Dear Partners,

It’s been a tumultuous year. A mix of a bleak macro environment along with strong US earnings resulted in high market volatility. We saw the market hit a low in September and rally into October. It’s steadily been finding new support levels, each time 500 points above the previous low. During this high volatility period, our ability to feel short term movements and technical boundaries allowed us to strategically leverage and de-leverage our portfolio. This active portfolio management has allowed us to achieve a 70% return, significantly outperforming the market.

**How We Managed Our Portfolio**

In September, the DJIA hit 11000. Even factoring in the impact of European risk on U.S. companies, we believed that the market was cheap. We initiated a series of leveraged long positions, which paid off very well during the October rally. After this, we effectively moved in and out of cash and called the next two market bottoms by measuring the degree to which European headline risk outweighed improving U.S. economic reports. During this time, high cash levels allowed us to pursue highly profitable intraday strategies.

**Our Intraday Strategy**

The market’s never been as volatile as it’s been since the European crisis hit the headlines. It’s been making violent intraday swings, which has made momentum trading strategies extremely profitable. We’ve been pursuing these intraday momentum trading strategies on E-Mini S&P and Crude Oil futures. By cutting our losses quickly when we make a wrong call, we’ve been very profitable with minimal risk.
**How We Pick Our Positions**

Our portfolio has developed a dynamic, event-driven strategy to identify heavily under or overvalued equities. We develop our theses based on short-term market conditions as well as current macroeconomic trends. We have seen particularly strong success in the retail/consumer and pharmaceutical sectors.

Success has come from the execution of trades in anticipation of key releases of data (i.e. earnings, comps, FDA data, etc.). We have developed many of our trades by looking at firm-specific details such as earnings expectations, analyst commentary, and recent share performance. Taking this into consideration, we value the company and form a view based on its current price.

Much of our research has been directed by headlines. For example, if there were concerns over oil availability, our research would turn towards oil companies to find a company that would benefit the most from the situation. We focus on shorting overvalued stocks in hopes of calling their top and watching their story unravel (such as NFLX) and buying stocks that have been overly punished by the market (such as DNDN). Usually when we put on a position, we put on a pair trade to hedge out market risk and highlight our thesis.

**Some Notable Trades**

**Abercrombie & Fitch Co. (NYSE: ANF):** We shorted ANF at $74 before they released their comparable same store sales on November 1. We shorted it based on its high valuation in comparison to peers, exposure to Europe, and poor fundamental performance. We believed that comparable store sales would be worse than expected due to a worsening European economy and poor merchandise selection. Our prediction was correct. The numbers were much worse than expected and the stock plummeted 30% to close at $59.62.

**Dendreon Corp. (NASDAQ: DNDN):** We bought DNDN after a rumor that Medicare was going to drop them from their coverage platform. On word of the news, DNDN dropped to $6 from $40. We viewed this as an extreme overreaction. Our research showed that competitors’ drugs were still going to be unavailable for a significant amount of time and DNDN had shed substantial operating expenses, which would lead to better earnings. Our long position performed well and the stock rose 50% to about $9.

**Our Plan Going Forward**

Currently we view the markets as fairly valued. We’ve correspondingly de-levered our long positions so we can continue to take advantage of high intraday volatility with our freed up capital. In the current market environment, our strategy of day-trading futures has proven to be extremely profitable and we plan to continue doing so. The core positions we hold right now are small or mid cap plays that we have a long term thesis on.