

Pegasus Volatility Managed Account

Back by Unpopular Demand

2021 Summer Performance Report: +62.8%

.... this time with hedging.

Dear Sirs,

„There is a better chance of seeing a camel pass through the eye of a needle than of seeing a really great man 'discovered' through an election”

Hitler. A, *Mein Kampf: Four and a Half Years of Struggle against Lies, Stupidity, and Cowardice**

It is the ultimate irony of this sorely disappointing 21st century[†] that the moment that the ineffectual, lonely and generally uncooperative band of libertarians find that they were proven right: that representative democracy is no guarantor of individual rights, that governments of any stripe can engage in the most jaw-droppingly egregious overreach and suspensions of liberty since World War 2 on grounds of a brush with that devastating constant of existence, *mortality*, that the world can be plunged into economic depression by fiat, that shocking levels of mental health, obesity, alcoholism, domestic violence, and chronic population-sized decline & death from untreated and/or preventable disease are tolerated, that young adulthood is robbed of crucial years whilst the incompetent wisdom of the state is beaten into them, that knighthoods are given to epidemiologists with Crayola-crayons-on-postage-stamp-drawn models that were already wrong in estimating first-order effects as early as last February and criminally ignored the above second-order effects, that...

... that these selfsame kakistocracies are then greeted with an 80% public approval rating and the deep freeze for libertarianism. Clap for carers. Oh wait, the hospital's empty as frightened grandma skipped her obviously optional chemotherapy and now is croaking into a grave that no one can visit as the border's closed after the horse bolted. Bravo.



So how's that economy doing? Be a pity if anything happened to it

Your manager shoehorned himself into his impractical car, drove all the way to Sweden and did not meet the only public hero of this year & last, Sweden's health minister Anders Tegnell. Nor did said manager ever see a health minister, FM or PM from any other country visit as the courageous Swedish experiment played out. This is not to say Sweden nailed it[‡], but my sojourn there was filled with open restaurants, smiling pretty people, open gyms, and an expectedly higher and manageable incidence rate with lower volatility in the numbers. Meantime the economy did not implode and neither did public health both short- and long-term. No lessons were learned by elsewhere-land nor was there any attempt to[§]. For clearly it is not enough to tear down the statues and lessons of the past, it is time to ignore the present as well.

Six thousand two hundred eighty bips of performance do provide a fleeting analeptic. For in the midst of this carnival we have the double-down duo, central banks & government. The confluence of slower-than-Godot but undeniable unlocking^{**}, endless money-printing & asset purchasing, and fiscal welfare on a boggling scale necessarily leads to one obvious trade: short volatility. The Vix oughtn't to be at 22 and now isn't. Which in intermediate time scales, means --->



* They thought I was strange, reading this in the high school book library. Or maybe it wasn't the book *per se*. Credit to them for having it there though. My grandfather read it in Germany at the right time; saved us a load of bother as it turned out, unless you consider existence a bother. The book is definitely in need of an editor

† Well there's [this](#)

‡ Imagine Cuomo & nursing homes, except in a very Swedish manner engaging in self-criticism. Also blissfully no Cuomo

§ Other than, on a puny individual level, that the only way in the face of such popular & universal din to vote is to vote with one's feet

** Doesn't do it justice. Self-imprisonment? Sloth? Feebleness? Soft popular fascism? Castration of the Will? Where is Nietzsche in his unlikely time of need?

It's worth bearing in mind that greater than 80%, perhaps 90% or more, of all capital committed to Wall Street whether it is long-only, long-short, or a plethora of other strategies, are correlated to major risk moves to the downside one way or another. Rare is the strategy that manages to be truly uncorrelated when correlations break down. Rarer still that which also isn't a lousy investment long-term. That is the sole endeavour of this Fund.

It is always amusing to hear Wall Street's spasmodic attempts at morality tales when it suddenly wrings its hands regarding inflation as has been de rigueur recently. These pages speak velocity of money to tin ears. Simply put, much of the money has gone nowhere: into excess bank reserves and not the real economy.

Historically the Street's periodic Honest Abe dalliance has benefited gold but plus ça change it's Bitcoin and whatever other Shiny Thing no one knows the intrinsic value of either. Your manager strongly disagrees with the permanent inflation thesis.

To take just lumber as an example:

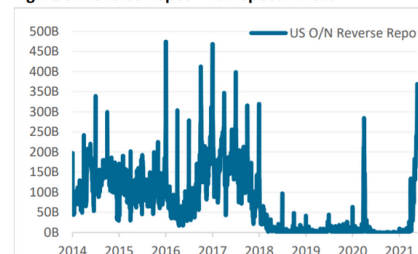
- 1) I actually wanted to build a large hospitality structure made of wood and have placed it on hold as have many others
- 2) Governments made absolutely sure that supply chains were totally screwed up, so said lumber couldn't arrive anyway that I didn't want to buy. Those chains are self-healing
- 3) My neighbour is stockpiling toothpicks and Elmer's glue to make more lumber, increasing its supply
- 4) Prices go back down. Capitalism & the adage that the cure for high prices is high prices

Asset inflation is *not* inflation; *goods inflation* is inflation and is generally a result of the increase in money supply (staggering) multiplied by the change in the velocity of money (plunging lower than Bill Cosby's remorse level). That is not to say that enormous government spend does not crowd out long-term benefit of private investment allocation leading to slower realised growth and small-w welfare^{††}; it is to say that late-stage hyper-capitalism is incredibly adaptive and adjusts quickly even to these shocks.

Meantime the macro overhangs of plentiful supply slack, ever dismal demographics, apparent productivity stagnation^{‡‡}, and the slackening city-to-countryside housebuilding movement argue against resumption of a commodity super-cycle. I'm often wrong.

There remains the issue of hedging. This Fund accepts cross-asset risk by hedging in risk-on currencies among others, eschewing the volatility derivatives underlying (S&P) as being far too expensive to use. Attempts in the first quarter of this year to hedge volatility using longer-maturity volatility or dispersion trading did not yield hoped for results. A subject for a later letter.

Figure 3: Reverse Repos – Full Speed Ahead



Reverse repo demand, a.k.a. We Have No Idea where to put this \$ you gave us so here's it back. Now please pay us zero % for it because *reasons*

^{††} Not that another criticism is needed of Modern Monetary Theory

^{‡‡} Debatable depending on GDP measurement

I'm short AUDJPY^{§§} and you can too. In choosing commodity(see above issues)-linked risk-on hedges to counter-balance short volatility derivatives, the Fund is essentially long geopolitical risk via two countries that nowadays inexorably & grudgingly orbit a certain more important one. This balanced against argued-for sanguinary nature of subsidized risk taking leads to the question of What Could Go Wrong? Well....



Good Evening.
Attendance Mandatory.

Perhaps the only story that matters is China in the next ten to fifteen years. It is the great known unknown, at once rational and frustratingly opaque, its helmsman seemingly inscrutable – or not, judging by his deciding to play all China's cards at once. Why this tectonic break from the Chinese grand strategy of forty years?

I believe^{***} that Xi, having rapidly consolidated power in a manner and speed that would make Mao envious, sees a ten year window in order to confront the following challenges facing him & China:

- Xi is 68. He views himself (and is) a transformational figure; it is now or never and judging by the alacrity with which he moved in 2013, he has been planning his agenda for a long time
- He faces strong, some aver insurmountable, challenges with China's dire demographics that no amount of family policy reversal judging by other countries' experience can ameliorate; especially so with China'
- Most pressingly for his own priorities, the CCP must survive^{†††} amidst a permanent shift towards low growth. Likely gone is the universal panacea of generally rising mass outcomes; the middle-income trap looms which Xi has publicly assessed as a grievous threat to the Party he very likely genuinely^{†††} adores

Arrayed against this are strengths real and perceived to exploit:

- Far from an anarcho-democratic force, artificial intelligence and ubiquitous computing are actually an autocrat's dream, enabling the apparent marshalling of a gigantic country - and especially the Party - towards a focused national destiny free of the querulous bobbling raft of democracy. Doing so however introduces incredible brittleness in decision-making and creeping inflexibility of thought that may collide and break against the shoals of reality. Whereas the raft survives, wet feet notwithstanding. Autarky historically has not worked & its stultifying effects on the psyche of its ruler-God are surely unavoidable
- This selfsame computing revolution, and opportunities in biotechnology and other advanced technologies and the rapid diffusion of such knowledge straight into China, combined with a surprising level of innovative talent, means a reasonably level playing field with the US and the potential for leapfrogging them entirely. Surely a worthy goal with much upside but does it solve the demographics & slowdown?
- American weakness & decay, especially after the 2008 financial crisis and perceived abrogation of global leadership during that period and in the decade following. Whilst a case for the USA's relative decline versus itself (socioeconomic mobility comes to mind) and frankly idiotic present paroxysms brought on by its pandered millennials cripple America, it seems a consequential, arrogant and frankly dangerous attitude of China's to confront a superpower with plenty of capacity for dynamism, military strength (and battlefield experience) & perhaps inevitable future greatness

The decadal jury is still out but not all is going to plan. Unnecessarily pugilistic 'wolf-warrior' diplomats, shenanigans in the South China Sea, and decidedly mixed performance (especially to the detriment of the host countries) of the Silk Road initiative ,have stirred up contrary alliances more than American diplomacy has.

^{§§} Or CADJPY, or risk-on currency vs USD, or junk bonds, or a host of others assuming correlations maintain. Point is they have a reasonable band they trade in & don't generally go into the stratosphere for various reasons

^{***} Cribbed a bunch from [here](#) as well

^{†††} "Party, government, military, civilian, and academic; east, west, south, north, and center, the Party leads everything." Preach it, brother

^{†††} Intriguing given his early years and internal exile from that self-same Party. Books on his psychological makeup are distressingly inadequate & shallow

What does all the above mean if things don't work out? In the oddly sombre centenary celebrations the Premier trotted out the trope that China shall not be bullied, and that Taiwan would be reunited in the same breath. As a fervent student of his party's propaganda, he knows that repetition and information control can cause popular resonance with even the clumsiest propaganda^{\$\$\$}. Is this the final fallback plan to maintain the CCP and his own survival? War? The danger of whipping up fervent nationalism on a national scale is the possibility that once unleashed, these demons can take on a physical manifestation of their own and sweep the Party inexorably towards a frightening end.

Taiwan needs a serious second-strike capability independent of possibly fragile^{****} American carrier battle groups. How to do that without a declared^{†††} WMD capacity is an interesting question. Apropos not much, short AUD.

Navel-gazing aside there is opportunity for fun&profit back home. Piles of ink has been wasted & billions of dollars have been destroyed shorting meme stocks based on the silliness of the situation & valuations. Valuation alone is a terrible reason to short anything without a catalyst. Absent the Fed doing any tightening or the torpid SEC doing anything at all (true and definitely true), two upcoming events prick up the ears:

- Unemployment benefits, state by state in the USA and nationally in the UK & other countries are expiring. Does the 25-34 year old yolo-er⁺⁺⁺⁺ keep his lottery wins in GameStop or pay for Deliveroo?
- Foreclosure bans are expiring in the USA & UK as well. Does the 24-34 year old hodl-er^{\$\$\$\$} keep his lottery wins in AMC Theatres or find a nice highway underpass to tweet from?
- Boredom. There are no shorts to squeeze & possibly no more marginal buyers. Shiny Bouncy Ball will pop up elsewhere

One way to do this is short equity or sell calls on pick-your-poison Blackberry and Bed, Bath & Beyond as the Fund has done in minute amounts, and another is its less minute pairs-trade of the S&P 500 long and the Russell 2000 short, as the small-cap index which has never harmed a fly is now stuffed with market cap-weighted meme-garbage & doesn't deserve such treatment. Plus, liquidity and margin usage are simpler. Likely this thesis is either right or wrong by Christmas.



A disapproving lemur
with much to be
disapproving about

December's letter hoped for the market being over its skids at least once in 2021, for crisis breeds opportunity and a stress-test of its hedging regime is in order. Here's hoping. On another note, the managed account should convert late this year into an BVI-registered hedge fund. 19 slots are left for the brave & foolhardy.



Xi Jinping with coffee
vassal

Kind regards,
Philip Hahn

^{\$\$\$} The latest crop of Chinese university exchange students don't know what the Great Leap Forward was. Mind, neither do American students but then it is difficult to read books when they're being metaphorically burnt by the latter and Suddenly Never Existed Ever with the former

^{****} HSwMS Gotland. What is with the Swedes anyway?

^{†††} Undeclared? That & a bevy of medium-range missiles? Bevy being an understatement?

⁺⁺⁺⁺ If you don't know, you really don't need to know

^{\$\$\$\$} Ibid.

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

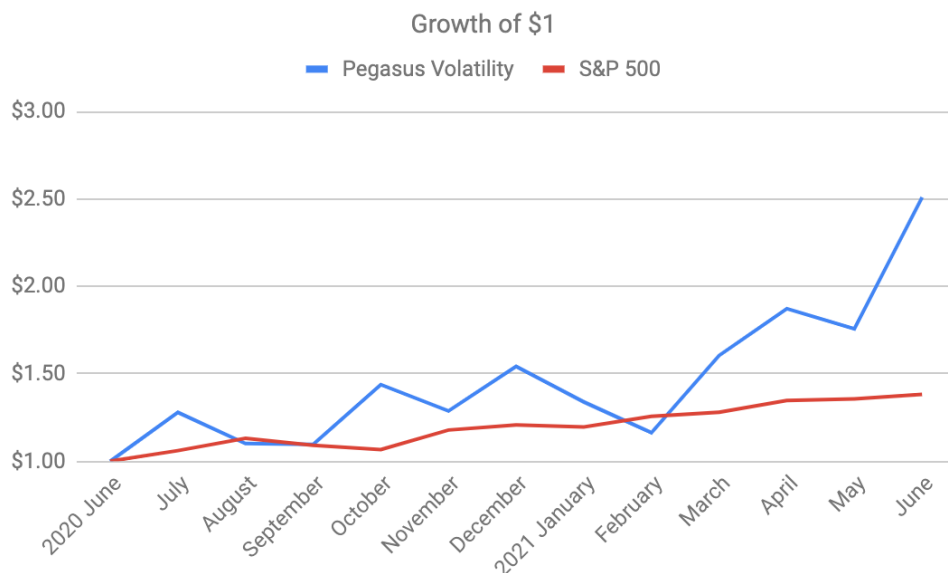
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Performance Statistics

	Summer	Winter	Total
2020		+54.2%	+54.2%
2021	+62.8%		+62.8%
Return Since July 2020 Incept: +151.0%		Significant Exposure: Short Volatility	
Annualised Return: +151.0%		Short Risk-On Macro	
Monthly R-Squared to Benchmark (S&P 500): - 0.19		Long S&P 500 / Short Russell 2000	
		Short Meme Stocks	



Managed Account Information

E-mail: contact@pegasusfund.com

Fund Domicile:	Denmark - Managed Account
Manager:	Philip Hahn
Prime Broker:	Saxo Bank
Custodian:	Saxo Bank
Legal Advisor:	n/a
Administrator:	n/a
AUM:	Managed Account
Minimum Subscription (non-US only):	Closed
Redemptions:	Monthly, no Gates or Lockup
Management Fee:	Expenses (< 1%)
Performance Fee:	20%
High Water Mark:	Yes
Benchmark:	S&P 500
Lockup/Gates:	No

Investment Objective

Pegasus Volatility Managed Account is an embryo fund that seeks to generate returns through systematic long and short positions in US and global volatility and risk markets, as well as cross-asset hedging in equity, credit and volatility derivatives. Alpha generation is the sole goal.

Choice and scale of the vehicles used to express the Managed Account's views are at the discretion of the manager. The Managed Account is currently Closed until it proves itself to the manager's satisfaction.