as strong as in the past only with less risk, smaller drawdowns and this scales *way* better.

I already have another couple of high edge PMs lined up who might join, too.

Adding more uncorrelated PMs is beneficial from a risk and scale standpoint - they do not have to be negatively correlated to add value. For example, it's likely that our combined drawdown in June 2022 would have been much smaller with a third strategy.

**3. Portfolio Manager Deal Specifics**

In order to attract the best up and coming PMs I'm offering ridiculously generous terms and a lot of freedom.

For the first three years PMs will get a share of their performance fee. Our first PM is getting 60%[1]. A PM with less risk and volatility would get a higher percent deal, whereas a strategy with more risk and volatility would get a lower offer. For contrast, good hedge funds are offering just 20% of their performance fee to new talent.

I see the first three years as an evaluation and earn-in period for a partner, whereas other hedge funds see their PMs as employees.

After three years PMs would become nearly full partners if they continued to perform well. They would get 90% of their fair share of the business[2]. For example, if it was just me and one other partner then he would get 45% of Militia's overall performance fee.

Partners will stop doing a profit share based on their individual performance. I believe it's important to share wins and losses as a group so there's no bickering or grudges over who gets to run a limited volume strategy, jockeying for as much AUM as possible, etc. Instead, we'd be making decisions that benefit the overall partnership. This is the model that Renaissance Technologies uses, the best performing hedge fund of all time. This plan works well with a handful of PMs who absolutely love investing, but it might not work well with 20.

PMs could do nearly anything they wanted in an Interactive Brokers account. I'd just be watching for large, hidden tail end risks or tilty behavior. Militia will not have the same super tight drawdown controls that pod shops[3] have - I believe their edge is going to disappear medium term because of those controls.

PMs do not have to raise money or deal with lawyers, accountants and administrators. They can focus entirely on investing.

I'm happy to mentor PMs on short selling.

I want PMs who are tax aware or who are willing to learn basic tax deferral strategies.
If anyone reading this generates a lot of alpha over a statistically significant sample size and is interested in this deal please contact me at info@militiacapital.com with your track record. Or if anyone knows up

[1] Militia's performance fee is 25% of any amount above positive S&P 500 returns. Example: He beats the S&P 500 by 30%. Militia's performance fee would be 7.5% of his AUM. He would get 60% of that.
[2] I'm still thinking through exactly what this means from a company structure perspective, but that definitely will be the split based on the economics of the business.
[3] A pod shop uses a multi-strategy approach like I'm starting. They charge an enormous (5%+?) management fee and large performance fee leaving LPs with just a ~9% uncorrelated return that's taxed poorly. Pod shops control risk by having extremely tight drawdown controls. After a PM loses a few percent they are punished, and after losing a few percent more they're fired. These tight risk controls have created market anomalies that keep getting worse over time as pod shop AUM grows, and I think this will eventually be the downfall of the pod shop model.

and coming talent who might be interested, please forward this letter to them.  I only want people who live and breathe investing/trading.

**4. Why am I doing this?**

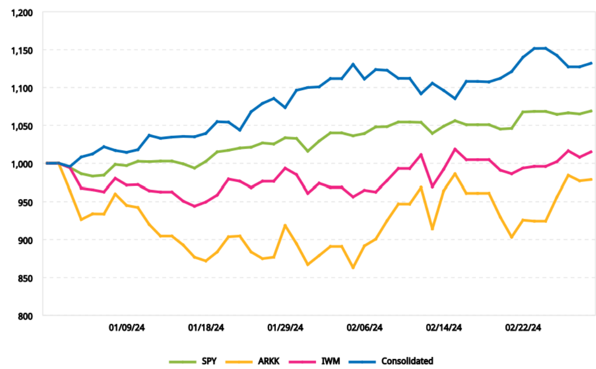
The easy path for me to get very rich personally is to simply keep trading Militia's money by myself and kill it for another few years.  So why am I bothering with this?  It's not for money.  The offer I'm making to future PMs is so generous that it's not worth the effort just for money.

I'm doing this because it's the right thing to do.  It's better for my LPs - several of whom are old friends that are like brothers to me - since their money can compound better and longer and with less risk.  It's better for the PMs, who normally get screwed by lowball offers and in other ways by hedge funds and pod shops.  And it's better for society that more capital gets allocated by talented investors.

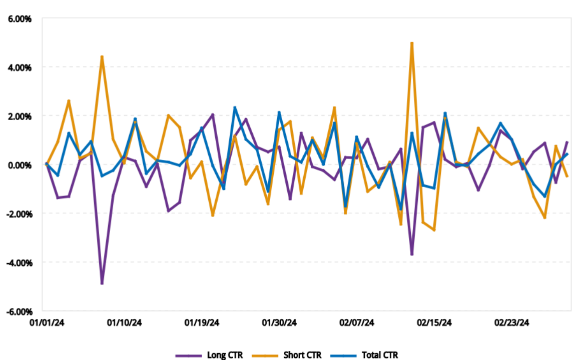
**5. Broker Report**

Notice how much our combined Sharpe ratio improves compared to my chart in section 2.  3.64 goes up to 3.98 even though our new portfolio manager is only running with 9% of our AUM!  This is a small sample, and I will show this comparison again for the next couple of quarters.

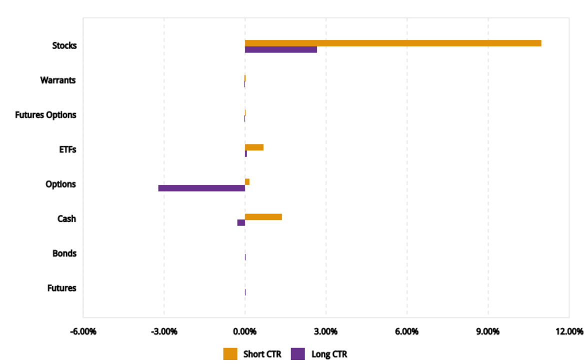
| | SPY | ARKK | IWM | Consolidated |
|---|---|---|---|---|
| Ending VAMI | 1,068.94 | 978.61 | 1,015.05 | 1,132.00 |
| Max Drawdown | 1.71% | 13.69% | 5.60% | 4.00% |
| Peak-To-Valley | 01/29/24 - 01/31/24 | Start - 02/05/24 | Start - 01/17/24 | 02/05/24 - 02/15/24 |
| Recovery | 2 Days | Ongoing | 20 Days | 6 Days |
| Sharpe Ratio | 2.92 | -0.25 | 0.24 | 3.98 |
| Sortino Ratio | 5.01 | -0.36 | 0.34 | 7.12 |
| Standard Deviation | 0.67% | 2.36% | 1.30% | 0.99% |
| Downside Deviation | 0.39% | 1.68% | 0.95% | 0.55% |
| Correlation | -0.07 | -0.58 | -0.54 | - |
| β: | -0.10 | -0.24 | -0.41 | - |
| α: | 0.67 | 0.61 | 0.65 | - |
| Mean Return | 0.14% | -0.02% | 0.04% | 0.26% |
| Positive Periods | 31 (64.58%) | 27 (56.25%) | 27 (56.25%) | 29 (60.42%) |
| Negative Periods | 17 (35.42%) | 21 (43.75%) | 21 (43.75%) | 19 (39.58%) |




L & S Performance Comparison




L & S Performance by Financial Instrument Comparison

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As always, thanks for your continued trust,
David Orr

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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.