Mark's Musings

Whitmore Capital Management Quarterly Newsletter

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On the Confounding Simplicity of Investing

"Simplicity is the ultimate sophistication"

– Leonardo da Vinci

Of Franciscan Friars and Technology Titans

When I was in college and taking a class in epistemology, I first came across Occam's razor. This is a principle attributed to an English Franciscan Friar, who in the 14th century is said to have posited, "*Pluralitas non est ponenda sine necessitate.*" Translated from Latin, this means that matters should not be multiplied without necessity.

Various offshoots of Occam's razor have arisen in the interim centuries, including the law of parsimony and the rule of simplicity. Newton tipped his hat to Occam's razor when he posited the rule, "We are to admit no more causes of natural things than such as are both true and sufficient to explain their appearances." Phil Gibbs has noted that from a scientific point of view, one might boil Occam's razor down to the following statement, "When you have two competing theories that make exactly the same prediction, the simpler one is the better." This whole line of thinking, despite its unmistakable influence upon great minds from the Renaissance onward, actually failed to resonate with me at the time. After all, as a college student, I was reveling in new found areas of complexity, depth and nuance.

Yet as time goes on and I get older, and hopefully wiser, I have an increasing appreciation for such concepts as Occam's razor, the law of parsimony and the rule of simplicity. My first practical lesson in the value of Occam's razor and its intellectual progeny came in law school, and was quite by accident. The first two terms of law school were the most academically frustrating months of my entire life. Despite spending hours and hours in the library faithfully and arduously studying each and every case assigned, and being prepared to discuss the most subtle of legal points, my exam results were mediocre. While I felt the caliber of students at my law school was excellent, I had thought, if nothing else, my diligence should have given me some advantage and would have led to better marks.

Discouraged, I decided to focus on non-academic matters for my last term that first year. I socialized more, jogged, lifted weights and even began playing tennis regularly again. I spent about half the time I had previously spent studying. For the exam, rather than reviewing many weeks of classroom notes and carefully reviewing every case we discussed, I focused on what is known as the "black letter law" – the laws that are well established and no longer subject to reasonable dispute. For instance, in Contracts, this would mean simply identifying what would be the necessary elements to have a legally enforceable agreement between two parties. Fully prepared to receive another round of mediocre (or worse) grades, I was stunned to see a marked improvement in my exam results!

Then came the epiphany. While 90% or

more of class time was spent studying cases that were usually selected because of their unique, controversial or otherwise unorthodox legal reasoning and analysis (which was in most instances superseded by new law), 100% of the exam concerned the current status of the law. By focusing my studies on the latter, and once a particular class was over forgetting about antiquated individual cases, I had far greater intellectual clarity to excel on the exams (which were usually all, or nearly all, of one's grade in law school). For the next six consecutive terms my grades improved as I honed this approach to studying in law school. This was lesson one for me in how clarity, simplicity and focus trumps complexity.

But there was one specific experience I had in law school that was perhaps the most impressive instance of how a man of tremendous influence applies rules of intellectual simplicity to his professional life. Anthony Scalia is certainly one of the most polarizing Supreme Court justices in Modern American History. Yet even his staunchest critics acknowledge his prodigious intellect, sharp wit and jocular manner. He came to the University of Washington School of Law to speak to interested students. As Seattle does not have many occasions whereby Supreme Justices come through, I availed myself of the opportunity to hear him. After a very engaging speech, he opened the floor up for questions. One of my classmates asked him about how he could sleep at night, knowing that the there was so much at stake for so many people throughout the nation in the outcome of a great number of the cases he helped adjudicate, and what kind of personal strain he endured having to struggle with matters of such gravitas and complexity. Without pausing, Scalia noted that he slept like a baby. Moreover, he had the "easiest job in the world." With each case, the attorneys for both parties in the dispute would clearly identify the constitutional issue or issues at stake. Hence, for Scalia, it was simply a matter of reviewing the constitution, reading what it had to say on the matter, writing out his findings and calling it a day. Talk about the embodiment of stripping away anything (political climate, economic justice concerns, social relations, religious beliefs, etc.) of additional complexity! While many may disagree with the outcomes of Scalia's decisions, it is hard to take issue with the fact that the constitution itself is what grants Scalia his authority. Accordingly, it seems reasonable for him to take the position that the constitution and the constitution alone should guide his decision-making.

Many years later, the importance of simplicity was brought home to me by reading something Steven Jobs wrote:

> *That's been one of my mantras – focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains.*

I think Jobs proved that what is simple can be elegant, powerful and (as da Vinci noted) ultimately sophisticated. In co-founding and subsequently building Apple into what became the most valuable company on earth, Jobs remained convinced, despite being fired from the company and then seeing his company almost go under, that a simple, focused vision of what Apple had to be was the path to success.

A Modest Proposal for Investors

So why spend nearly a thousand words on a meandering discussion of a philosophical proposition and its impact on legal pedagogy, Supreme Court jurisprudence and contemporary business? It strikes me that asset markets are more suited than anything else of which I am aware to an application of the rule of simplicity.

There is probably no other sector in the economy that is less understood by the layperson than financial services. And stepping back further, there may be no branch of knowledge less understood than economics (I would argue that this is true even among Nobel laureates in economics, at least to the extent Paul Krugman is representative). Yet

"… as time goes on and I get older, and hopefully wiser, I have an increasing appreciation for … the rule of simplicity."

having made my living exclusively in the financial markets for over a decade now, I remain convinced that abiding by a fairly *simple* precept in a *focused* manner, *ala* Steven Jobs, will yield results that significantly surpass not just the typical retail investor, but the vast majority of professional money managers as well. It is this simple concept that is also at the very core of Whitmore Capital LP's strategy. Frankly, it is just a slight variant of what is often thought of as the most basic rule of investing (which is sadly observed much more in the breach), namely, "buy low, sell high."

My variant to this investing maxim is: "**buy something of value when it is cheap, and buy more of it if the asset becomes cheaper.**" I should note the logical corollary of this is also true. Namely, "sell something of value when its price becomes dear, and sell more of it if the asset becomes yet dearer in price."

"… buy something of value when it is cheap, and buy more of it if the asset becomes cheaper."

The Perfect Contrary Indicator? Retail Investors!

Looking at asset markets broadly, there appears to be little indication that investors learn anything from history. Amber Lee Mason did some research into twenty-year returns spanning 1993-2012 and found some very depressing facts. During that time, the typical retail investor obtained annualized returns that only equaled 2.3%. This is actually much worse than it would even appear, as annual inflation averaged 2.8% over this period. This meant that over a two decade period, a typical investor **lost more than 10% in purchasing power** in their portfolio. Had an investor simply owned a low cost domestic equity index fund and a low cost aggregate bond fund in equal parts during that 20-year span and done nothing else, she would have more than doubled her money *after adjusting for inflation*, obtaining average annual returns of 6.8%.

Why the dramatic underperformance? Some of it can be attributed to the excessive fees charged by the vast majority of financial services companies. But, as the observations of behavioral economists[1] have shown, the main reason for the poor performance by retail investors is their persistent tendency to **buy high and sell low**.

While it may not be everyone's cup of tea, I spend an inordinate amount of time reading and thinking about economic history, particularly related to bubbles and subsequent economic crises stemming from their fomentation. The one thing that becomes as evident as any other phenomenon going back beyond the dawn of modern capitalism is the tendency of the masses, or "dumb money," to do the worst thing possible during key inflection points in the national and global economic cycles. Now, I use the term "dumb money" as a term of art. It has nothing to do with any given person's IQ, as is evidenced by the fact that quite famously some of the smartest people in the world have been caught up in the madness of the crowds, succumbing to greed or fear (or worse still, greed *then* fear).

Isaac Newton famously observed, "I can calculate the motion of heavenly bodies, but not the madness of people." This was after he went flat broke chasing stock in the South Sea company during the early 18th century, one of the most notorious stock market bubbles in history. Newton was actually being overly generous to himself. His quote makes it sound like he was buffeted by the madness of the crowds, hence imputing he was apart from them. In reality, he was participating directly in the madness, being driven by the same short-sighted greed as everyone else.

But just as from seemingly time immemorial there has been instance after instance of the masses of people buying at the top and then capitulating at the bottom, there have

[1] Behavioral Economics is a relatively new school of thought that challenges the view of classical economics that individuals make purely *rational* economic decisions as simply utility maximizing agents.

also been the "smart money" sharks ready to profit. About the same time Isaac Newton was losing his proverbial shirt, Baron Rothschild famously noted that the "time to buy is when there is blood in the streets." Savvy people like Rothschild have always stood at the ready, while the masses go mad, to both avoid buying into the top of a bubble, and then to pick up assets on the cheap when the bubble implodes. Thus they profit handsomely when the insanity comes to an end, which is always inevitable.

So with more than 400 years of economic history showing the same bubble dynamics repeating themselves over and over again, one might expect investors to act in a manner so as to avoid such catastrophes. Sadly, as Hegel aptly noted, "the only thing we learn from history is that we learn nothing from history." If one looks at investor behavior at the key inflection points for asset markets over the last twenty years or so, it becomes evident why average returns do not even keep pace with inflation. Investor participation in the stock market after the recession of 1990-91 was quite low, despite the fact that the stock market was poised for almost ten years of explosive gains. But by early 2000, investors had piled into the stock market, and particularly high-flying tech stocks, creating *record* inflows into equity funds. In February of 2000, literally days before the peak of the NASDAQ bubble, US investors poured in more than $55 billion in the stock market, when the previous record for any month prior to 2000 was *less than $30 billion*! Almost 15 years later, we have not eclipsed those stock market highs when adjusting for inflation! By August 2002, stocks had fallen more than 40% and were poised to almost double over the next five years. Yet investor sentiment and participation in the stock market were at the *lowest* levels since the 1990-91 recession. October 2007 had stocks hitting new all-time nominal highs, and retail investors had plowed head-long into equities again, the pain of 2000-2002 but a distant memory. This, of course, was the very temporal precipice for what would become the biggest rout of stocks in the US and around the world since the Great Depression. The carnage was so bad that the S&P 500 had declined by more than 50% from its peak by March 9, 2009. Only *four days* before that low, investor sentiment as measured by the widely followed American Association of Individual Investors hit an *all-time low,* with more than 70% of respondents *bearish* on the stock market. Here we sit today (as of the date of this publication) with the S&P 500 up more than 200% since that March 2009 nadir.

Thus, as is plainly evident from looking at the US stock market as an indicator, the track record of retail investors at every key turning point for asset markets has been "unblemished by success."[2] Record investor bearishness during March 2009 is particularly stunning to me. Essentially this was the biggest fire sale on a broad range of financial assets I have witnessed in my entire life. Yet virtually no one (even those with remaining assets left to deploy) wanted to touch them! Not surprisingly, this was the same time period Warren Buffett (the Baron Rothschild of our day) was buying preferred shares in Goldman Sachs, shares which were so preferred that they were only available to him.

"The only thing we learn from history is that we learn nothing from history." - Hegel

The Paradox of Value and Financial Markets

Truly, financial markets are the *only* realm in which people seem to reverse the notion of buying *value*. In Charles Ellis' excellent classic investing book, *Winning the Loser's Game*, he makes a comparison I always remember. He recommends that readers think of stocks the same way they think of socks. While less catchy, I would broaden the statement to include all financial assets and not just stocks. His point is that no one goes into a store, sees a display of socks on sale at 50% off and throws up his arms in frustration thinking his own socks are now less valuable, or refuses to buy the socks on sale because they were "worth" more the day before the sale . Rather, he sees some-

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[2] A favorite saying of famed resource investor Rick Rule

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thing of value available at a price that is cheaper than it was his previous visit to the store. As such, he is likely to buy *more* socks, not less.

Before leaving the topic of broad asset markets, let me note that given the 400 years or so of economic and financial history to which I alluded to above, it *should* be troubling to US stock investors that the S&P is now up more than 200% from its lows of less than six years ago. Similarly, while retail investors shunned stocks for several years after the Global Financial Crisis (when they were poised for several years of massive gains), I see more and more evidence that they are beginning to pile back in. If history is any guide, we may be close to another apex in the US stock market. Granted, I have maintained this view for the last year, and my belief has yet to be borne out.

A Simple Man with a Simple Plan

As a manager of a currency fund, Occam's razor has been on my mind quite a bit over the last several months. This has been a time of extreme turbulence for many of the fund's largest holdings. Worse still, going into last quarter the fund had experienced almost a 19% drawdown. Clearly the market was telling me that it disagreed with my assessment of what represented good value in the currency markets. I venture to guess that in light of such adverse movements in the market, almost all retail investors, as well as most money managers, would be inclined to cut losses and go back to the drawing board. But I am a simple man with a simple plan, "buy something of value when it is cheap, and buy more of it if the asset becomes cheaper." I then attempt to do what Anthony Scalia does – call it a day and try to get a sound night of sleep (albeit that is somewhat more challenging with two toddlers at home).

A logical question, and one that I get with some degree of frequency, is why not *wait* to buy a cheap asset until you have confirmation from the market that it will not go down further? In addition to relying on Occam's razor, Whitmore Capital LP's performance in 3Q 2014 is my response as to why I do not try to do this. In essence almost a year's worth of somewhat grinding losses were erased and then some in one quarter of mercurial gains. I should note that a large majority of those gains came in about a one-month time period.

My point is that a plethora of finance studies show that trying to *time* the market in the short-term is a fool's errand, with almost all retail investors and a significant majority of professional money managers doing worse than if they had just employed a buy and hold strategy (while dollar-cost averaging into losses does even better). As a strategic investor, I do not pretend to have reasonable certainty as to *when* markets will adjust in my favor. I just know that economic history demonstrates that, without exception, assets possessing intrinsic value do not remain significantly undervalued *ad infinitum*.

Asset markets tend to distribute big gains in a very lumpy (and, I would argue, unpredictable) manner. For instance, according to CFA Chuck Carlson, if a stock investor missed just 40 of the biggest up days during the **twenty-year** period between 1986 and 2006, on average just two days a year, their total annual return would have been less than 4% per year, whereas the market itself returned almost 12% per year! Being out of the market at the wrong time can thus be a very costly endeavor.

Had I been on the sidelines waiting for definitive evidence that a currency like the Israeli shekel, in which Whitmore Capital LP has been short and had rather large losses through the end of 2Q 2014, has entered a period of secular decline, I might still be waiting. Instead, the shekel proved to be one of the largest gainers over a period of a few weeks when its value versus the US dollar declined precipitously, turning large losses into very nice net gains for the Fund in 3Q 2014. My point is that while I often have a high degree of confidence that the market *will* adjust in my favor, I do not know *when* that will take place. As I have noted before, just because something is inevitable does not make it imminent.

Another problem with using a "wait and see" approach before investing in a currency that looks cheap is the problem of "false breakouts." People who are market-timers have in many instances been known to believe a reversal in markets is an all clear signal to pile into a particular trade, only to discover that the move was a "dead-cat bounce" and have the asset fall to yet lower levels. In sum, I believe that a more sound approach is that if one is 85% confident that an asset at a particular price represents a good longer-term value, one should invest at the time. The danger of waiting with the belief that it is 55% likely that the asset will go down further in the next couple of months is that one will be out of the market when it rockets up in price.

Occam's razor also gives me the basis for offering a qualified answer to another question that is often posed to me: When is the best time to invest in or add to existing investments in Whitmore Capital LP? My qualification is that, as just noted, I do not pretend to have any insight into short-term market timing. Hence I would never say something like, "This quarter I expect to get 10% returns, which is 5% better than what I thought I would get last quarter."

However, I would suggest that an investor in Whitmore Capital LP would have an *increased probability* of getting higher returns following periods of underperformance, and higher still after periods of losses. Now, in practice, I never feel comfortable at a time like June of this year suggesting that to an investor. After all, I have experienced total losses in my personal portfolio, prior to launching the Fund, which have extended up to 18 months. Whitmore Capital LP's decline in value over some period of time certainly does not mean it could not decline further. But as I have noted a couple of times in past quarterly reports, including the first one I penned, it has been my experience that the times of my greatest investing gains have followed periods of my greatest investing losses.

So, in retrospect at least, the end of June appeared to represent a time where "something of value" (if I might be so bold as to describe Whitmore Capital LP as such) was "cheap." Yet highlighting the paradoxical phenomenon where finance is the one area people tend to eschew discounts, we were in the midst of a five-month drought in attracting outside capital.

Not Everything Cheap is a Value

Let me make two provisos to my strategy of buying when things are cheap, and re-upping when they become even cheaper. First, there is something called a "value trap," of which investors need to be aware, and should try to avoid when it comes to deploying capital. An example might be a company still producing eight-track cassette players (for those who are Millennials, they were an archaic manner of listening to music only slightly superior to a gramophone). Now if it were publically traded, I am sure such a company would be "cheap" in terms of valuation metrics (very low price-to-book and price-to-sales ratios for instance), yet the fact that it would be a company with little to no prospects for viability going forward would make it an unwise investment, no matter how "cheap" it became.

Second, unfortunately, one cannot expect to benefit from buying assets more cheaply should one's investments with many fund managers go down in value. This is due to something called "style drift" that is rather pervasive in the world of finance. An example is investing today with an equities manager whose portfolio is largely comprised of US tech stocks. Let's assume tech stocks decline steeply in the next six months (not an unlikely scenario given present valuations in the sector). One might expect that it would be a good time to add money to that manager's fund as tech stock prices would be significantly lower. But unless the manager has a fund mandate providing that a majority of his assets under management *must* be invested in the tech sector, it is very possible that he joined the crowd and already dumped his tech holdings (possibly at significant losses) and is off trying to chase the

"… trying to time the market in the short-term is a fool's errand."

latest hot sector. Style drift is particularly prevalent in funds with high portfolio turnover rates. As I have been deploying the same strategy both individually and as a money manager for more than twelve years in the currency markets, Whitmore Capital LP investors can rest assured that there will be no style drift in the Fund going forward, other than what is inherent in the process of deploying macroeconomic, sentiment and risk overlays on our currency investments.

Whitmore Capital LP: At Heart a Deep Value Fund

So back to simplicity, and to wrap things up, a final question I get from prospective investors is, "What exactly is Whitmore Capital LP?" People hear currencies, and they may think of an arcane world in which a powerful cabal of international bankers employ mind-numbingly complex algorithms to make vast sums of money. That world does exist, although the profits from such strategies are, in the aggregate at least, far less than what most would think. That is not the realm of Whitmore Capital LP. Whitmore Capital LP is in essence a deep-value fund that uses global macroeconomic analysis to ascertain what is cheap, and then simply uses currencies as investing vehicles to express our strategy. What Warren Buffett attempts to do in the US stock market (buy something of value at a price less than an estimation of its intrinsic worth) is what we try to do in the currency space. As I stated in a recent interview, "Investing in some ways is unbelievably complex, and in other ways it's literally as easy [and simple] as buy low and sell high."

"Investing in some ways is unbelievably complex, and in other ways it's literally as easy [and simple] as buy low and sell high."

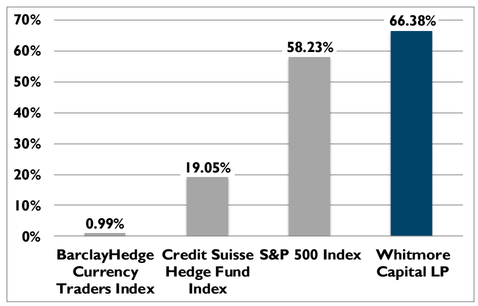
*** Past results are not necessarily indicative of future results. You should carefully consider whether your financial condition permits you to participate in a commodity pool. In so doing, you should be aware that commodity interest trading can quickly lead to large losses as well as gains. Such trading losses can sharply reduce the net asset value of the pool and consequently the value of your interest in the pool. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.**

Q3 2014 Performance Summary

Whitmore Capital LP returned 23.64%, net of all fees, in the third quarter of 2014. (Note: In the period between the end of 3Q 2014 and the publication of this letter, the Fund has received finalized performance figures for October 2014 of –5.54%.)[1] For comparison, our narrow benchmark, the BarclayHedge Currency Traders Index, returned 1.51% and our broad benchmark, the Credit Suisse Hedge Fund Index, returned 0.56% over 3Q 2014.[2,3]

Our third quarter results lifted year-to-date returns to 3.75% and brought the Fund's since inception returns to 66.38% (24.38% annualized). As we have mentioned previously, we give comparatively little weight to quarterly performance, recognizing that strong or weak quarters may occur in the face of broad-based underperformance or outperformance, respectively, or that such quarters (or even a string of them) may be due to market vicissitudes rather than the underlying strategy of the manager. As such, in evaluating results, we place greater emphasis on longer-term performance. On this measure we are very pleased with the Fund's performance since inception, which compares quite favorably against the BarclayHedge Currency Traders Index and the Credit Suisse Hedge Fund Index. We are also pleased to see that from a return perspective, Whitmore Capital LP has more then held its own against the S&P 500 Index during a period of continued buoyant returns by the latter (see Chart 1). We do not benchmark our performance against the S&P 500 Index, but use the comparison here merely as an illustrative tool to give some context to our since inception returns.

*Chart 1. Cumulative Returns Since Whitmore Capital LP Inception**



Importantly, our returns continue to be essentially uncorrelated with traditional asset classes. Since Whitmore Capital LP's inception through the most recent quarter, the correlation coefficient[4] between our returns and the S&P 500 is 0.099. Similarly,

[1] Past results are not necessarily indicative of future results. You should carefully consider whether your financial condition permits you to participate in a commodity pool. In so doing, you should be aware that commodity interest trading can quickly lead to large losses as well as gains. Such trading losses can sharply reduce the net asset value of the pool and consequently the value of your interest in the pool.

[2] About the Credit Suisse Hedge Fund Index. This index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 9,000 funds and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. The index is calculated and rebalanced on a monthly basis, and reflects performance net of all hedge fund component performance fees and expenses. The particular funds that comprise the index may have rates of return that are significantly different and/or more volatile than those of the index. Finally, while individuals may invest in a particular fund included in the index, they may not invest in the index itself.

[3] BarclayHedge Currency Traders Index returns are taken from a BarclayHedge flash estimate and may be subject to change. The BarclayHedge Currency Traders Index is an equal weighted composite of managed programs that trade currency futures and/or cash forwards in the inter bank market. The particular funds that comprise the index may have rates of return that are significantly different and/or more volatile than those of the index. Finally, while individuals may invest in a particular fund included in the index, they may not invest in the index itself.

[4] A correlation coefficient measures the strength and direction of a linear relationship between two variables. Correlation coefficients range from +1 to –1. A coefficient of +1 indicates a perfect positive correlation, whereby both variables always move in the same direction. Similarly a coefficient of –1 indicates both variables always move in opposite directions. A coefficient of 0 indicates there is no correlation between the two variables' movements.

* Sources: Whitmore Capital Management, LLC, BarclayHedge, CreditSuisse, Standard and Poor's.

"… while we may be quite confident as to the medium to long-term direction of a currency, we are far less certain as to what the timing of its movements will be."

the correlation coefficients with the Barclays US Aggregate Bond Index (a proxy for US fixed income investments) and the Rogers International Commodity Index are -0.195 and –0.060, respectively.

Analysis of 3Q Performance Drivers

This content is available exclusively to Whitmore Capital LP investors.

Chart 2. Best Performing Positions

This content is available exclusively to Whitmore Capital LP investors.

Chart 3. Worst Performing Positions

This content is available exclusively to Whitmore Capital LP investors.

US Dollar's Role and Outlook

This content is available exclusively to Whitmore Capital LP investors.

The Case for the Ruble

Focusing on the downside, our long position in the Russian ruble is by far our worst performer. The ruble fell more than 16% against the US dollar over the quarter and for the year-to-date has fallen more than 20% against the US dollar. So far the market is telling us, quite emphatically, that our long ruble position is misguided. Moreover, the immediate path of the ruble appears to be one of further depreciation against the US dollar. Given all of this, some may be asking why it is we continue to maintain our long ruble position in the face of recent developments. This is an iteration of a more general question we often receive, namely: why do we maintain (and often increase) our positions in a currency if we believe it is likely to underperform in the short term.

The answer, quite simply, is that while we may be quite confident as to the medium to long-term direction of a currency, we are far less certain as to what the timing of its movements will be. Currency markets, especially when leverage is accounted for, can move quite rapidly. Moreover, such movements are rarely linear. Instead a currency may appear to have reversed its trend only to then revert back again, often falling/rising to an even greater extent. In our experience, attempting to accurately forecast and act upon these trend reversals more often than not leads to mistakes or missed opportunities. Therefore, if we remain confident in our longer-term outlook for a currency, we prefer to avoid this added difficulty. Rather, we hold positions in the face of short-term underperformance, knowing that if/when a reversal does occur, we will be positioned to benefit.

To take our most recent quarterly performance as an example, we would be hard pressed to identify in real time a single inflection point or event that signaled to us the US dollar had embarked on a period of sustained appreciation. Indeed, even with the benefit of hindsight, pinpointing such a moment is often immensely challenging at best. Had we waited until we could identify with certainty a sustained US dollar rally, we most likely would have failed to capture a significant portion, if not most, of the US dollar's move.

Returning to our long ruble position, the key question, then, is: has something occurred that changes our expectations for the long-term prospects of the ruble? And our answer to this is: not significantly.

We believe the ruble was undervalued when it was trading in the low 30's against the US dollar a year ago – before the geopolitical concerns and upheaval surrounding Ukraine. Since then, the conflict in Ukraine erupted and the US and European Union have levied increasingly stringent sanctions against Russia. Most recently, the broad decline in crude oil prices has further squeezed the Russian economy, and dampened its short-term growth outlook. In short, since we established our long ruble position, the risk factors have only increased. But the currency has also depreciated more than 20% over this period (as of the third quarter). This is a most precipitous decline for a currency, and one that we believe indicates the risks facing the ruble are more than baked into its price. Finally, we are of the opinion that these developments do not offset the long-term fundamentals in Russia's favor, including vast reserves of natural resources, a relatively captive market for these resources, and low levels of public debt on both a relative and absolute basis. Overall then, we believe the ruble has only become increasingly undervalued when one considers its longer-term prospects. We continue to maintain our long ruble position, confident in its long-term value opportunity but uncertain as to the short-term events or timing that may precipitate a reversal in its fortunes.

[*] **Past results are not necessarily indicative of future results. You should carefully consider whether your financial condition permits you to participate in a commodity pool. In so doing, you should be aware that commodity interest trading can quickly lead to large losses as well as gains. Such trading losses can sharply reduce the net asset value of the pool and consequently the value of your interest in the pool. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.**

Getting to Know Your Fund Manager

The interview referenced in the last paragraph of the previous essay was done with former money manager Niels Kaastrup-Larsen for a podcast called Top Traders Unplugged. For those with a broader interest in finance and investing, or a specific interest in the world of hedge funds, I highly recommend it (www.toptradersunplugged). Niels has many years of experience in the hedge fund industry. Everyone with whom I have spoken about the interview has been impressed by his skills as an informed and probing interviewer.

Our conversation spanned two-and-a-half hours, and while I would not necessarily wish upon my worst enemy the fate of being forced to listen to me drone on for that duration, fund investors may find particular portions of the interview to be of interest. During the first installment at about the twenty-two minute mark (one can skip to particular portions of the interview), and again at roughly the one-hour mark, I discuss specific matters relating to fund strategy and performance (http://toptradersunplugged.com/mark-whitmore-capital-management-how-to-start-a-currency-trading-firm/). Also, the first part of the second installment of the interview may be of interest where I discuss issues of portfolio diversification and other matters related to the Fund in detail (http://toptradersunplugged.com/mark-whitmore-capital-management-startup-an-investment-firm/).

While not so Fund-specific, I also was a guest on Marshall Sutcliff's excellent podcast, 1-for-1 (www.the1for1.com). I speak a bit more broadly about investing and save some special vitriol for the financial services industry (a form of self-loathing perhaps) by the end of the interview. I am certainly the least interesting guest he has had thus far, and therefore encourage people to check out his podcast.

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About Whitmore Capital Management, LLC

Whitmore Capital Management, LLC was formed in 2012 to offer investors access to a proprietary foreign exchange investing program (the Fund, Whitmore Capital LP). This program focuses on cash currencies but may also include futures, forwards and currency options. The objective of the Fund is to achieve long-term returns superior to the Credit Suisse Hedge Fund Index.

At the very core of the investing program is a mathematical model developed by Mark Whitmore. This proprietary calculus for determining the "fair value" of exchange rates aims to identify long-term opportunities to profit from temporary currency market mispricing. The outcome of these quantitative analyses are supplemented by qualitative analyses of the circumstances surrounding each currency to determine the configuration of the portfolio itself. Finally, sentiment indicators are reviewed as an additional analytical overlay. Currencies traded for the Partnership's account may include, but are not limited to, pairs of the following currencies: AUD, CAD, CHF, CNH, CZK, DKK, EUR, GBP, HKD, HUF, ILS, JPY, MXN, NOK, NZD, PLN, RUB, SEK, SGD, TRY, USD, ZAR.

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