Ryan Worch
Worch Capital, LLC
Principal
Tel 301.202.8916
rworch@worchcapital.com

July 13th, 2020,

Dear Investors and Friends,

2020 2nd Quarter Performance

Worch Capital Partners, LP (WCP) finished the second quarter of 2020 with a net gain of +13.36% for a year to date gain of 21.95%. We remain committed to being excellent stewards of your capital and are grateful for the opportunity to serve our partners.

The last six months have seen enough volatility that it seems more like six years. After the worst first quarter ever, the S&P just logged the best second quarter since 1938 and the best overall quarter since 1998. The markets have attempted a V-shaped recovery on the back of massive stimulus from the Federal Reserve and Congress. Considering the manic like melt-down brought on by the COVID pandemic, the subsequent rally has been nothing short of miraculous. As demonstrated throughout market cycles, one of the hallmarks of WCP, LP is our flexibility to adapt to changing market conditions. If we sat back and looked at the data in March and April the probabilities of a V-bottom rally were slim, and it was nearly impossible to shape a bullish thesis. Yet, that is exactly what the market achieved as the S&P sits just 7.5% off all-time highs after being down 35% at the lows.

A main part of our strategy is to stay on the right side of the trend; we never try to catch a falling knife expecting to time the exact market bottom. We avoided the bear market, sidestepping the entire down move, and waited for confirmation of a new rally to risk capital when the probability of success is higher. Once we established verification of a follow through, we started accumulating shares of the best emerging growth stocks, building our long portfolio. Trading from a position of strength is much easier than being forced to make up losses. By avoiding the waterfall decline in the first quarter, we were able to be patient waiting for the fat pitch. Once the odds were in our favor, we swung, quickly adapting to the changing environment by positioning the portfolio to capture upside gains for our partners. *The first half of 2020 is a homerun for WCP: We significantly outpaced all major benchmarks and finished the quarter with our best month ever along with a new equity peak for the fund!*

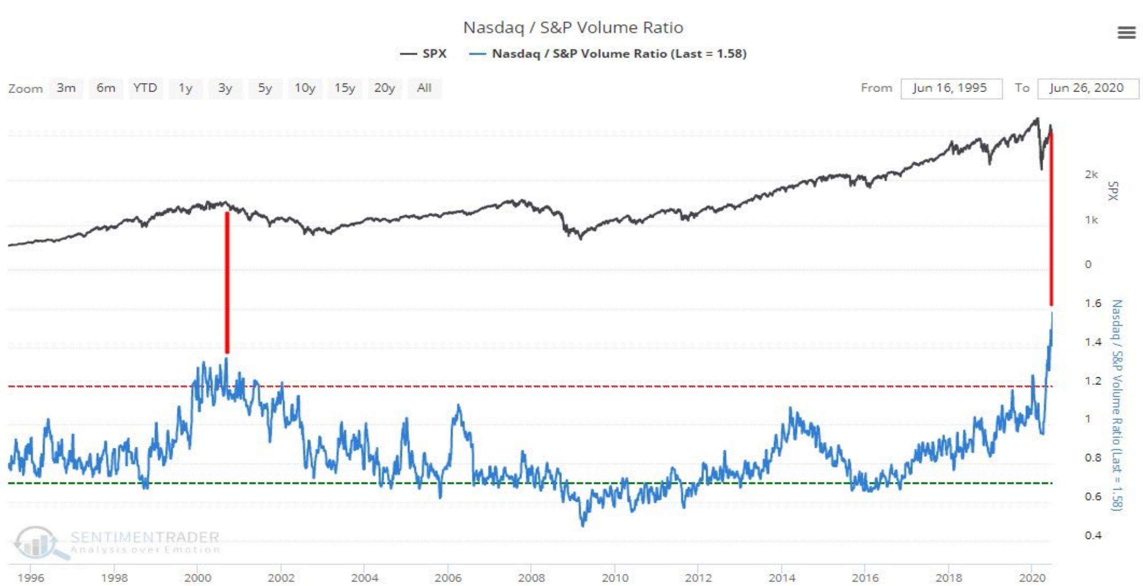
Current Market View

The speed and magnitude of the market rally since the March bottom is nothing short of remarkable. Against all odds and in the face of the largest pandemic since the early 1900s with stay-at-home orders, depression level unemployment, plummeting GDP, and protests in all major cities, the markets have raced higher at unprecedented speed. This has been the fastest transition from a US bull to bear market in history at 16 days for the S&P and 19 days for the DOW, before turning back into a bull market on April 8th. Amazingly the Nasdaq has just hit new all-time highs and the S&P is only down 2% for the year. This is after both indexes were down greater than 30% just a little over two months ago. In fact, the S&P 500 just put in the largest 50-day rate of change going back to the 60s. The next closest was the rally off the 2009 bottom. Not even the booming late 90s had such a strong 50-day advance.

The variety of excuses is endless as to why the market should *not* be rallying. Most professionals cannot make sense of this historic rally and prefer to highlight the doom-and-gloom backed up with cherry-picked statistics. We have all heard the quote, *"the market isn't the economy."* Markets are a discounting mechanism as they look ahead, and must see a more positive scenario, as the indexes are a forward-looking indicator rather than reacting to the current economic state. However, in the short-term, markets can become irrational in both directions and that is what makes a market. Clearly the massive liquidity provided by swift actions by the Fed and Congress had a bigger impact than the loss of jobs and decrease in GDP from a government mandated shutdown. The impact of these actions was hard to grasp at the March lows, during the height of the panic, but in hindsight the market was discounting the significant monetary and fiscal responses. Even more surprising is just how effective the policy responses have been considering the historic loss in economic activity. The perma-bears will complain about the unintended consequences of all the artificial stimulus, and they may ultimately be proven right, but not before the markets stay irrational longer than they can stay solvent.

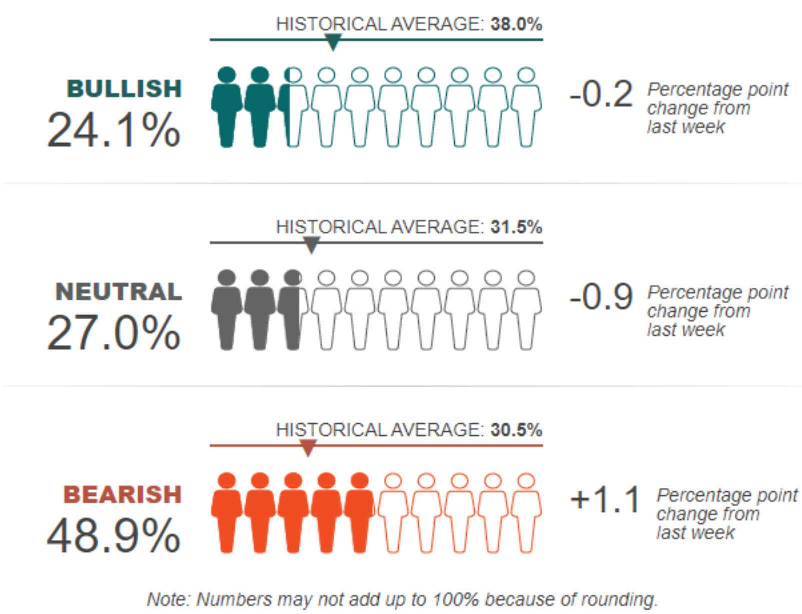
<u>Looking Forward</u>

Considering the strength of the second quarter, there are bound to be some signs of excessive stock moves. One such example that is flashing a glaring explosion in speculation is the Nasdaq to S&P volume ratio. According to sentiment trader, this measure has gone through the roof and is now higher than at the peak of the dot-com tech bubble in 2000.

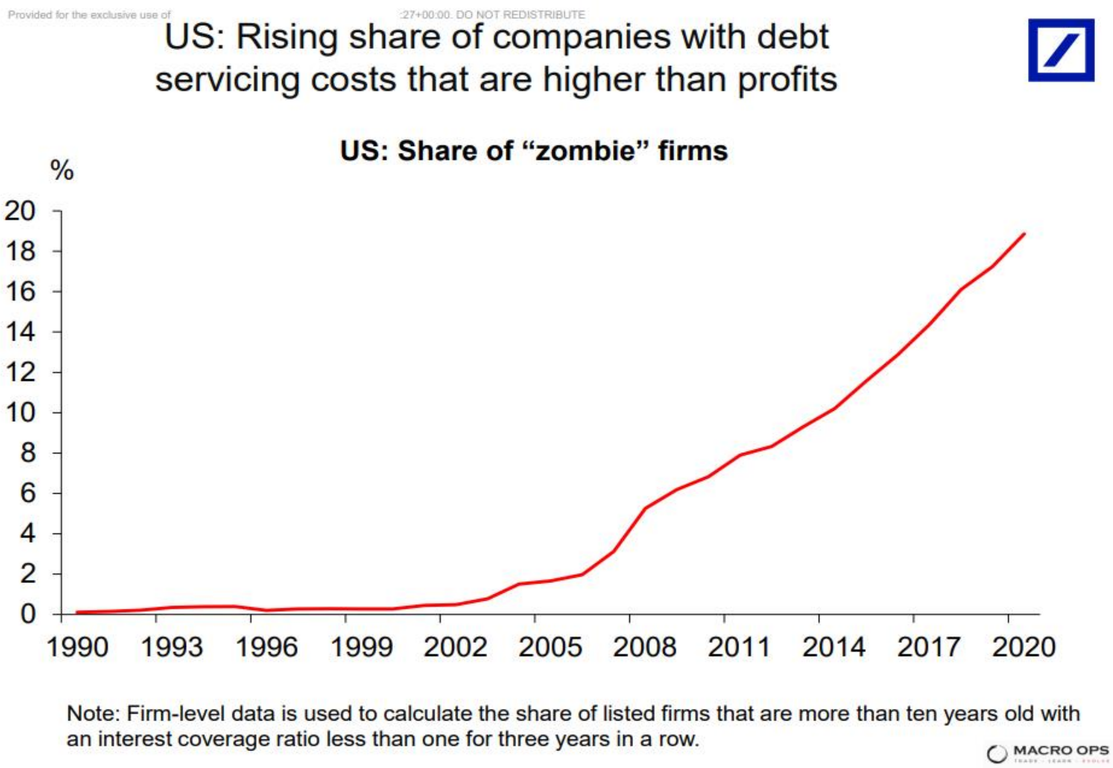


Meanwhile the put call ratio, a contrarian indicator, has collapsed from massive fear to complete complacency. This following chart, a tweet from David Larew in mid-June, displays the wild swings.

With all this speculation you would think sentiment would be extreme. Yet the opposite is true, as the most recent AAII sentiment survey shows 48.9% of members are bearish and just 24.1% are bullish. Additionally, the CNN fear and greed index is displaying a neutral reading of just 48.



One of the negative consequences of easy money is how inefficiently credit gets allocated as the excess liquidity produces too many dollars chasing too few goods. Since the surge in quantitative easing from the great financial crisis, we can see the dramatic rise in companies with debt service cost higher than profits. The chart below from Macro-Ops sums it up perfectly.



Notwithstanding, if we dig deeper into the data, we see that the current three-month market strength is healthy and bullish for future gains. Ryan Detrick put together some statistics on how the market fares after putting up a big quarter. His analysis shows future returns after huge quarters tend to see continued strength. In fact, the next quarter is higher every time the S&P has returned 15% or greater the prior quarter for an average gain of 9.5%.

Best Quarter For The S&P 500 Index Since 1998

Big Quarterly Gains Historically See Continued Strength

Quarter	Quarterly Gain >15%	S&P 500 Index Return: Next Quarter	S&P 500 Index Return: Next Two Quarters	S&P 500 Index Return: Next Four Quarters
Q3 1970	15.8%	9.3%	19.1%	16.8%
Q1 1975	21.6%	14.2%	0.6%	23.3%
Q4 1982	16.8%	8.8%	19.5%	17.3%
Q4 1985	16.0%	13.1%	18.7%	14.6%
Q1 1987	20.5%	4.2%	10.3%	-11.2%
Q2 1997	16.9%	7.0%	9.6%	28.1%
Q4 1998	20.9%	4.6%	11.7%	19.5%
Q2 2009	15.2%	15.0%	21.3%	12.1%
Q2 2020	20.0%	?	?	?
	Average	9.5%	13.9%	15.1%
	Median	9.0%	15.2%	17.0%
	% Positive	100.0%	100.0%	87.5%

Source: LPL Research, FactSet 06/30/2020 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Steve Deppe takes this further as he looks at S&P price thrust where the S&P gains 15% or more over any three-month period. The results are the same, with the average twelve month return averaging almost 17%.

#	Month End	SPX Close	VIX Close	SPX ROC(3)	SPX ROC(6)	SPX ROC(12)	SPX 3 Month Winning Streak	SPX FWD 1 Month Return	SPX FWD 2 Month Return	SPX FWD 3 Month Return	SPX FWD 4 Month Return	SPX FWD 6 Month Return	SPX FWD 8 Month Return	SPX FWD 12 Month Return	SPX Max FWD 12 Month Drawdown	SPX Max FWD 12 Month Drawdown *Close	SPX Max FWD 12 Month Drawup	SPX Max FWD 12 Month Drawup *Close
1	Jun-20	3100.29	30.43	19.95%	-4.04%	5.39%	Yes	?	?	?	?	?	?	?	?	?	?	?
2	May-09	919.14	28.92	25.04%	2.56%	-34.36%	Yes	0.02%	7.44%	11.04%	15.01%	19.20%	16.83%	18.52%	-5.42%	0.02%	32.71%	29.11%
3	Nov-98	1163.63	26.01	21.56%	6.67%	21.80%	Yes	5.64%	9.97%	6.42%	10.55%	11.88%	14.19%	19.37%	-2.30%	5.64%	22.49%	19.37%
4	Jun-97	885.14	21.53	16.91%	19.49%	31.99%	Yes	7.81%	1.62%	7.02%	3.33%	9.64%	18.55%	28.10%	-3.37%	1.62%	29.38%	28.10%
5	Feb-88	267.82	-	16.29%	-18.79%	-5.76%	Yes	-3.33%	-2.42%	-2.11%	2.12%	-2.35%	4.16%	7.86%	-7.08%	-3.33%	12.23%	11.07%
6	Dec-85	211.28	-	16.04%	10.13%	26.33%	Yes	0.24%	7.40%	13.07%	11.47%	18.72%	19.71%	14.62%	-4.11%	0.24%	20.63%	19.71%
7	Oct-82	133.72	-	24.87%	14.84%	9.71%	Yes	3.60%	5.17%	8.66%	10.72%	22.97%	25.37%	22.31%	-0.62%	3.60%	29.11%	25.37%
8	Feb-75	81.59	-	16.61%	13.08%	-15.20%	No	2.17%	7.00%	11.72%	16.67%	6.48%	9.13%	22.21%	-2.37%	2.17%	26.33%	23.62%
9	Jan-71	95.88	-	15.17%	22.84%	12.77%	Yes	0.91%	4.62%	8.42%	3.91%	-0.31%	2.57%	8.41%	-6.82%	-1.97%	10.14%	8.42%
10	Sep-70	84.3	-	15.92%	-5.95%	-9.47%	Yes	-1.25%	3.44%	9.31%	13.74%	18.99%	18.19%	16.65%	-2.46%	-1.25%	25.27%	23.31%
11	Jan-61	61.78	-	15.71%	11.30%	11.10%	Yes	2.69%	5.31%	5.71%	7.74%	8.06%	8.01%	11.43%	-1.04%	2.69%	17.58%	15.81%
							Average:	1.85%	4.95%	7.93%	9.53%	11.33%	13.67%	16.95%	-3.56%	0.94%	22.59%	20.39%
							Median:	1.54%	5.24%	8.54%	10.64%	10.76%	15.51%	17.59%	-2.92%	0.93%	23.88%	21.51%
							Min:	-3.33%	-2.42%	-2.11%	2.12%	-2.35%	2.57%	7.86%	-7.08%	-3.33%	10.14%	8.42%
							Max:	7.81%	9.97%	13.07%	16.67%	22.97%	25.37%	28.10%	-0.62%	5.64%	32.71%	29.11%
							% Higher:	80.00%	90.00%	90.00%	100.00%	80.00%	100.00%	100.00%	0.00%	70.00%	100.00%	100.00%

In sum, the data, breadth, and sentiment figures keep us on the bullish side heading into the back half of a tumultuous 2020. Although there are plenty of unknows that keep us worried with the potential second wave of COVID and the looming November election, we do not try and predict how the market may or may not react, these are just factors we take into consideration. All this data goes into our process and shapes our thesis, especially when we take it into context the recent market move. It would not shock us to see some profit taking into these "unknowns" and therefore, as always, we will diligently monitor the market for signs of distribution. With that said, we are in an exciting period of extraordinary innovation and a technological revolution that has been expedited by COVID. We penned this in our last quarterly letter:

"As we get to the other side of this pandemic, it will permanently alter behaviors and society will have to adapt to a new world. This disruptive transformation in turn will create winners and losers and will generate new, exciting investment opportunities for those that

are prepared and situated to capitalize. We may not know exactly how people's habits and attitudes will change but one thing we know for certain is that the technological innovations will happen at a breathtaking speed to adjust to these changes. We plan to profit from these new opportunities, as we have capital to deploy to the crop of new leaders, our emotional capital is strong, and we aren't digging out of deep drawdowns like most managers."

At the start of Q2, we were positioned and ready to pounce on opportunities and once we had an opening we did just that, and our fund profited handsomely. These opportunities will continue, with new emerging growth stocks that are benefiting from the dynamic landscape. Those companies that adapt the fastest and provide more effective solutions will rise to the top and we plan to take advantage of historic money-making opportunities.

As active managers, our smaller size allows us the flexibility to change our exposure levels with more ease, which is critical for extracting alpha for our partners. As we stay disciplined and control risk, WCP will continue to focus on surprising to the upside. WCP has more capacity and we are accepting new contributions the first day of every month.

We are always available to discuss our approach. Contact us if you wish to wire additional funds at this opportune time or inquire about a possible investment in WCP. Additionally, if you know of anyone who has taken undue losses and 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.

Stay safe.

Kind Regards,

Ryan Worch
WCP, LP Principal and Fund Manager

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO PURCHASE AN INTEREST IN WORCH CAPITAL PARTNERS, LP ("WCP"). ANY SUCH OFFER OR SOLICITATION WILL ONLY BE MADE TO QUALIFIED INVESTORS BY MEANS OF A CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

AN INVESTMENT IN THE FUND IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. OPPORTUNITIES FOR WITHDRAWAL, REDEMPTION AND TRANSFERABILITY OF INTERESTS ARE RESTRICTED, SO INVESTORS MAY NOT HAVE ACCESS TO CAPITAL WHEN IT IS NEEDED. THERE IS NO SECONDARY MARKET FOR THE INTERESTS AND NONE IS EXPECTED TO DEVELOP.

THE FEES AND EXPENSES CHARGED IN CONNECTION WITH THIS INVESTMENT MAY BE HIGHER THAN THE FEES AND EXPENSES OF OTHER INVESTMENT ALTERNATIVES AND MAY OFFSET PROFITS. NO ASSURANCE CAN BE GIVEN THAT THE INVESTMENT OBJECTIVE WILL BE ACHIEVED OR THAT AN INVESTOR WILL RECEIVE A RETURN OF ALL OR PART OF HIS OR HER INVESTMENT. INVESTMENT RESULTS MAY VARY SUBSTANTIALLY OVER ANY GIVEN TIME PERIOD.

The performance data represents the performance of Worch Capital Partners, LP ("WCP"). The results reflect the deduction of: (i) an annual asset management fee of 1.0%, charged quarterly; (ii) a performance allocation of 20%, taken annually, subject to a high water mark; and (iii) transaction fees and other expenses incurred by WCP. During the time period shown, WCP used only those investment strategies disclosed in its Private Placement Memorandum. Results are compared to the performance of the S&P 500 Index (excluding dividends) for informational purposes only. WCP's investment program does not mirror the S&P 500 Index and the volatility of WCP's investment program may be materially different. The performance figures include the reinvestment of any dividends and other earnings, as appropriate. All investments involve risk, including the loss of principal.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.