Alpha Growth Capital - Monthly Newsletter

Vittorio Manente, PhD
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Good morning everyone and welcome to the AGC monthly newsletter,

I start by wishing Alpha Growth Capital a happy birthday, today it is its 6th anniversary. The development curve has been exponential. It was and still is an interesting journey when it comes to the way investment and trading decisions are taken and the way the capital is allocated to each trade. At the very beginning the portfolio consisted of a single strategy that was rotating among three uncorrelated asset classes and the rotation was based on the momentum. To reduce drawdown, we then transitioned to rotate asset classes using Machine Learning. March 2020 showed the hard way that ML is as good as a human: if in the past there was not a similar event, ML can get it right 50% of the time. Six years later, the portfolio consists of 5 sub strategies and decisions are mostly based on the behaviour of the volatility of the equity market. Up to now, in my view, the US equity volatility is the most robust indicator to make a decision, looking at how the price evolves over time: not so much. People psychology was another interesting "discovery" over the last 6 years. People tend to join when things go well and bail at the sign of things moving down. This is equivalent to buy high and sell low. Interestingly enough, this behaviour is common both with retail as well as professional clients. The list can go on and the true psychology of people can be the topic of an article, I'll stop here.

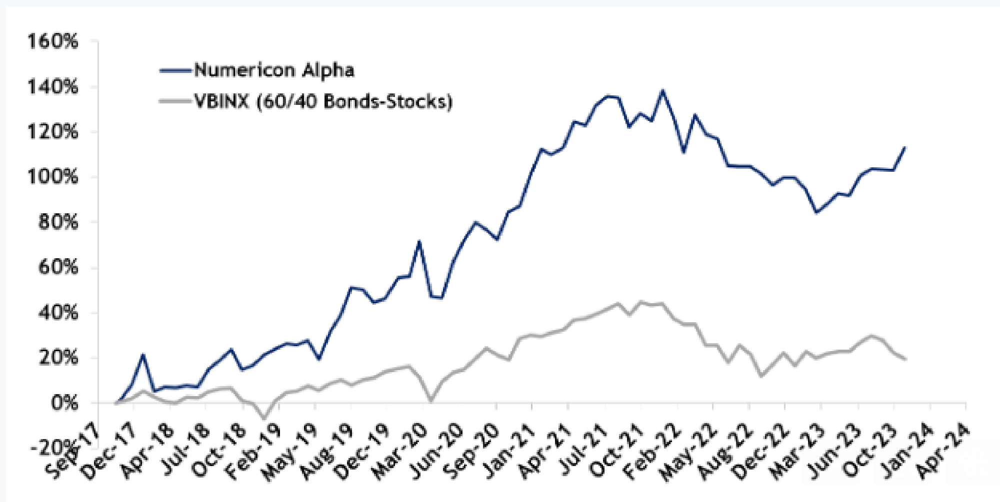
Portfolio Performance:

October was a very good month for the portfolio, it gained a solid 5%. In comparison the VBINX (60-40 bonds-stocks) and the S&P500 closed at -2.21 and -2.20% respectively. You might wonder how the portfolio did it. Predominantly Numericon was investined in the Long-Short Volatility strategy, options (Iron Condors and Vertical Spreads) and T-Bills. The Long-Short Volatility strategy was responsible for 80% of the monthly gain. 85% of the time, this is a trend following strategy, it goes either long vol or short vol depending on how the market behaves. There are 15% of occurrences

in which it has a contrarian behaviour. Volatility spikes, short vol positions are entered and vice versa. This typically happens when the equity market moves downward not as a result of an unexpected event. There is, if we can say so, a consensus on the direction. In October, Numericon found itself in this contrarian side of the volatility trading. It was not a smooth ride from an implementation point of view. In this regime, signals change quite a lot just immediately before and after the market closes. Quite often the side of the trade was revised when the final previous day data became available thus avoiding the pitfall that Numericon experienced in January and February 2023; learning from pain.

The remaining 20% of the October gain came from trading options: Iron Condors and Vertical spreads. It was not a good month for Iron Condors because the US indexes moved downward quite violently. Major price moves analyze this strategy. Vertical spreads were more successful in particular: shorting the US equities, shorting the US Treasury Bond term structure and going long Gold. The Beta indicator that was developed in 2022 has been a good signal when it came to timing the equity market moving down (article here). There was (and somewhat still is) a gap between the Fed Fund rate and the Yield of the Treasury curve with different expirations. Short positions were taken to profit from this spread. The decision to go long gold was based on quantitative signals. In the past I have struggled to create a profitable trading strategy around the yellow metal. In recent months, I have started looking at the price action of gold as a function of the: CPI, dollar index and real bond yields. There are good correlations to make gold trading profitable.

Let's continue with the positive momentum.



Statistics	Numericon Alpha	VBINX (60/40 Bonds-Stocks)
Total Return [%]	113.12%	19.54%
Annualized CAGR [%]	13.44%	3.02%
Maximum Drawdown [%]	-24.77%	-22.45%
Losing Months [%]	43.06%	38.89%
Best Month [%]	12.21%	8.55%
Worst Month [%]	-14.33%	-9.19%
Sharpe Ratio [-]	0.77	0.24
Sortino Ratio [-]	1.06	0.36
Correlation [-]	0.38	
Beta	52.74%	
Alpha	10.90%	

The Traditional 60-40 Portfolio:

It is quite common for advisors to recommend a portfolio consisting of bonds and stocks. The ratio typically falls in the 60-40 range. Maybe it is a recency bias, the last 15 years were quite atypical. The numbers say that this is not working when experiencing market conditions like 2022 and 2023 with a regime change to quantitative tightening and higher interest rate. In the last 72 months, such a portfolio (VBINX as proxy) would have returned a total of 19.54% with a max drawdown of 22%. Not so great risk-reward ratio. What if the trend would continue in 2024?

My take: investors need to be a bit more active when managing their own money if they want to see a substantial capital appreciation. Whether it is asset management or any other field, nothing evolves without effort. Looking beyond the circle of common knowledge is important, there are other asset classes than equities and bonds. Studying, finding a mentor, continuous improvement, putting effort and grit

are keys to long term success. Money management is not a sprint, it is a marathon.

Macro Economics:

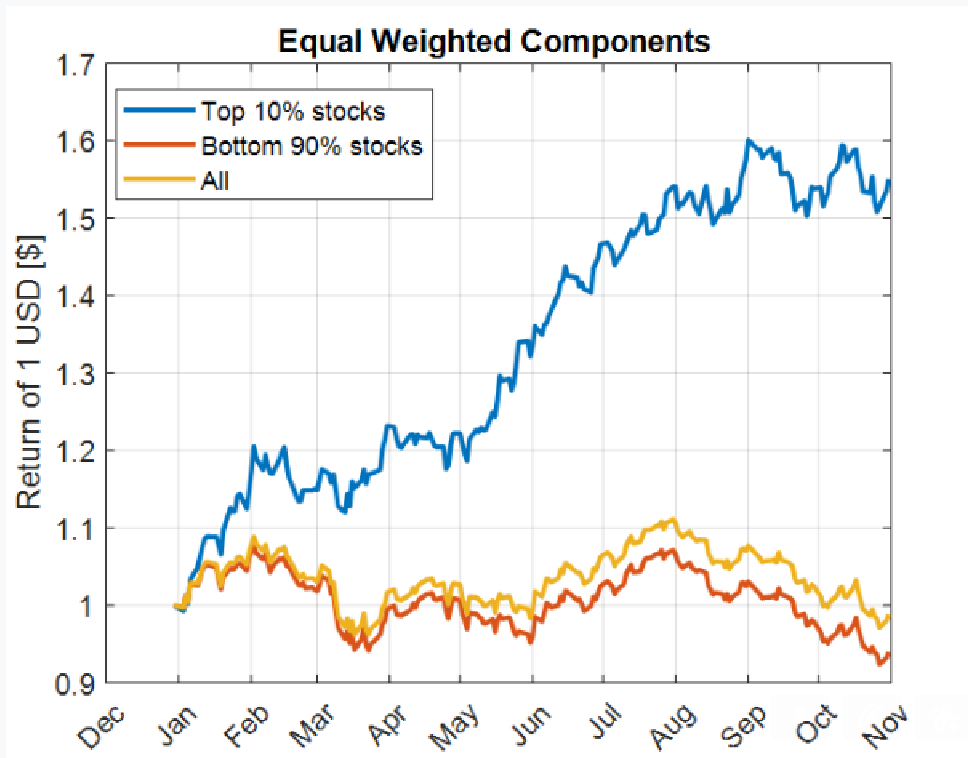
A few items caught my attention this month. They are a bit of mixed signals because they could support the thesis of equities recovering or moving further down:

- Personal saving rate has declined from 5.2 to 3.4%
- Industrial production is near an all time high: 104.
- The inflation (estimated with the CPI monthly data): 4.9% (far away from the 2% target).
- Real 10 years bond yield: -0.67%
- The money supply (M2) declined by 0.32% (back to quantitative tightening)

Based on inflation being a hot topic, it might not be unlikely for further rate hikes to bring the real yield in positive territory. Unless the inflation moves down by itself, eventually, when people run out of money to spend (see decline of saving rates); I am talking of recession. Higher rates will make equities less appealing. They are already taking a deeper look. The PE of the S&P500 is 21.07 meaning a return on the invested capital of 4.75% (1/21.07); if the investment is thought as a business. The T-Bills yields 5.6%. Where does it make more sense to park money? Eventually this will be understood and we might see a transition from equities to short term bonds. It usually takes between 1 to 3 years for observations to come into fruition.

Equity Market in 2023:

The S&P500 is doing fairly well in 2023. Year to Date, it has returned around 9%. Taking a deeper look, the performance was the result of 10% of the companies within the index. The remaining 90%, if equally weighted, had a negative return in 2023; -7%. This was mostly the result of the AI mania. It is hard to guess what might happen because there are several dynamics to consider. A buying mania will survive as long as there are buyers; are there still buyers? At the same time there are a lot of underpriced companies that might drive value investors to start a shopping spree.



Until next time. Best regards,

Vittorio Manente, PhD
Chief Executive Manager

Delaware, USA
Vilnius, LT
Paris, FR

m: +33 615 795 209
e: vittorio.manente@alphagrowthcapital.co
w: www.alphagrowthcapital.co

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