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Dear Investors and Friends,

2019 2nd Quarter Performance

Worch Capital Partners, LP (WCP) finished the second quarter of 2019 with a net return of +1.47% while returning +13.40% YTD. Our benchmark the HFRI® Equity Hedge Index gained +1.72% in the second quarter while returning +9.44% YTD. We remain committed to being good stewards of your capital and grateful for the opportunity to serve our partners.

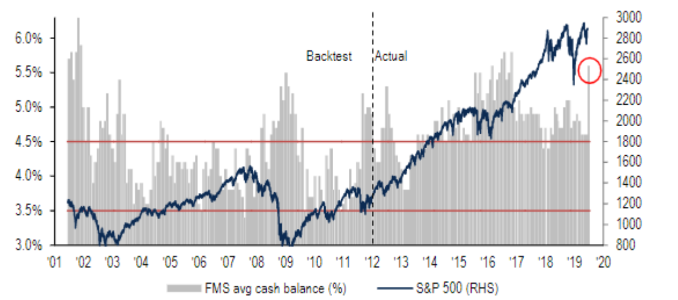
A major market theme since the bear market bottom in 2009 has been to *not fight the Fed*. This was on full display in the second quarter as the Fed pivoted from its tightening policy to a more accommodative stance. The markets have priced in a 100% chance of a July Fed Funds rate cut, while the Fed Funds futures are anticipating three quarter-point cuts by year-end. During the last Fed meeting Jerome Powell said, "The case for somewhat more accommodative policy has strengthened". The change in monetary policy has turned the global macro picture on its head. Most asset classes have priced in rate cuts and have seen higher prices as stocks, bonds, and select commodities all rallied together while the only area of weakness was the dollar.

Current Market View

Most investors remain cautious even with the US equity markets close to new highs. Money flows and allocations were very interesting the last quarter with economic growth slowing and rising uncertainty about the trade war and Iran conflict. The gold ETF had the biggest one-day inflow since February 2009 while global equity outflows over the last 6 months are the largest on record in dollar terms. Meanwhile the most recent fund manager survey had a very bearish tone. It was the most bearish survey of investor confidence since the global financial crisis with pessimism driven by concerns over trade war, recession, and potential ineffectiveness of monetary policy. The angst was generated by the greatest plunge in global growth expectations since 1994 and the second largest ever drop in earnings expectations, with a record number of investors saying the economy is late-cycle. This in turn saw cash levels have the biggest jump since 2011 and the second largest drop in equity allocation ever, while allocations of equities over bonds dropped to the lowest level since May 2009. The survey showed a bearish rotation away from risky assets into safe havens such as bonds, cash, staples, and utilities.

Charts of the Month

Exhibit 2: FMS cash level spikes to 5.6%



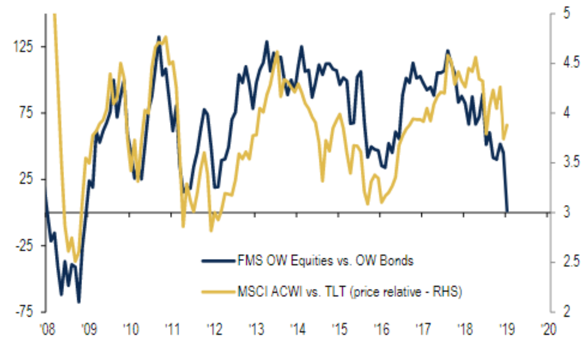
Biggest jump in FMS cash level since Aug'11 up 1ppt to 5.6% from 10-year average of 4.6%. The FMS Cash Rule has been in "buy" territory for the past 16 months.

BofAML Bull & Bear indicator slumps to 2.3, inching toward contrarian "buy"signal of 2.0.

As a reminder, the FMS Cash Rule works as follows: when average cash balance rises above 4.5%, a contrarian buy signal is generated for equities. When the cash balance falls below 3.5%, a contrarian sell signal is generated.

Source: BofA Merrill Lynch Global Fund Manager Survey, Bloomberg. Disclaimer: The indicators identified above as BofAML Bull & Bear and BofAML Global FMS Cash Rule are intended to be indicative metrics only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Merrill Lynch Global Research. These indicators were not created to act as a benchmark.

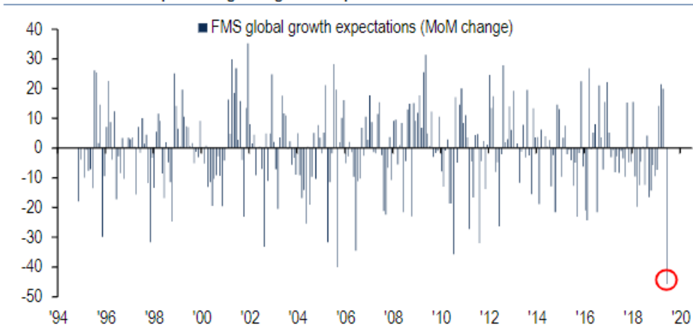
Exhibit 3: FMS asset allocation implies recessionary conditions



FMS asset allocation implying recessionary conditions…
2nd biggest ever MoM drop in FMS equity allocation; 2nd lowest overall equity allocation; FMS equity-bond allocation spread just 1%, the tightest since May'09.

Source: BofA Merrill Lynch Global Fund Manager Survey

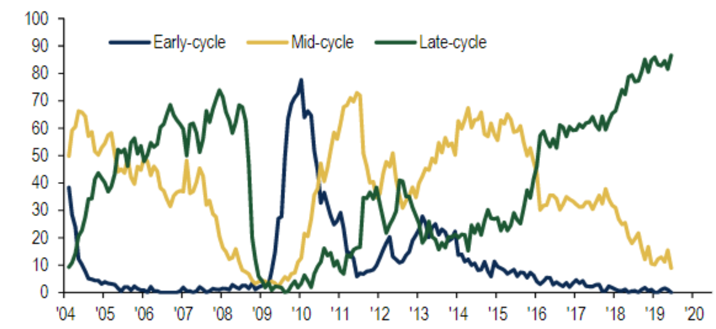
Exhibit 4: Record drop in FMS global growth expectations



FMS growth expectations collapsed bya record 46ppt MoM to net 50% FMS investors expecting global growth to weaken over the next 12 months.

Source: BofA Merrill Lynch Global Fund Manager Survey

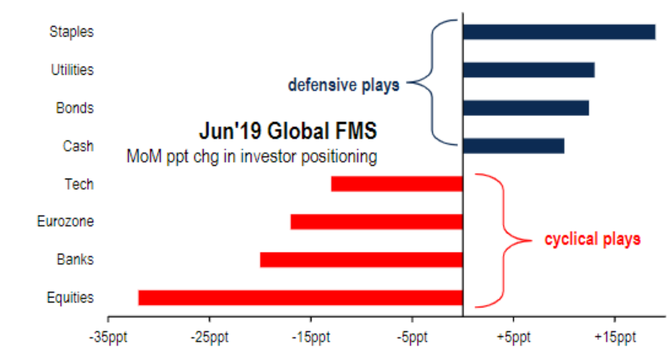
Exhibit 5: Record number of FMS investors say global economy is late cycle



Source: BofA Merrill Lynch Global Fund Manager Survey

87% of FMS investors say the global economy is late cycle, the highest reading ever.

Exhibit 9: Month-on-Month changes to Global FMS positioning



Source: BofA Merrill Lynch Global Fund Manager Survey

June FMS shows huge bearish rotation to bonds, cash, staples, utilities, and huge rotation away from equities, banks, Eurozone, tech.

<u>Outlook</u>

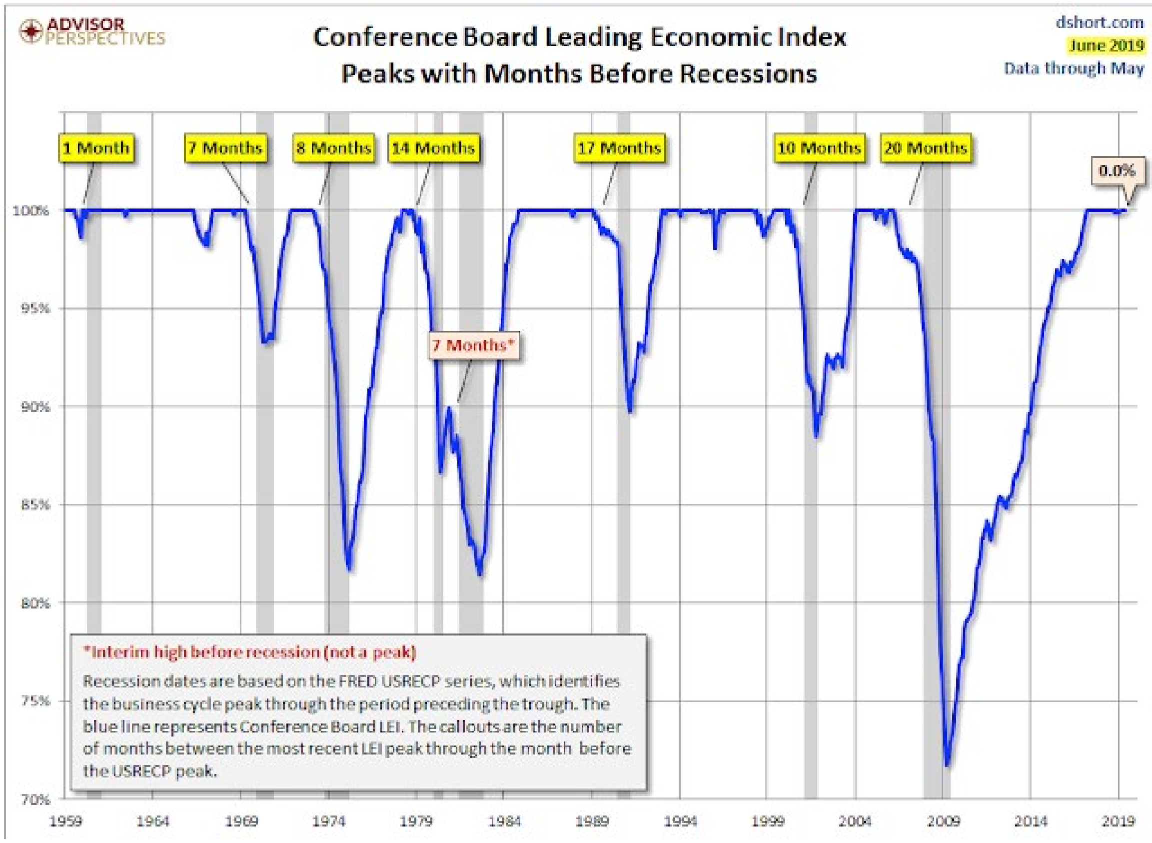
We continue to operate with the belief that the equity markets reside in a secular bull market. With that backdrop we want to remain long and bullish. That doesn't mean there won't be pullbacks and corrections. There will always be issues to worry about and as the facts change, we'll remain flexible. With the coming Fed meeting at the end of July there will be plenty of talk of a slowing economy and potential recession. We believe a recession is very unlikely to occur in 2019. Jeff Saut shares our thesis and penned this recently, "The two ubiquitous questions we keep getting is about a looming recession and a concurrent bear market. As often repeated in these missives there is NO sign of any recession. In fact, the Present Situation Index has predicted every recession and it is still acting perky. Recall, The Present Situation Index is a sub-index that measures overall consumer sentiment regarding the present economic situation. This index is determined via a survey conducted by The Conference Board and is used to derive the Consumer Confidence Index. This is also sometimes known as the Current Situation Index. Accordingly, we are unconcerned about a coming recession."

While there may be weakness in the housing data, the 10-year Treasury yield back to 2016 levels of around 2% and the potential for rate cuts have helped. Retail sales made a new all-time high in May and unemployment claims are close to a 50-year low. Urban Carmel put together a great list of macro data suggesting that growth remains positive and chances of a recession in the next six months are slim. Below are a few of his recent findings.

Similarly, real retail sales grew 2% and made a new all-time high in May. The trend higher is strong, in comparison to the period prior to the past two recessions.

Unemployment claims are back in a declining trend, reaching a *50-year low in April (just 2 months ago)*. Historically, claims have started to rise at least 7 months ahead of the next recession.

The Conference Board's Leading Economic Indicator Index reached a *new uptrend high* in May. This index includes the indicators above plus equity prices, ISM new orders, manufacturing hours and consumer confidence. This index can fluctuate during an expansion, but the final peak has been *at least 7 months* before the next recession in the past 50 years (from Doug Short).



Considering the strength of the market the first six months of the year we want to highlight the potential risks for the balance of the year. In our last quarterly letter, we touched on how strength begets strength. As goes January so goes the year and there is a playbook when you have outsized gains in January. Ryan Detrick discusses historical returns for the rest of the year after a strong first half. "After the worst fourth quarter since the Financial Crisis and worst December since the Great Depression, stocks have come roaring back. In fact, the S&P 500 Index gained 17.4% the first half of the year for its best start to a year since 1997 and eighth-best start since 1950. The big question on everyone's mind now is, how much is left in the tank after such an impressive start? In the go-go 1990s, big starts to a year only led to further strong gains; the problem is, if you go back further in time, weakness is quite normal, explained LPL Senior Market Strategist Ryan Detrick. As our LPL Chart of the Day, shows after a big start to a year, the final six months not only have shown below-average performance the rest of the year, but also above-average pullbacks."

S&P 500 Index Returns After >15% Year-to-Date Returns as of the End of June

Year	Yearly Return as of the End of June	Return for the Final 6 Months	Pullback for the Final 6 Months
1954	17.7%	23.2%	-4.4%
1975	38.8%	-5.3%	-14.1%
1976	15.6%	3.0%	-8.4%
1983	19.5%	-1.9%	-6.6%
1986	18.7%	-3.5%	-9.4%
1987	25.5%	-18.7%	-33.5%
1995	18.6%	13.1%	-2.5%
1997	19.5%	9.6%	-10.8%
1998	16.8%	8.4%	19.3%
2019	17.4%	?	?
	Average	3.1%	-21.1%
	Median	3.0%	-9.4%
	Higher	5	
	Count	9	
Average Year (1950 - Current)			
	Average	4.4%	-10.3%
	Median	4.9%	-7.7%

Also, the second half of the year is associated with higher volatility. Typically, the volatility index peaked in August and October. Specifically, when you have a very strong January you tend to get below average returns August through October. In fact, the S&P was down 60% of the time in each of those months with October historically being very tough with an average loss of -2.5%. Even with the data suggesting the full year return will be healthy, the market still must get through some potential higher volatility and choppy markets this Fall. The potential for a bigger pullback keeps us vigilant and aware of the pitfalls yet the bearish sentiment, Fed accommodation, and lack of data suggesting a recession keeps us bullish.

What is the WCP Edge?

Despite what we outlined above, predicting market environments remains a futile exercise. So, what then is our advantage in creating value for our partners? We've always emphasized a concentrated portfolio where our investment edge is the result of our **ECLASS (Earnings, Cycle, Leadership, Acceleration, Sales, Surprise) methodology**. This results in an active portfolio of superior growth stocks that display exceptional relative strength and momentum. Flexibility in our exposure levels, coupled with our unemotional decision-making, keeps our portfolio on the right side of the market trend while attempting to limit our downside exposure. Our strict adherence to risk management and position sizing keeps our losses small while riding our winners.

We would add another important overall factor that is overlooked by most — keeping assets under management small. Most of our competition only cares about growing larger and accumulating assets under management. While we believe WCP has plenty more capacity, we also believe in diminishing returns. As active managers, a smaller asset base allows us the flexibility to change our exposure levels with more ease which is critical for extracting alpha for our partners.

We are always available to discuss our approach. Contact us if you wish to inquire about a possible investment in WCP. Additionally, if you know of anyone who might be interested in our strategy, please feel free to make the introduction. Please do not hesitate to call us with any questions or comments.

Kind Regards,

Ryan Worch
WCP, LP Principal and Fund Manager

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