Militia Capital

Militia's new website will be used for performance stats going forward. This will save me time rather than including a duplicate table at the start of these letters.

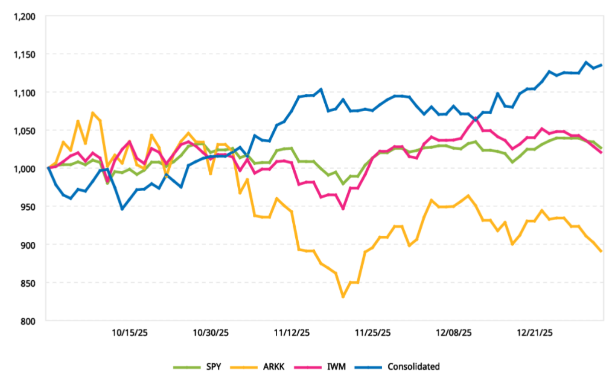
January 2, 2026

Part 1: Fourth Quarter

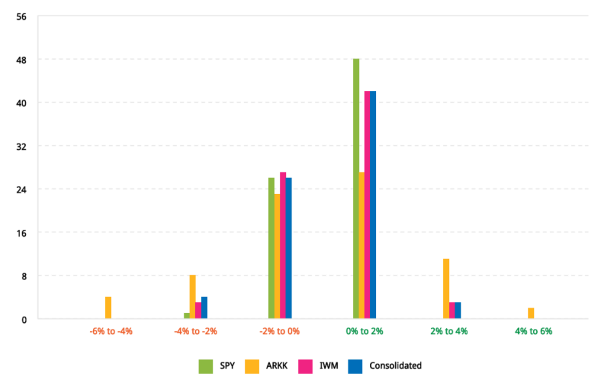
1. Q4 Results

Militia Capital: +10.6% net of .5%/year management fee and 25% perform. fee over the S&P 500 return. We're currently 235% long and 175% short.

Value Added Monthly Index (VAMI)



Distribution of Returns



Risk Measures

	SPY	ARKK	IWM	Consolidated
Ending VAMI	1,026.63	891.31	1,020.79	1,134.94
Max Drawdown	5.07%	22.46%	8.48%	5.35%
Peak-To-Valley	10/29/25 - 11/20/25	10/08/25 - 11/20/25	10/15/25 - 11/20/25	Start - 10/14/25
Recovery	17 Days	Ongoing	12 Days	9 Days
Sharpe Ratio	0.52	-1.03	0.28	2.33
Sortino Ratio	0.69	-1.35	0.39	3.53
Standard Deviation	0.73%	2.24%	1.15%	1.11%
Downside Deviation	0.55%	1.70%	0.82%	0.74%
Mean Return	0.04%	-0.13%	0.03%	0.18%
Positive Periods	50 (66.67%)	40 (53.33%)	45 (60.00%)	48 (64.00%)
Negative Periods	25 (33.33%)	35 (46.67%)	30 (40.00%)	27 (36.00%)

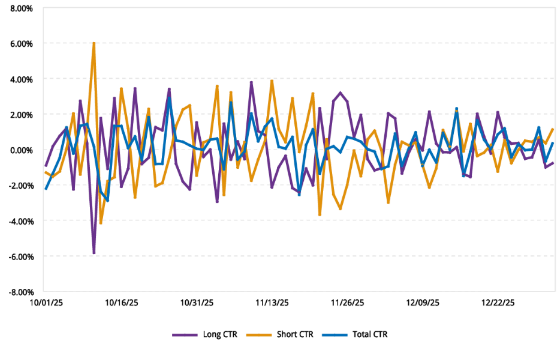
Risk Measures Relative to Benchmark

Consolidated vs.	SPY	ARKK	IWM
Correlation	-0.10	-0.18	-0.38
β:	-0.16	-0.09	-0.37
α:	0.43	0.38	0.44

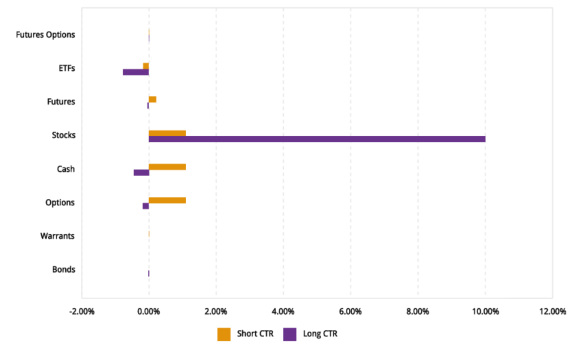
Performance by Long & Short

Analysis Period: October 1, 2025 - December 31, 2025 (TWR)

L & S Performance Comparison



L & S Performance by Financial Instrument Comparison

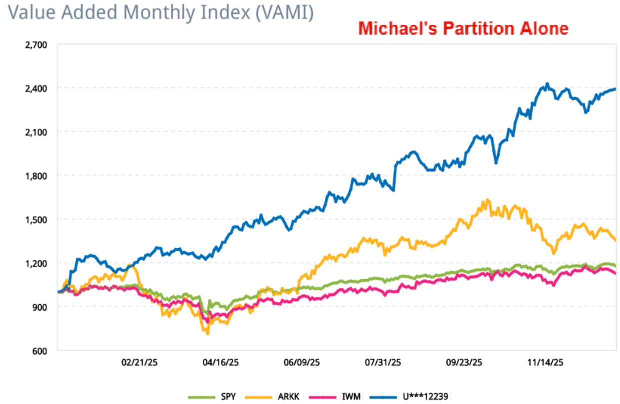


This report is generated by Interactive Brokers. It uses gross returns. See net of fee returns above.

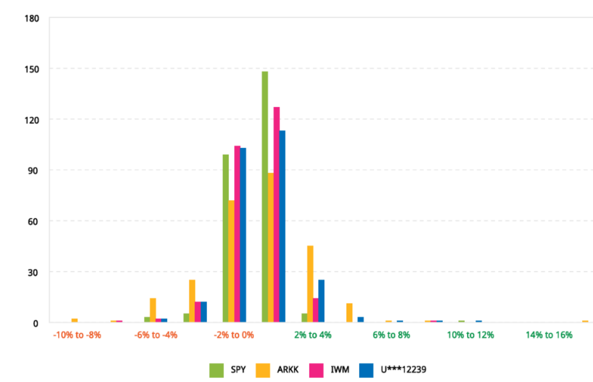
2. Multi-Strategy Update

Michael's results were jaw dropping this year, +139% gross (108% net) with only a 9% drawdown:

Value Added Monthly Index (VAMI)



Distribution of Returns



Risk Measures

	SPY	ARKK	IWM	U***12239
Ending VAMI	1,177.15	1,354.94	1,126.58	2,390.68
Max Drawdown	18.76%	39.56%	23.75%	9.17%
Peak-To-Valley	02/19/25 - 04/08/25	02/17/25 - 04/08/25	01/21/25 - 04/08/25	01/21/25 - 02/06/25
Recovery	57 Days	53 Days	91 Days	14 Days
Sharpe Ratio	0.73	0.81	0.46	3.06
Sortino Ratio	1.09	1.22	0.67	6.14
Standard Deviation	1.20%	2.73%	1.41%	1.76%
Downside Deviation	0.80%	1.83%	0.96%	0.88%
Turnover	-	-	-	4,871.33%
Mean Return	0.07%	0.15%	0.06%	0.35%
Positive Periods	157 (60.15%)	147 (56.32%)	143 (54.79%)	145 (55.56%)
Negative Periods	104 (39.85%)	114 (43.68%)	118 (45.21%)	116 (44.44%)

Risk Measures Relative to Benchmark

U***12239 vs.	SPY	ARKK	IWM
Correlation	0.06	0.04	-0.03
β:	0.09	0.02	-0.04
α:	0.86	0.86	0.87
Tracking Error	2.07%	3.19%	2.29%
Information Ratio	58.55	32.43	55.20

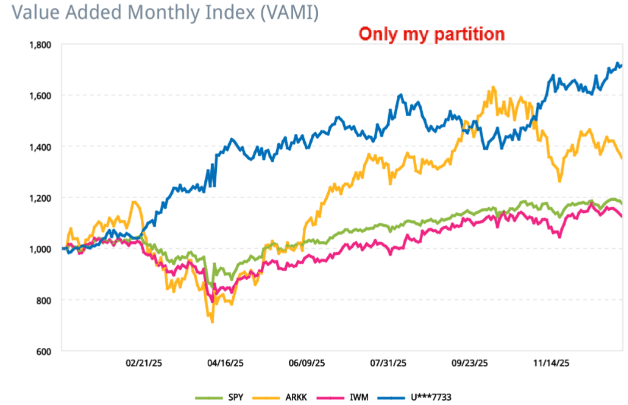
This report is generated by Interactive Brokers. It uses gross returns. See the whole fund's full year net of fee results in part 2.

Militia is backing two new portfolio managers, who will remain anonymous for now. They are starting with $5 million each. Just like I did with Rodrigo and Michael, I will upsize them gradually if/when they show a clear edge while having solid risk controls. Same as before, I will err on the side of being patient so long as they are managing risk well.

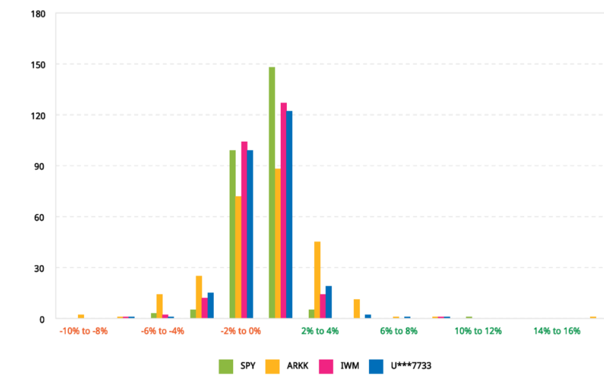
Militia will also do a cross investment with Latham Capital run by Grant Beaty. I have worked with Grant closely since 2019 and have met him in person many times. He's a great investor. Latham will invest $6.4 million into Militia, and Militia will invest the same amount into Latham. We have agreed to waive each other's fees so that you are not paying a double fee layer. Once we see this working as expected, we will upsize the cross investment gradually.

YTD comparison of all portfolio managers combined versus my partition alone[1]:

Value Added Monthly Index (VAMI)



Distribution of Returns



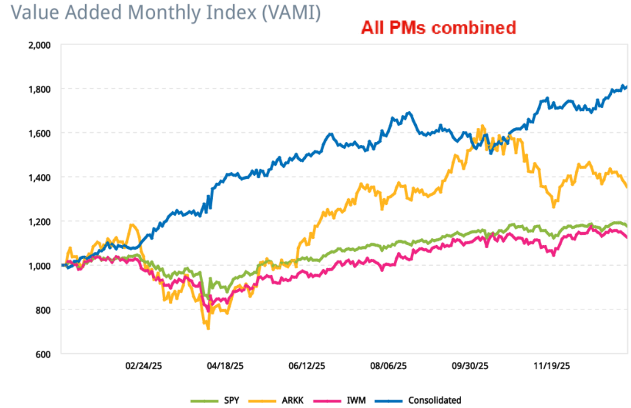
Risk Measures

	SPY	ARKK	IWM	U***7733
Ending VAMI	1,177.15	1,354.94	1,126.58	1,715.19
Max Drawdown	18.76%	39.56%	23.75%	13.07%
Peak-To-Valley	02/19/25 - 04/08/25	02/17/25 - 04/08/25	01/21/25 - 04/08/25	08/08/25 - 10/03/25
Recovery	57 Days	53 Days	91 Days	28 Days
Sharpe Ratio	0.73	0.81	0.46	2.03
Sortino Ratio	1.09	1.22	0.67	3.33
Standard Deviation	1.20%	2.73%	1.41%	1.63%
Downside Deviation	0.80%	1.83%	0.96%	0.99%
Turnover	-	-	-	387.98%
Mean Return	0.07%	0.15%	0.06%	0.22%
Positive Periods	157 (60.15%)	147 (56.32%)	143 (54.79%)	149 (57.09%)
Negative Periods	104 (39.85%)	114 (43.68%)	118 (45.21%)	112 (42.91%)

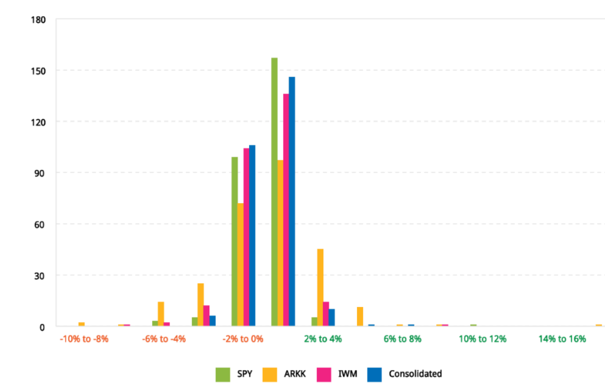
Risk Measures Relative to Benchmark

U***7733 vs.	SPY	ARKK	IWM
Correlation	-0.55	-0.56	-0.61
β:	-0.74	-0.33	-0.71
α:	0.64	0.65	0.61
Tracking Error	2.49%	3.88%	2.73%
Information Ratio	21.59	9.28	21.60

Value Added Monthly Index (VAMI)



Distribution of Returns



Risk Measures

	SPY	ARKK	IWM	Consolidated
Ending VAMI	1,177.15	1,354.94	1,126.58	1,806.38
Max Drawdown	18.76%	39.56%	23.75%	10.84%
Peak-To-Valley	02/19/25 - 04/08/25	02/17/25 - 04/08/25	01/21/25 - 04/08/25	08/20/25 - 10/14/25
Recovery	57 Days	53 Days	91 Days	23 Days
Sharpe Ratio	0.71	0.80	0.45	2.88
Sortino Ratio	1.06	1.19	0.65	5.03
Standard Deviation	1.18%	2.69%	1.38%	1.18%
Downside Deviation	0.79%	1.80%	0.94%	0.67%
Turnover	-	-	-	1,617.14%
Mean Return	0.07%	0.15%	0.05%	0.23%
Positive Periods	166 (61.48%)	156 (57.78%)	152 (56.30%)	162 (60.00%)
Negative Periods	104 (38.52%)	114 (42.22%)	118 (43.70%)	108 (40.00%)

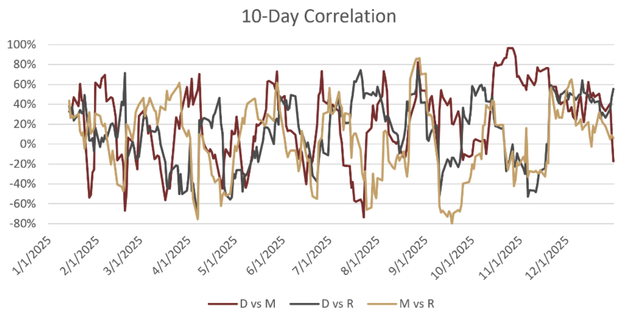
Risk Measures Relative to Benchmark

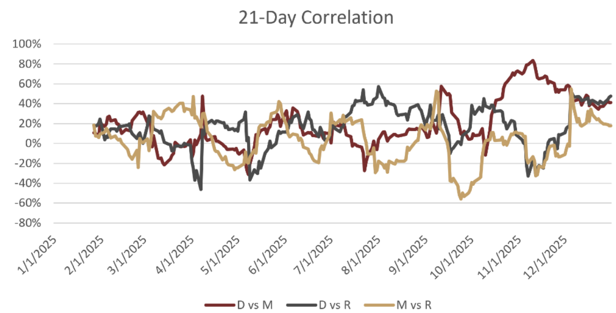
Consolidated vs.	SPY	ARKK	IWM
Correlation	-0.45	-0.45	-0.53
β:	-0.45	-0.20	-0.45
α:	0.61	0.62	0.59
Tracking Error	2.01%	3.39%	2.24%
Information Ratio	31.36	13.33	30.33

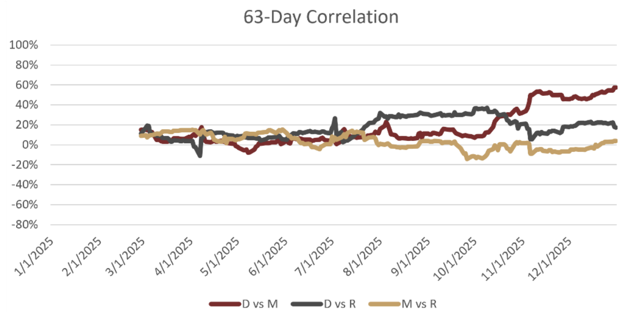
This report is generated by Interactive Brokers. It uses gross returns. See net of fee returns mentioned earlier in this letter.

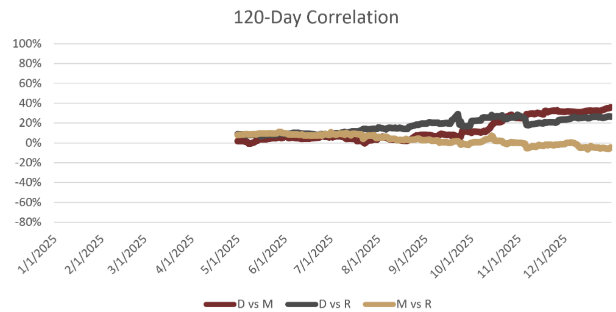
[1] And for the sake of completeness, here is [Rodrigo's with 49% annualized alpha]() before fees.

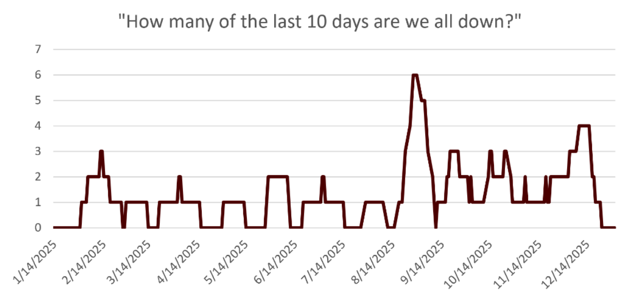
Michael’s cross-correlation report:

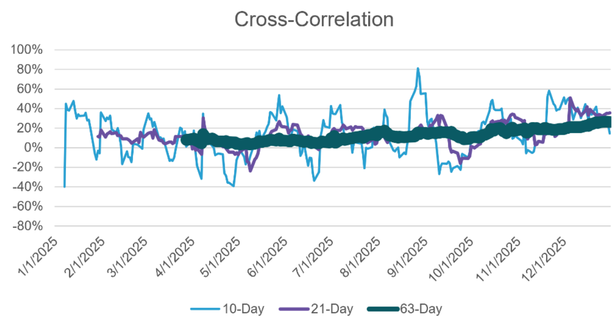












Going forward, I will only post Michael’s cross correlation report in this section, though I will comment again if my own alpha ends up being much higher than the combined PMs over a few quarters.

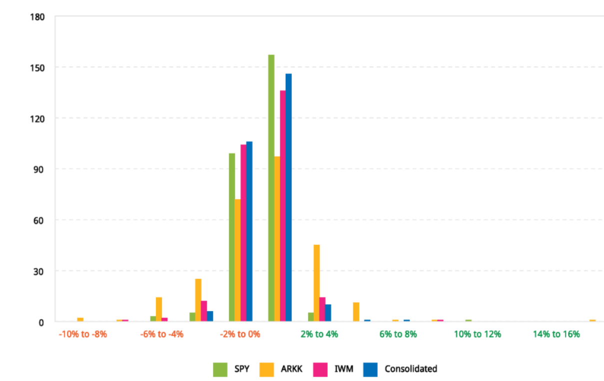
Part 2: Full Year

1. 2025 Results

Militia Capital: +64.3%, net of .5%/year management fee and 25% perform. fee over the S&P 500 return.

Value Added Monthly Index (VAMI)

Distribution of Returns



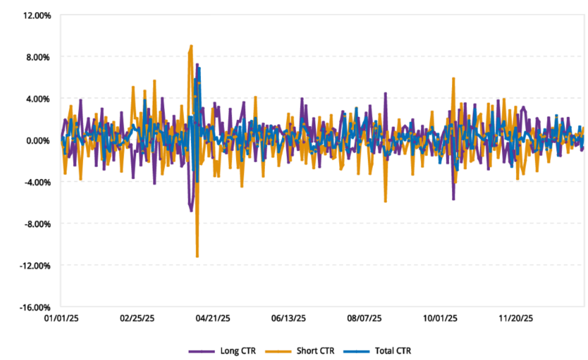
Risk Measures

	SPY	ARKK	IWM	Consolidated
Ending VAMI	1,177.15	1,354.94	1,126.58	1,806.38
Max Drawdown	18.76%	39.56%	23.75%	10.84%
Peak-To-Valley	02/19/25 - 04/08/25	02/17/25 - 04/08/25	01/21/25 - 04/08/25	08/20/25 - 10/14/25
Recovery	57 Days	53 Days	91 Days	23 Days
Sharpe Ratio	0.71	0.80	0.45	2.88
Sortino Ratio	1.06	1.19	0.65	5.03
Standard Deviation	1.18%	2.69%	1.38%	1.18%
Downside Deviation	0.79%	1.80%	0.94%	0.67%
Turnover	-	-	-	1,617.14%
Mean Return	0.07%	0.15%	0.05%	0.23%
Positive Periods	166 (61.48%)	156 (57.78%)	152 (56.30%)	162 (60.00%)
Negative Periods	104 (38.52%)	114 (42.22%)	118 (43.70%)	108 (40.00%)

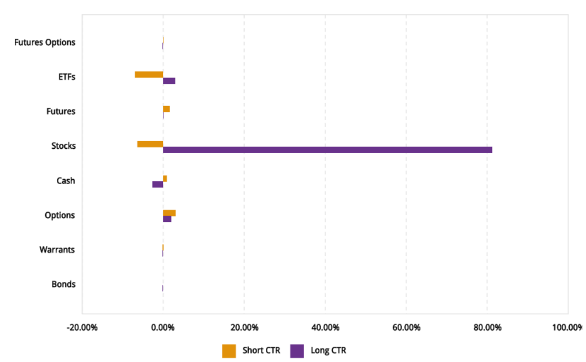
Risk Measures Relative to Benchmark

Consolidated vs.	SPY	ARKK	IWM
Correlation	-0.45	-0.45	-0.53
β:	-0.45	-0.20	-0.45
α:	0.61	0.62	0.59
Tracking Error	2.01%	3.39%	2.24%
Information Ratio	31.36	13.33	30.33

L & S Performance Comparison



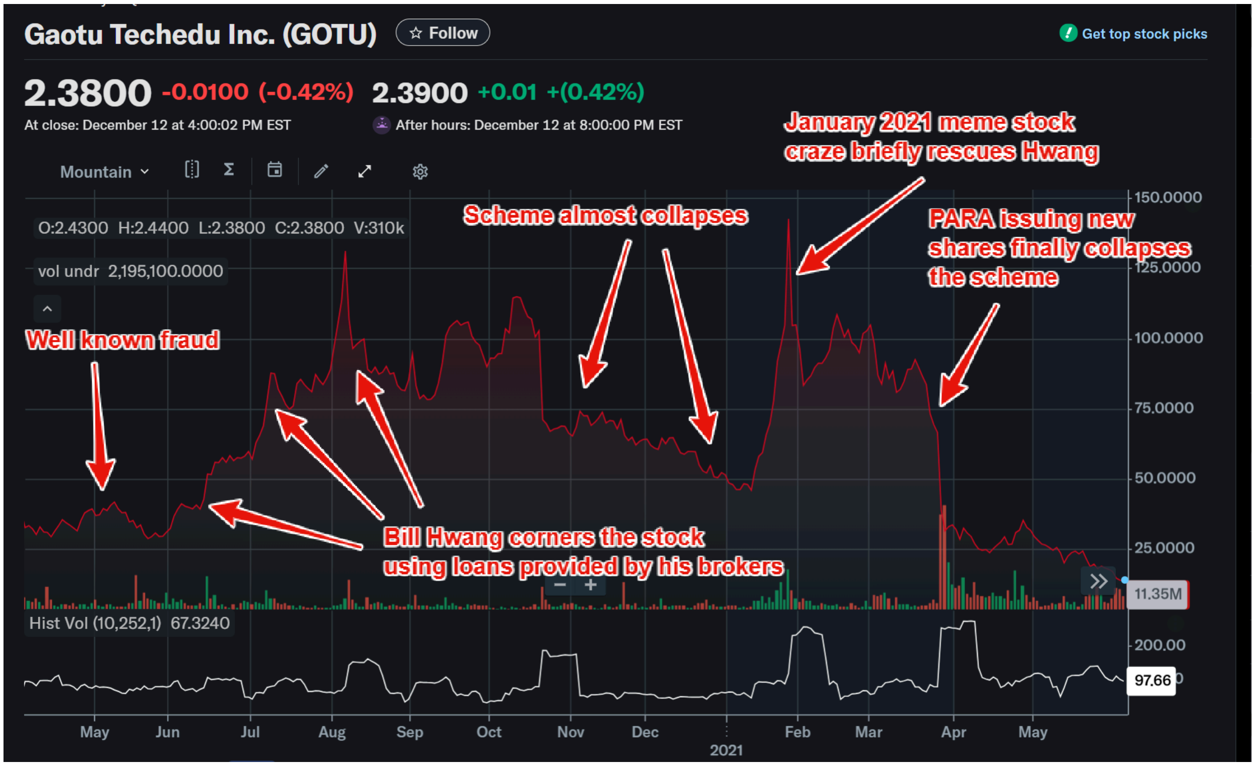
L & S Performance by Financial Instrument Comparison



This report is generated by Interactive Brokers. It uses gross returns. See net of fee returns above.

2. The Broker Business - Bill Hwang Reveals an Opportunity

BIll Hwang was infamous for manipulating highly shorted stocks like GOTU and PARA. He was able to corner these stocks using extreme leverage provided by his brokers. He blew up in 2021, which ultimately got him sentenced to 18 years in prison:



Many large, credible seeming brokers - Credit Suisse, Nomura, Goldman Sachs, Morgan Stanley, Deutsche Bank, UBS and Wells Fargo - were doing business with Hwang. They could see his stock manipulation in real time for months and they knew it was risky. But they did business with him anyway, revealing how broken the incentives are at most brokers.

In total, the brokers lost $10 billion on their loans to Hwang. Credit Suisse was the last man out and got hit hardest. They lost $5.5 billion. And what did Credit Suisse risk that $5.5 billion for? A measly $20 million/year of revenue!

There are many reasons I believe that there is a big opportunity in starting a broker, but this example stands out.

3. The Broker Business - Militia's Position

Revenue quality varies a lot in the broker business.

An example of high quality revenue: Trading commissions. When I execute a trade on Interactive Brokers, they charge me a fee and make an instant profit. This is near risk free and ties up no capital.

An example of low quality revenue: Margin loans to long only investors who borrow in temporary bursts. Brokers need a capital buffer to provide loans. When these customers aren't borrowing, the broker's capital sits idle and is thus wasted. Levered long investors also pose real risk during market stress, risk that correlates to other customers at the exact worst moment. And this business is very cyclical with the market.

Militia is an outlier high quality customer for a broker. Here are the rough ways that we generate revenue, which is nearly pure profit:

- We pay $1 million/year in commissions - **.5%/year of Militia's AUM**.
- We pay .5%/year over the risk free rate on 140% borrowed long[2] - **.7%/year of Militia's AUM**.
- We are paid .25%/year less than the risk free rate on the cash proceeds from being 180% gross short - **.45%/year of Militia's AUM**.
- We pay .75%/year to borrow 160% *uncrowded* gross shorts, which is **1.2%/year of Militia's AUM**. Unlike crowded shorts, this flows straight to the broker's profit because they can easily source our shorts from their internal pool[3].
- We pay 8%/year to borrow 20% *crowded* gross short. Unlike the above items, much of this revenue does not actually go to the broker because the owners of the stock and/or middlemen collect most of it. It's hard to say exactly what percent our broker gets. If we guess 25%, that's 2%/year on 20% crowded gross short, or **.4%/year**.

---

[2] You might have noticed that the broker is charging margin interest even though the customer has cash available from shorts. That's just how brokers do it unless they have a special relationship with a great customer.

[3] An important point of levered investing that most people don't know: When someone owns stocks on margin, the broker can lend out his shares to short sellers and pay him nothing. The broker keeps all the profit themselves. Because most Militia shorts are uncrowded, the broker can easily do this most of the time. Now, to be able to do this a broker needs to reach a critical mass of inventory size. Getting this internal supply is a key hurdle to starting our own broker but I have some creative ideas on how to do it.

Totaling the bolded points above, the broker makes roughly 3.25%/year of Militia's AUM in commissions, financing and short borrowing costs. This profit is qualitatively wonderful because:

1. Militia maintains high gross exposure all year round. This maximizes the broker's return on equity. How much of the broker's capital are we tying up? I don't know the exact answer, but this is the correct ballpark: The minimum regulatory requirement is 2% of our *levered* exposure. At 400% total exposure, 100% is from our own capital and 300% is the levered portion. So around 6% of Militia's NAV is the required capital for the broker[4]. Let's say the broker wanted a large buffer over that. Call it 13% to make the math simple. That means that they earn 3.25%/year on 13% capital tied up, which is a 25% return on capital. But that 13% capital tied up can still be invested in other things, so the true return on capital is more like 35%+ in the hands of a skilled capital allocator.

2. Militia is extremely diversified. This makes our risk to the broker stupidly low. To make this easy to picture: each individual Militia PM is taking on the other PM's blow up risk long before the broker does. And we have multiple PMs with low cross correlation.

3. Militia is in uncrowded shorts. Most short sellers crowd into the same stocks and are thus correlated to each other, creating risk for a broker. Militia has far less risk this way. Also, there is a lot of uncrowded short inventory but not nearly enough people to short it. When Militia shorts it, we generate revenue that the broker wouldn't have got in any other way. For comparison, often there are no shares available for crowded shorts so incremental demand doesn't help a broker. Plus, even when the broker has excess crowded short inventory, they can lend it out to agents and still collect some solid revenue anyway. On top of all that, uncrowded shorts scale much larger than crowded ones.

4. Militia runs with neutral or negative beta, making us countercyclical. This makes our broker more countercyclical and robust, too.

The idea here is pretty simple: If brokers don't give us a wonderful deal as we continue growing, eventually it will make economic sense to cut them out. If there's room to save 1%+/year of NAV in the hedge fund and .5%+/year in ETFs, the economics start working pretty fast. My motivation here is to pass on a lot of the savings to Militia investors. If we can shave off 1.25%/year in brokerage middleman fees, that boosts our hedge fund's Sharpe by ~.1, which flows to all individual PMs. If this all works - and maybe not, this could just be a crazy plan - it becomes a long term competitive advantage for Militia.

In the meantime, we're going to start building up an ETF advisory business, which is a ~10 employee operation. That business is already worth doing by itself, and at the same time this will create a

[4] This might be overstating the capital requirement in reality, and that eventually once a broker gets large enough they might be allowed to use risk models to lower this below 2%. I don't know the details or if that's right, but that's getting into the weeds. It does not change the final answer much since I'd want our broker way overcapitalized, anyway. Also, banks have their own capital requirements that I believe are stricter - we would avoid those regulations because we would not be a bank.

backbone that can credibly expand into the ~25 employee team that a clearing broker business needs, with lots of overlap in roles.

Sam is my business partner on ETFs and he is going to build up the operation. He has rented Militia a very nice, small office in Austin. We'll get a bigger office next year. Michael is moving to Austin and will begin working there as well. If you know of anyone that might be looking for an *operations* job in Austin, please send them this link.

-

As always, thanks for investing with us! We will keep trying to kill it for you,

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.