



# Lethame Capital Management

Technology : Research : Investing

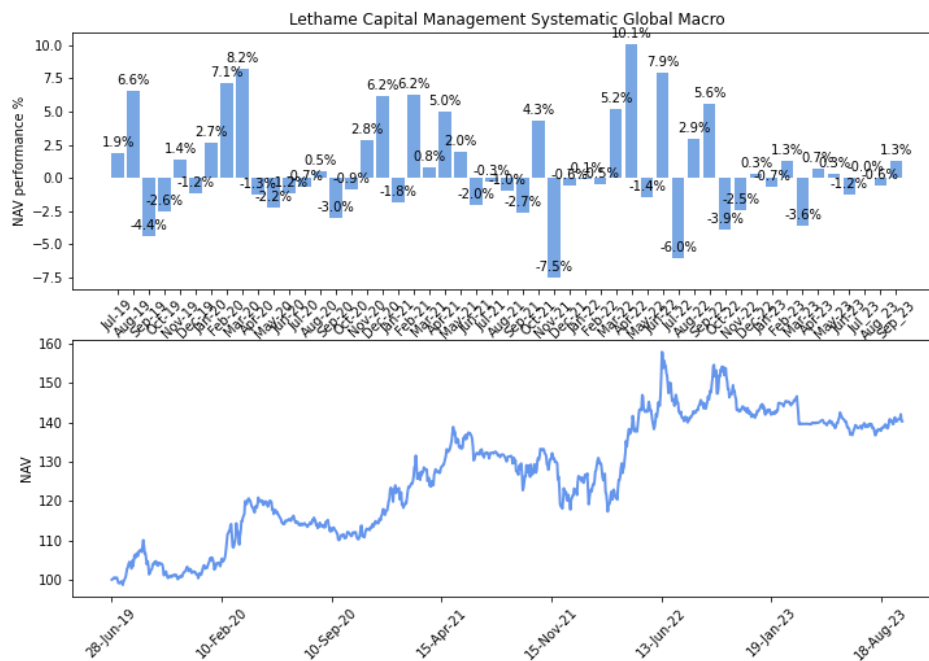
## Program Update – Q3 2023

	Annualised Return*	Standard Deviation	Sharpe Ratio	Maximum Drawdown	Average Correlation
Lethame Capital Management	8.8%	13.6%	0.59	15.8%	-
S&P 500 Index	7.9%	21.8%	0.32	42.6%	1.2%
60/40 portfolio	3.9%	13.0%	0.24	30.6%	2.1%

This commentary refers to the performance of the strategy of the personal investment vehicle of Piers D. Watson, please see disclaimer.

\*System running from 1<sup>st</sup> July 2019. All calculations based on daily futures data. Program Sharpe Ratio calculated using RBA 3m OIS, comparison indices use USD 3m SOFR.

***“...this is why futures momentum funds work, when I first heard of CTA’s and the futures momentum funds I was like theres no way that will work...but you know what, the reason it works is human nature...” – Bob Treue, Barnegat Fund Management (‘the worlds #1 bond trader’)<sup>1</sup>***



### Performance Review 3Q 2023

Lethame Capital Management’s (LCM) Systematic Global Macro Program produced a return of +0.68% in the third Quarter of 2023 compared to the S&P

500 Index which fell -3.65%. The year-to-date return for the LCM’s strategy is -2.69%, compared to +11.68% for the capitalization weighted S&P500 Index and +0.27% for its equally weighted counterpart. US equity indices and Treasury Bonds

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notched their worst quarter since September 2022, the yield of the 10-year U.S. treasury increased 73 basis points, while the US dollar logged its best as investors came to terms with the message from the Federal Reserve: get used to higher interest rates.

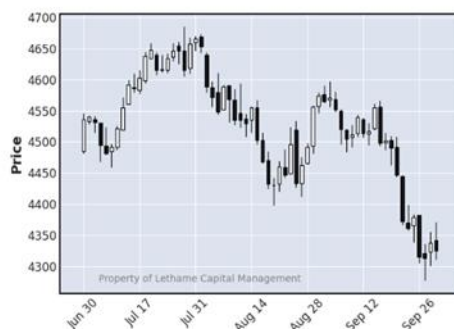
LCM is concerned with the risk adjusted returns of the instruments it trades. In the third quarter the standout performer was crude oil (+4.2 standard deviations (s.d.)) and the only instrument which saw a 'large' positive returns.

Crude Oil



The remaining 'large' returns were negative, led by Euro currency (-1.9 s.d.), Gold (-1.9 s.d.), the Eurostoxx 50 (-1.7 s.d.) and finally the S&P 500 (-1.7 s.d.).

S&P 500



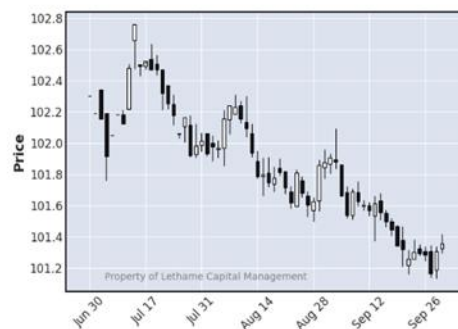
Despite what appears to be a negative environment for investment what sets LCM apart is its ability to profit regardless of market direction. It is noteworthy that out of the 20 markets within the

program, only three saw positive returns in the quarter.

## Not so ebullient equity markets...

In last quarters commentary LCM commented on the impact of the "MegaCap-8" stocks outsized impact on the performance of US equities. In this quarter the so called "Magnificent Seven", the largest 7 companies in the index by market capitalization made up a total 28% of the weight of the S&P500 Index. According to BlackRock this is a greater concentration of largest seven index constituents in over 100 years<sup>2</sup>.

2 Year US Treasury



Why is this important? In the commentary last quarter, LCM commented on the valuation of one of the "Magnificent Seven" members in particular, Nvidia, which traded at over 40 times its revenues compared to 12 times revenues at the beginning of 2023. This substantial increase in valuation had been one of the key factors behind the S&P 500's return and the animal spirits from which drove equity markets globally. However, the valuation highlights the optimism baked into investor expectations, particularly in the realm of Artificial Intelligence.

Investors who rely on capitalization-weighted exposure to equity markets are inherently tied to these high valuations playing out. While LCM refrains from engaging in equity analysis, it is instructive to consider a simple model to assess the reasonableness of these investor expectations. On

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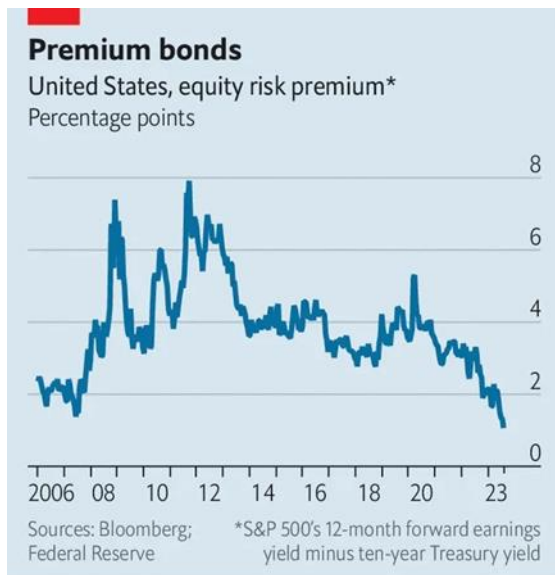


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the back of LCM's envelope, it appears that to justify the 40 times revenues, Nvidia would need to maintain a nearly 70% compound growth in revenues over the next five years, assuming it sustains its highest recent historic EBIT margin of almost 40%. While the prospects of Artificial Intelligence are undoubtedly exciting, the burden of proof is substantial. Large companies seldom maintain such growth rates, and any disappointment could impact not only Nvidia investors but also the broader market.

This exercise is not about dissecting Nvidia or equities as an investment but underscores the significance of starting valuations. Current implied equity risk premia are at multi-decade lows, a trend partly driven by this "Magnificent Seven" effect. As the Economist magazine highlights "American Stocks are at their most Expensive in Decades" <sup>3</sup>...



The Economist

LCM's strategy, in contrast, remains agnostic to valuation, playing no role in its decision algorithm. Whether it's equities or any other instrument, LCM's programs adapts and positions itself, irrespective of the valuation backdrop.

## Are trends back?

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The "Top Traders Unplugged" podcast includes a treasure trove of interviews with successful practitioners of the systematic investment industry. The accompanying website includes a trend barometer<sup>4</sup> which measures the percentage of the 44 markets it follows that are in "medium to strong trends". The barometer the website claims has finally exceeded the 55% level, a level it suggests represents the threshold of a particularly favourable environment for the managed futures industry and one that it has failed to sustain for over a year. The managed futures industry enjoyed a stellar year in 2022 but for the 12 months to the end 3Q 2023 has endured rather lackluster performance. LCM is hopeful that there are signs that the environment for its strategy may turning positive again.

<sup>1</sup> Hendry, H., 'The Acid Capitalist Podcast'. 21 Sep 2023.

<sup>2</sup> <https://www.blackrock.com/us/individual/investment-ideas/what-is-factor-investing/factor-commentary/andrews-angle/factors-and-magnificent-seven>

<sup>3</sup> <https://www.economist.com/finance-and-economics/2023/08/10/american-stocks-are-at-their-most-expensive-in-decades>

<sup>4</sup> <https://www.toptradersunplugged.com/resources/market-trends/>



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## Lethame Capital Management

Lethame Capital Management (LCM) is a private company established to manage capital using proprietary software and algorithms developed by Principal, Piers D. Watson, CFA FRM CQF CFTe. LCM's investment program utilises over thirty years of experience as a portfolio and risk manager covering multiple asset classes and follows years of research, analysis and technology development. The program is designed to provide a comprehensive and systematic exposure to a diversified range of return streams.

Program design has been borne out by the performance of the system since inception and is backed by comprehensive back-testing over the past 40 years (see the performance table below).

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1994									4.38%	-0.09%	5.94%	-6.26%	9.87%
1995	1.47%	0.18%	-4.46%	7.59%	8.84%	1.37%	0.26%	-2.99%	4.38%	5.77%	5.85%	3.01%	33.73%
1996	-2.38%	-3.02%	2.66%	4.69%	1.38%	7.76%	-10.11%	3.32%	5.09%	4.65%	19.51%	-4.81%	30.22%
1997	6.92%	-5.03%	-1.84%	-0.37%	4.25%	1.79%	11.07%	-6.62%	2.93%	2.25%	-1.56%	1.28%	32.68%
1998	0.48%	2.10%	3.31%	-4.54%	7.34%	-0.03%	10.28%	8.94%	-6.51%	-1.29%	6.98%	8.54%	35.68%
1999	1.04%	-5.52%	1.01%	1.67%	-0.68%	2.02%	-3.13%	1.09%	-0.16%	-4.88%	2.83%	13.81%	6.34%
2000	-2.70%	-2.35%	-2.78%	-0.51%	2.71%	-3.55%	0.41%	6.80%	-3.01%	-4.91%	15.12%	12.07%	49.69%
2001	-1.50%	13.16%	14.36%	-12.11%	3.77%	-1.29%	-0.05%	14.05%	17.24%	1.24%	-6.35%	-3.13%	38.00%
2002	-1.13%	2.05%	-7.02%	5.24%	2.98%	10.14%	10.84%	2.09%	10.78%	-5.74%	-3.67%	13.08%	39.79%
2003	7.62%	11.88%	-8.22%	0.38%	9.08%	-2.19%	-4.35%	1.10%	6.28%	-0.20%	3.61%	8.13%	23.45%
2004	4.99%	16.29%	4.23%	-13.36%	0.65%	-2.01%	-5.83%	4.21%	0.61%	6.61%	5.48%	4.99%	29.49%
2005	-4.69%	-6.47%	-3.42%	2.42%	4.79%	-1.13%	-2.72%	1.86%	-0.90%	-4.27%	5.10%	-4.50%	4.83%
2006	-1.16%	-2.69%	6.65%	3.45%	-3.20%	-2.59%	-7.07%	1.09%	5.59%	3.55%	2.13%	4.36%	6.22%
2007	-0.95%	-4.37%	-4.50%	5.95%	5.96%	-3.66%	-2.00%	-3.45%	1.43%	3.46%	4.14%	-0.37%	20.84%
2008	12.77%	8.20%	4.03%	-7.42%	0.50%	14.44%	-7.40%	-2.01%	9.80%	17.15%	12.62%	4.98%	63.44%
2009	3.66%	5.34%	-4.96%	-3.68%	-5.86%	-1.91%	1.73%	6.58%	5.56%	-1.04%	17.19%	-9.87%	-15.30%
2010	3.62%	3.93%	11.47%	4.77%	-3.30%	3.53%	-6.20%	4.78%	-1.66%	6.58%	-5.25%	7.34%	15.37%
2011	3.42%	4.16%	-5.87%	9.11%	-2.78%	-8.20%	6.82%	11.66%	-3.50%	-6.10%	1.26%	3.96%	-10.67%
2012	5.62%	2.15%	1.57%	2.69%	5.85%	-10.97%	11.00%	-1.44%	-2.13%	-4.41%	-0.99%	-2.87%	-6.17%
2013	-2.67%	-0.37%	1.86%	8.49%	-10.51%	-9.74%	4.74%	-4.81%	3.41%	5.83%	2.26%	-9.51%	1.08%
2014	-1.00%	2.54%	-7.23%	2.90%	15.93%	10.88%	-5.72%	4.19%	6.29%	6.10%	10.18%	-1.57%	31.39%
2015	10.50%	4.36%	6.69%	-3.54%	3.94%	-11.17%	4.21%	-8.74%	10.62%	0.20%	10.02%	-8.31%	19.47%
2016	8.73%	8.12%	-5.94%	-2.86%	-3.21%	-0.37%	2.84%	-3.73%	-4.89%	-5.98%	2.31%	9.53%	-11.08%
2017	-2.67%	16.23%	0.44%	5.46%	3.30%	-11.18%	2.94%	2.17%	0.86%	15.73%	-0.72%	-0.79%	3.36%
2018	17.86%	-11.64%	-3.92%	-0.29%	-0.91%	1.58%	2.96%	2.65%	-2.57%	-2.47%	-2.83%	4.08%	12.21%
2019	-4.38%	9.14%	1.48%	5.40%	-2.16%	0.74%	1.88%	6.59%	-3.77%	-2.55%	1.36%	-1.20%	12.17%
2020	2.67%	7.11%	8.20%	-1.26%	-2.22%	-1.18%	-0.70%	0.47%	-3.00%	-0.86%	2.85%	6.20%	18.97%
2021	-1.83%	6.22%	0.80%	5.01%	1.97%	-2.00%	-0.29%	-0.98%	-2.84%	4.18%	-7.50%	-0.62%	1.31%
2022	-0.08%	-0.52%	5.17%	10.07%	-1.40%	7.90%	-6.02%	2.94%	5.62%	-3.90%	-2.48%	0.33%	17.61%
2023	-0.68%	1.30%	-3.60%	0.57%	0.32%	-1.24%	-0.02%	-0.60%	1.31%				-2.69%
Simulated													
Real Time													

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