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Dear Investors and Friends,

2019 4th Quarter Performance

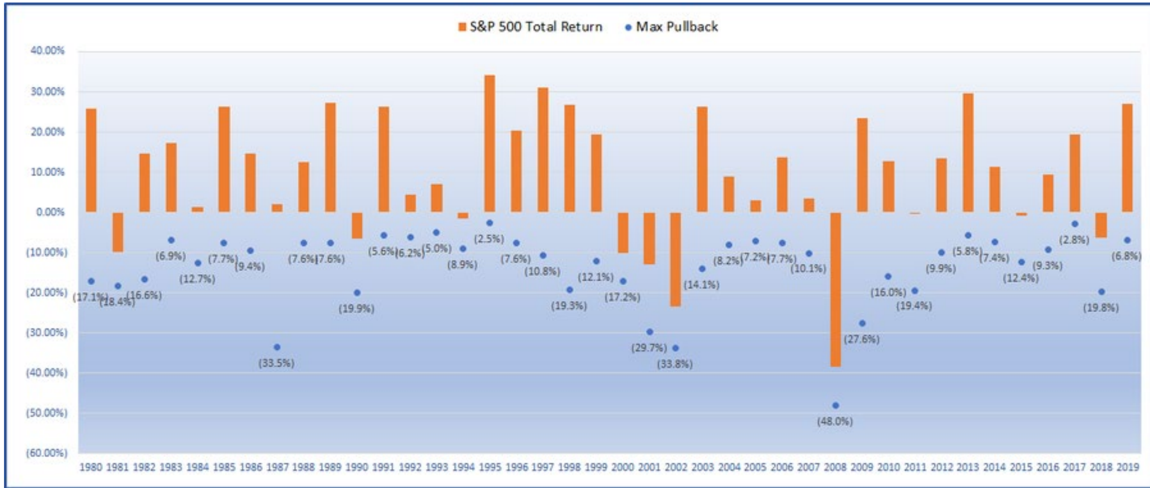
Worch Capital Partners, LP (WCP) finished the fourth quarter of 2019 with a net gain of +6.34% while returning +12.4% YTD. Our benchmark the HFRI® Equity Hedge Index gained +5.86% in the second quarter while returning +13.9% YTD. We remain committed to being excellent stewards of your capital and are grateful for the opportunity to serve our partners.

What a difference a year makes! One year ago, all asset classes finished 2018 experiencing losses across the board. In a stunning reversal, all asset classes surged to strong gains in 2019. If there is one thing we continually stress, it is our motto: "Win by not losing." By avoiding big losses, one doesn't need to have huge up years to maintain a healthy annualized return. As we embark on a new decade, I want to revisit what we have accomplished since we started the fund in 2008. Our main goal of capital preservation and risk management continues to be the focus of how we position our portfolio. We successfully avoided all major disruptions in the market including the devastating bear market during the financial crisis. The fund's largest drawdown since inception was 15%, which we are very proud of. We have had multiple years of over 20% net returns while our biggest down year was just a loss of 5.9%. All the while, we handily beat our benchmark. We are now entering our 13th year of operation and look forward to the opportunities in the coming decade. The future is very bright as we enter an exciting period of innovation, particularly with disruptive advancements in technology and health care. We are closely tracking these strong growth themes and emerging leading stocks that will produce outstanding advances. Of course, we will continue to adhere to strict risk management practices because we never know when the next bear market will arrive. We prepare with discipline by sticking to our rules with a laser-like focus that have guided us well the last twelve years.

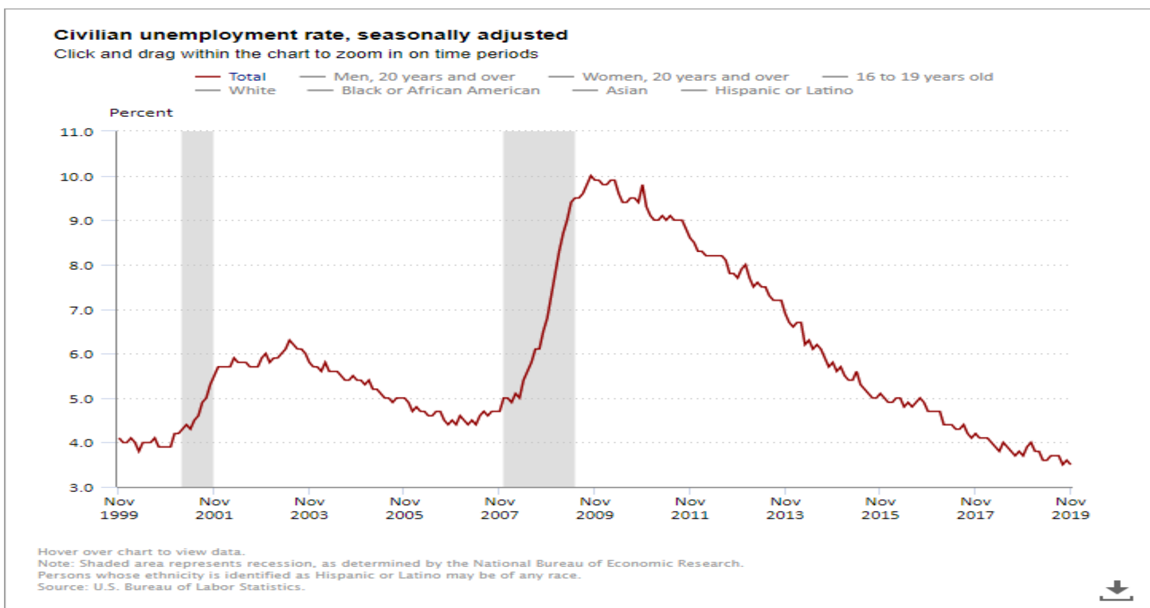
Current Market View

Equity markets have staged a robust breakout since our last letter in the third quarter. Since the October lows, equities have broken out to new highs across the board. We have now gone three months without a 5% correction and considering we had three 5% or greater corrections last year, odds are this rally is long in the tooth. Couple that with overbought readings, the market is susceptible to a pullback. A correction or consolidation would be normal and healthy action within the context of the current bull market and super cycle. Even with multiple counter trend moves last year it was still a historically low volatility environment. The largest correction for the S&P 500 was just

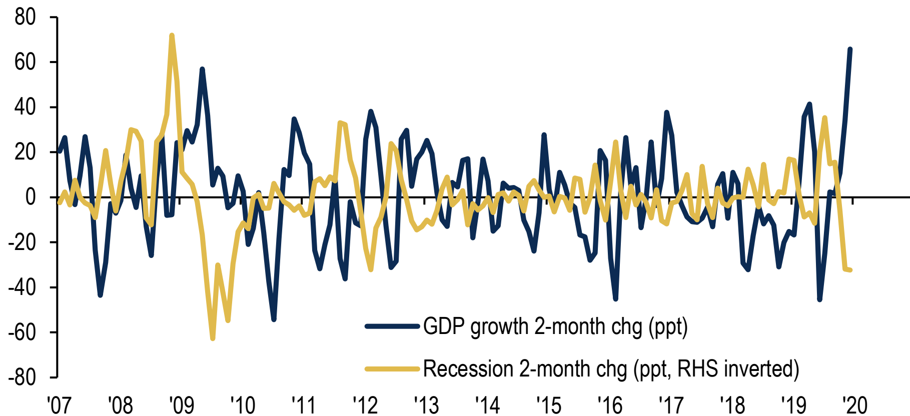
6.8% in 2019. Data from Ryan Detrick shows that "years with low volatility tend to be followed by years with more volatility and vice versa."



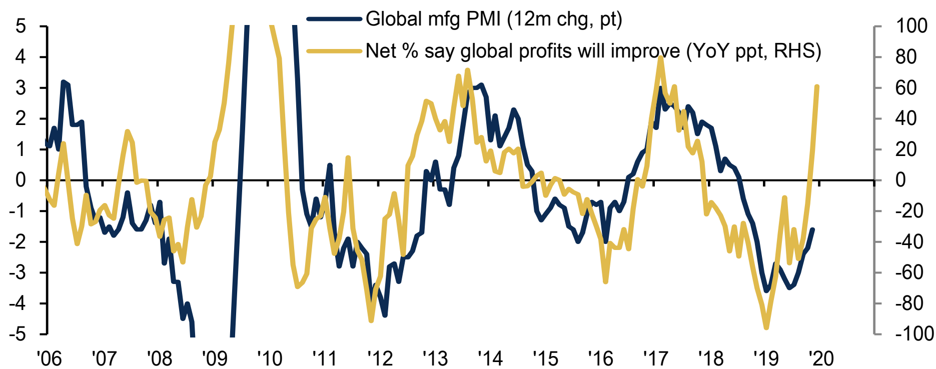
One reason for the turnaround and surprisingly bullish posturing is evidenced by some strong economic numbers along with fund managers' shift in sentiment. When it comes to the economy, there is plenty of supporting data for growth to resume this year. There was no earnings growth in 2019. According to FactSet, Q1 earnings were down 0.2%, Q2 earnings were down 0.4%, and Q3 earnings were down 2.2%. In fact, it will mark the first time in 3 years of three straight quarters of declining earnings since Q4 2015. Yet, equities are trading at all-time highs. Why the strength? Typically, equity prices are forward looking. The most recent jobs report just printed an unemployment rate of 3.5% which is a 50-year low coupled with a surge in jobs. With an accommodative Fed keeping interest rates low along with good news for the US labor market, the economy and earnings could accelerate in 2020.



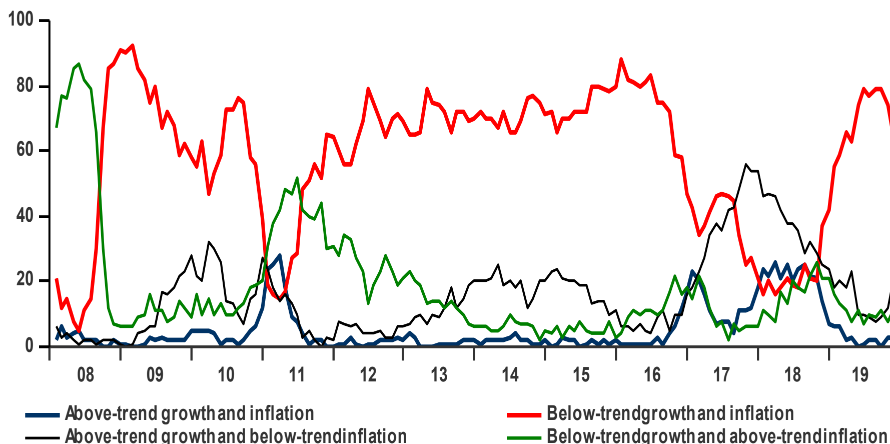
The latest survey from Bank of America show fund managers have switched their sentiment to a more bullish stance. In the past two months, FMS investors have priced out recession risks as global growth expectations jumped a record 66ppt and recession fears plummeted 33ppt which is a dramatic turnaround from the most bearish survey since the great financial crisis in June 2019.



Investors expect profits to accelerate in the next 12-months for the first time since August 2018 (biggest 2-month jump since May 2009), which is consistent with an inflection in global PMIs towards 55 over the next 6-months. Note, the FMS global earnings growth model continues to inflect higher, forecasting 6% growth in the next 12-months vs. 1% consensus.



20% of investors now think the global economy will experience above-trend growth and below-trend inflation which is a 7-month high while 65% continue to expect below-trend growth and inflation.



WCP Outlook

We remain bullish on equity markets heading into the new decade considering the S&P has just broken out to all-time highs from a sideways consolidation lasting almost two years. We believe the equity markets reside in an early secular bull market that potentially has years of upside left. However, it won't be without some potholes and speedbumps. After a historically low volatility year we expect bigger corrections and pullbacks in 2020. The average year sees a max correction of roughly 14%.

What's unique about 2020 is that we are coming off a year in which the S&P was up more than 25% in the prior year and it's an election year. This has only happened five other times in the last 100 years. In each instance the markets were higher ranging from a 3% to 28% gain. Nautilus Cap does great cycle work and the chart below depicts the S&P seasonal composite for the fourth year of the election cycle which shows first half volatility followed by a resumption of the trend and strong close to the year.

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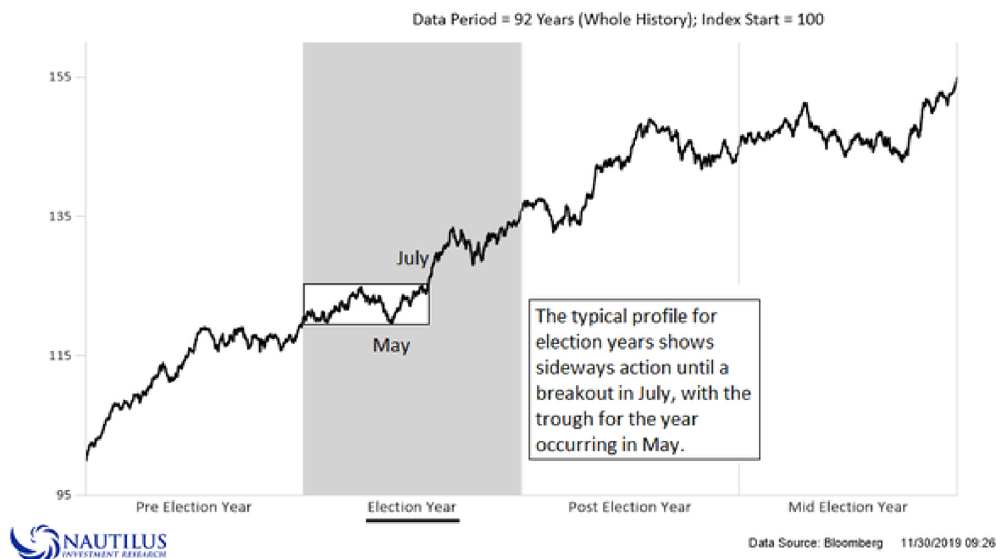

Alex Barrow at Macro Ops takes this a little further. "Data from CME shows an expectation for at least one (and possibly more) rate cuts in 2020. While the three rate cuts in 2019 can plausibly represent a mid-cycle adjustment and helped turn our view of Fed policy to bullish, further easing in 2020 would challenge this. A better outcome from our perspective would be a Fed that stays on the sidelines in 2020 even as growth and inflation pick up. Presidential election years since World War II have tended to see stocks struggle early, rally late (after election uncertainty subsides) and finish with an average gain of nearly 7%. Years ending in zero (depending on your accounting either the first year of a new decade or the last year of an old decade) have seen an average decline of 3% over the past century. The prospect of a presidential primary campaign and a Senate impeachment trial in the first quarter of 2020 is likely to exacerbate the tendency for early-year volatility. If President Trump's approval rating in the Gallup poll remains above 35% or so, the impeachment effort is unlikely to go anywhere, and its conclusion could turn the market's attention more squarely on the election. Either way, 2020 is shaping up to be noisy and full of political conflict and uncertainty. The best opportunity for a seasonal tailwind may be closer to the actual election if its outcome starts to come into focus."

We remain bullish but cognizant of the potential volatility ahead. If earnings and economic growth accelerates in 2020, we could be in for a sixth year of gains following a large prior year gain and entering an election year. However, our strategy is predicated on reacting to market conditions rather than predicting them which is why we prefer to focus more time on our process rather than making lofty forecasts.

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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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.

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