

13 February 2015

Investors' Letter for January 2015

Our results in January benefited from another steep decline in the Australian dollar but were otherwise bland. After allowing for the currency movement we were ahead of the S&P index and behind the world equity index. Either way, it was – on the numbers – an uneventful month. There is no reason to be unhappy, but no reason for elation.

This actually hides a quite eventful intra-month period. We have for several years now had a problem with the first two weeks of January. Last year we lost 6 percent in the first two weeks (recovering some in the remainder of January). This has not been atypical.

We did not understand the problem – and we cannot describe the number of arguments we had about “January effects” and other perceived stock market patterns.

But there was a pattern – and we discovered it. It was in our shorts where there were a cluster of shorts we thought were independent but there was a common underlying promoter. Moreover that promoter – through long-standing marketing habits – did much pumping at the beginning of each year.

This is actually an artefact of our shorting strategy. Our core strategy on the short side is to follow bad actors in capital markets. And we find what they are promoting and short very small quantities of it. If the stocks go up we do more work and cover if need be, and if the stocks go down we take our profits.

The reason the positions are so small is that any position can go up very substantially against us. But this is merely annoying if your starting position is only 0.3 percent of the fund.

There is little risk to the model if the shorts are uncorrelated, or even if they are only broadly correlated to the market. There is a bigger risk if they are correlated to each other in ways that we can't see – and we have gone to some effort to try and diversify those correlations away.

And we have mostly succeeded.

But we discovered a January correlation we did not previously know about. This has cumulatively cost us over the years a fair amount of money. But now we know we “won't be fooled again”.

Once we worked it out the rest of the month went fine.

We are very happy with several positions in the portfolio – and our short book is behaving well. One position that has worked exceedingly well is our short position on the Australian dollar. This is an unusual position for us as we typically disavow macro/currency positioning in favour of our long/short stock selections, and routinely seek to hold the stocks we purchase in the currency they are denominated in so as to achieve global currency diversification.

But we do live in Australia – and, in part, we established Bronte with a view that Australians needed opportunities to diversify away from their volatile commodity based exposures. So we closely follow the local currency and have been more comfortable taking positions in it. Of course this Amalthea Fund is naturally short the Australian dollar by virtue of holding almost all of its assets in non-Australian equities and currencies but all of our funds (including Amalthea) have also held a derivative short position in the Australian dollar. As the following chart shows, being short has been a very successful strategy of recent times as the once-in-a-generation resources boom faded and an economy hollowed out by [Dutch disease](#) awakens to a new reality.





Figure 1 Australian Dollar over the Last 6 Months

One day we will also get some longs right (we have before, we will again) and then our performance will shine rather than be bland.

Form ADV Disclosure Brochure

This month Citco, our Administrator, will be sending investors our USA Form ADV disclosure brochure along with your monthly statement. The document is not strictly required for Australian investors and relates more to our USA fund investors but nonetheless contains information that you might find useful.

Thanks again

John and Simon

Performance (Net of all fees)

Last 12 months	13.9%
since inception (annualized)	20.6%
Largest Monthly Gain	6.0%
Largest Monthly Loss	(3.7%)
Max. consecutive Gain	15.7%
Max. Drawdown	(6.0%)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
FY13											5.4%	1.3%	6.8%
FY14	6.0%	-2.5%	0.4%	3.6%	5.7%	4.3%	-3.7%	0.2%	-2.6%	0.9%	3.4%	-0.8%	15.2%
FY15	-0.9%	-1.6%	2.7%	1.7%	3.4%	4.9%	2.3%						12.8%

