

Progress Report

Leftskewed Investment Management

Billy LoBue - 4/9/2022

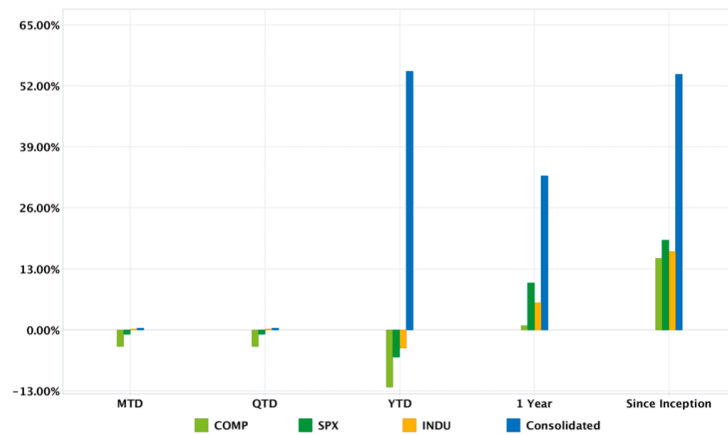
How do we stack up?

That is *the* question when evaluating any portfolio manager, especially one that's 22 years old. If you listened to the media, you might think we'd be a memestock trader. We're actually up 54.36% YTD [while the average fund is down 5.69% as of this post](#). Here's how we stack up (feel free to zoom in):

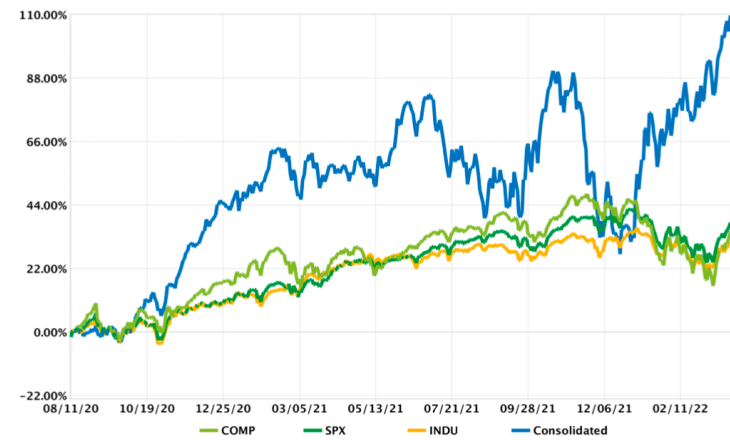
Historical Performance Benchmark Comparison (Annualized)

Analysis Period: August 11, 2020 - April 8, 2022

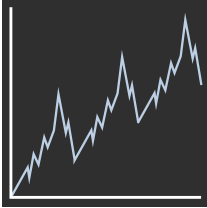
History



Cumulative Since Inception



	MTD	QTD	YTD	1 Year	Since Inception
COMP	-3.57%	-3.57%	-12.19%	0.86%	15.24%
SPX	-0.93%	-0.93%	-5.83%	10.01%	19.05%
INDU	0.17%	0.17%	-3.94%	5.77%	16.62%
Consolidated	0.33%	0.33%	55.12%	32.83%	54.45%



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How did we do it?

We want to get to our forward-looking stuff, but first, we'll detail how we've been positioned thus far YTD.

For the last several months we were heavily weighted in Energy. Our first longer-term position was initiated in November 2020 when it became clear energy demand was recovering but new production, which was halted or closed during the initial Covid crash, hadn't picked up.

As the months went on, and production growth continued to lag, we continued to add to our position and particularly began to expand in oil services companies (\$SLB, \$OIH), which were to be key and primary beneficiaries of new production goals.

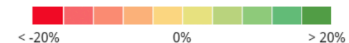
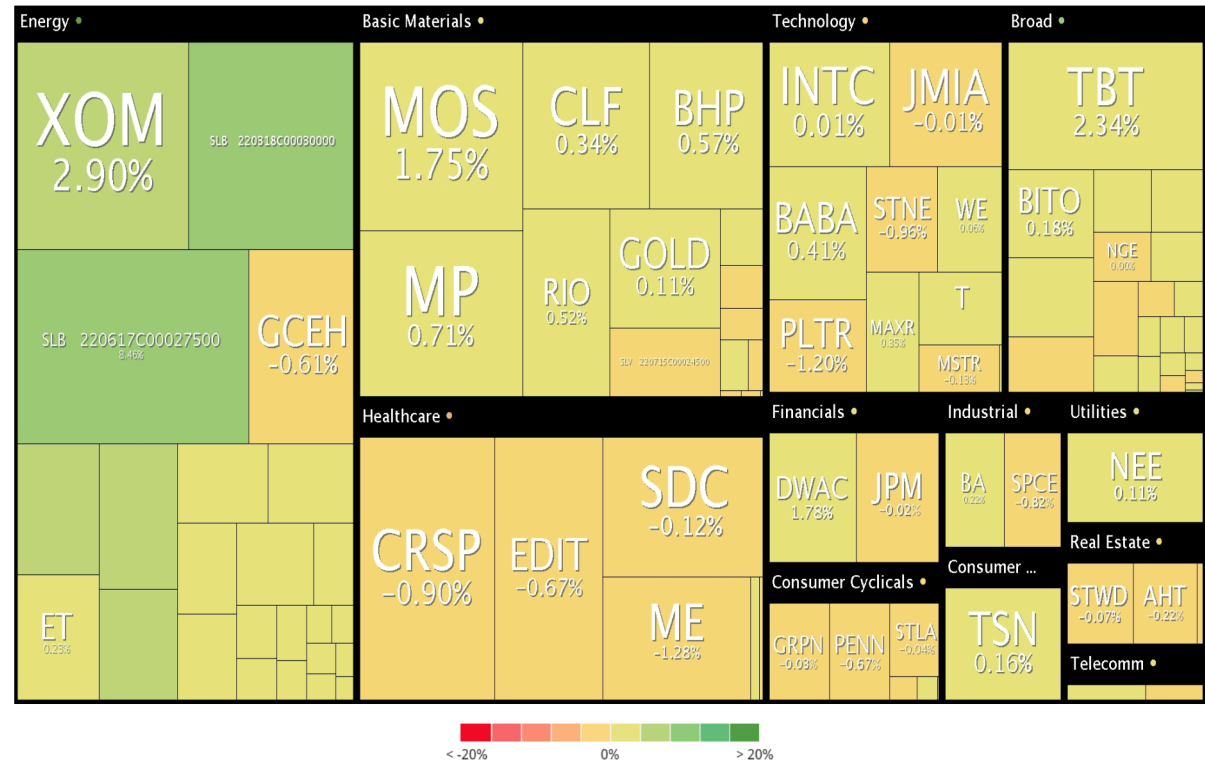
This energy exposure contributed meaningfully to the volatility we experienced in 2021, and ultimately the strong outperformance we experienced in 2022.

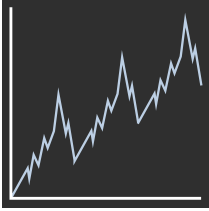
A detailed document containing past performance information can be provided on request. Billy.LoBue@leftskewed.com

Performance by Symbol (Cont.)

Analysis Period: January 3, 2022 - April 8, 2022

Sector Composition Heat Map





Progress Report

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Where do we go from here?

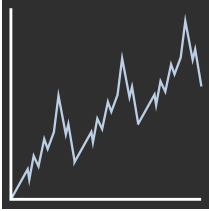
We may be stating the obvious, and we believe that's a good thing for those who find this obvious. The last week has provided quite a bit of insight on the above question. The Fed has done yet another hawkish pivot, with the dovish end of the spectrum moving meaningfully more hawkish. However, the market seems to be *barely* predicting a return to the "neutral" Fed funds rate.

The thing with the neutral rate is that it works in neutral times, with strong economic growth and normal inflation. In stagnating times, we go below the neutral rate to stimulate the economy. In times where tightening is required, the Fed must go above the neutral rate, and since our current inflation warrants monetary tightening, we should expect to get meaningfully above the neutral rate.

It's human nature to have delayed these inevitable rate hikes. The dollar having value is simply too important to let vanish by unlimited supply, but human nature certainly makes raising rates and sucking up the excess liquidity through a balance sheet runoff an unpleasant task. Particularly with a new administration, that picked a former Fed chair to be treasury secretary. Doesn't exactly scream independence.

Precisely how far above the neutral rate we need to go is hard to put an exact number on, but we've been below for quite a long time, and not just slightly below. We've been at the zero lower bound for two years now, and below the neutral rate before that. Considering Bullard is the Fed governor who many claim to be at the most hawkish end of the spectrum, and he's forecasting a maximum of 3.25% by the end of the year, we expect that the Fed may yet again make another hawkish pivot or exceed that in just over 8 months, which will fly by.

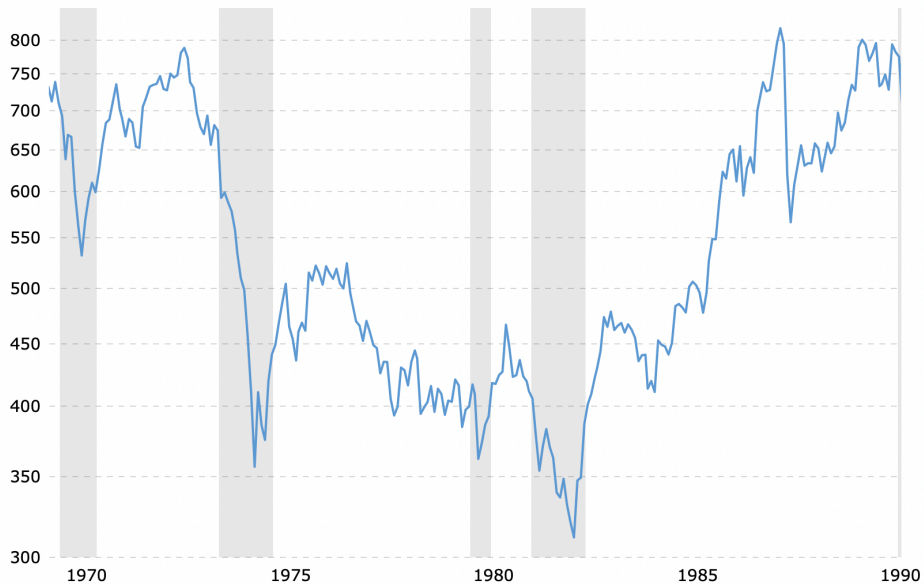
The market is close enough to all time highs that it's unlikely this most recent hawkish pivot has fully been realized yet, especially considering the previous all time highs were simply too expensive. The market rebounded quite strongly on expectations of 0.25% hikes for the rest of the year. It now seems the expectation is the next two Fed meetings will result in 0.5% hikes. But more importantly, we see the Fed funds rate getting meaningfully above the neutral rate.



Progress Report

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Ray Dalio often says that his mistakes came from experiences that did not occur in his lifetime, but that by going back in history and studying a similar period, he can navigate well.

The period most resembling ours is the 1970s-1980s, with highly volatile inflation and interest rates. The top chart is the S&P 500 during this time, the bottom is the Federal funds rate.

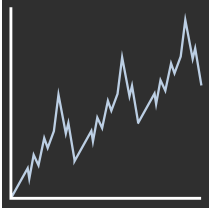
While they are not exactly inverses of each other, the higher points of the S&P 500 occur during the lower rate points of the Federal funds rate and vice versa. This makes sense; if the total return of bonds increases, they become more attractive to investment capital relative to stocks. With the expectation of rates rising, we expect the S&P 500 to fall this year.

Many argue that the Fed, which is supposed to be an independent body, can't raise rates too much because then the US won't be able to service its debt.

If that's the case, prepare for a total USD collapse. This is what happened during German hyperinflation when the Weimar Republic was ordered to pay reparations. They made their first payment, couldn't make their second and had their mines, factories, and other means of production seized by the French and Belgians. The Germans then printed money to pay their workers not to work and to service their debt.

This USD collapse scenario is hard to imagine, and we're not ready to go there yet. We have some Bitcoin as a hedge for this, and we'll re-evaluate in a year. We're staying focused on the rate-S&P 500 dynamics. We have to get above the neutral rate.





Progress Report

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How we're playing rates directly

Currently, our largest position is a 7%+ allocation to \$TBT, a short 20yr Treasury ETF, which came from exercised options. Like we said earlier, we expect to get *above* the neutral rate, and meaningfully above. So, we expect there may be at least another 100% return in TBT left to squeeze. In addition, we have multiple \$TBT option positions remaining that extend out into 2023, at a roughly 5% allocation in total for those options, bringing our total exposure to ~12%.

We have other positions still on our books, like energy and mining companies that historically outperform when rates rise and inflation occurs, but that's not our direct play on rates. In addition, we have SPY put options.

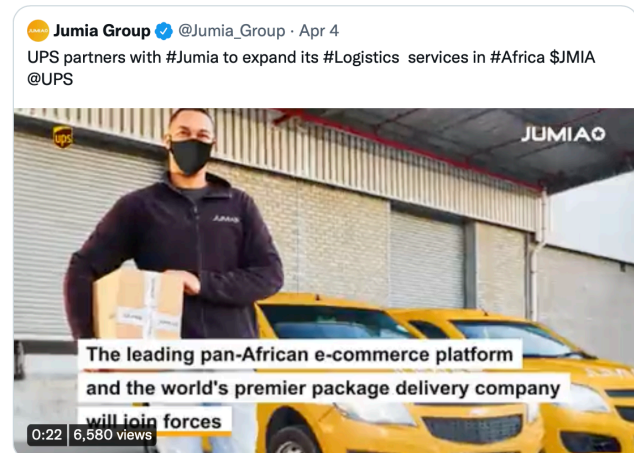
We're also staying in the line of fire

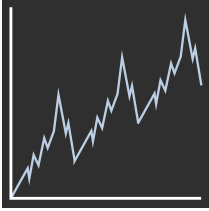
Some positions are in the line of fire that rising rates shoot directly at - growth. However, our conviction around these names is so incredibly high, that we will not sell them, and will look to expand our positions should opportunities arise.

\$JMIA, for example, had stagnating revenue over the last several quarters around, roughly, \$40m/Q. However, in the most recently reported Q4 2021, they saw 50% Y/Y revenue growth, an interesting anomaly. Just days after Q1 2022 ended, UPS announced a partnership with Jumia on their main Twitter account. This is quite a statement from UPS. They are likely aware of a meaningful shift occurring for Jumia and are willing to take a risk and make an investment in building out a pan-African logistics network. Logistics has been Jumia's largest problem, despite being Africa's largest online retailer. The company is currently trading for less than \$1bn and with the closest comp, \$MELI, trading for ~\$60bn, we see massive upside.



We're proud of our partnership with [@Jumia_Group](#) which allows us to better support small business owners in Africa with cross-border logistics, visibility and payment solutions. [#DeliverWhatMatters](#)





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Summary

2021 was a volatile year for us, being heavily weighted in energy. However, our conviction was high and we simply delayed those fruitful gains to 2022. We believe our positioning is quite strong going forward, energy and otherwise, and feel prepared to benefit from any volatility that may be ahead, and even lack thereof.

If you are not yet invested with us, we would encourage you to do so. We operate on a performance-fee only basis, which gets charged at the close of each calendar year.

If you have any questions, please reach out: <https://www.card.cards/Billy-LoBue>