

Annual Letter 2024

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B.D. Sterling

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To our valued partners,

B.D. Sterling

It's easy to become absorbed in the relentless cycle of work when starting a company, often overlooking just how much effort and progress have been made while only focusing on future performance. However, as I reflect on the inception of B.D. Sterling, I am reminded of the long and arduous journey of getting to this point. I am reminded of how many hours were spent reading books about successful investors, striving to emulate the greatness that came before us. Of how many sleepless nights researching equities and complex financial derivatives. Yet above all, I am reminded of a shared vision with a small, determined, hungry team to create something special.

The idea of starting a fund was not a newly realized ambition, in fact, it took root during the spring semester of 2024. It all began in the lively environment of my BUSN 404 class, where the idea of creating a fund was first sparked by one of those engaging discussions that left a lasting impression. I brought this idea to a group of friends, and together, we formed a team with a common goal: generating as much alpha as possible. We decided that the group should be called Orion Alpha Investments. Our optimism was boundless, but as we delved deeper into the realities of running a hedge fund, it became apparent that the interest and commitment levels varied within our group. Dhruv and I faced a critical decision: whether to continue with the larger team or streamline our efforts to focus more precisely on our vision. After much contemplation, Dhruv and I chose to pursue the project as a duo, believing that our shared determination and aligned goals would allow us to move forward more decisively. We discussed this with the rest of the team, carefully weighing the pros and cons of each path. In the end, it was mutually agreed that moving forward as a duo would be the best course of action, transforming our initial idea into a more focused structure.

June marked a significant milestone in our journey. I spent a week at Dhruv's home, where we laid the groundwork for our fund. We delved into discussions about our strategies, both short-term and long-term, set up our accounts, and solidified the structure of our hedge fund. During this time we also spent time onboarding our first intern. I found our first intern while I was attending my alma mater's graduation, and had a conversation with a guy who was seeking an opportunity to learn more about finance and business over the summer. Giving back to the community is a core value I hold near and dear to my heart. So, seeing it was a perfect opportunity for him, I offered him a role that allowed him to dive into research, assist with our trades, and learn the ins and outs of our operations. Ironically, while I hadn't secured an internship for myself this summer, I found immense satisfaction in being able to provide one for someone else.

As we continue to navigate the exciting and challenging world of hedge fund management, Dhruv and I remain driven by our shared vision and the determination to make strategic, informed decisions that will guide B.D. Sterling toward success.

I hope you gain something out of reading our first company report. If our vision and strategic direction resonate with you, we invite you to consider supporting us through a donation or by joining our board of advisors for our fund. Your support would not only fuel our growth but also join you in our pursuit of excellence and innovation in the financial markets. We believe that with the right partners, we can achieve remarkable outcomes and create lasting value.

Happy reading,

Bhuvan Siddaveerappa

CEO & Co-CIO, BD Sterling

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At B.D. Sterling, our operations are driven by a unique blend of strategic flexibility and a relentless pursuit of excellence. As current college students at Texas A&M University, we may be in our “Ramen days,” where resources are limited, but this scarcity fuels our creativity and resilience. While we might lack substantial capital, we possess significant advantages that set us apart in the competitive world of finance.

We have created 2 main funds within our company: The BMP Fund and The Thorp Fund. The BMP Fund is focused on long-term equities, while The Thorp Fund uses leveraged financial instruments using quantitative modeling for shorter timeframes. This combination allows for B.D. Sterling to have a comprehensive package for investors so that no matter what their risk tolerance is, we can accommodate it.

Our approach is underpinned by three core strengths: risk tolerance, independence, and the luxury of time. At first, these elements may not seem like much of a deviation from the norm, however, as we outline our 3 core strengths, it should become apparent that we have our unique spins to these concepts.

Risk Tolerance: Being at the beginning of our professional journey affords us the ability to take calculated risks that more established entities might shy away from. This risk appetite enables us to explore bolder opportunities and innovative trades within our Thorp Fund, which focuses on high-risk, high-reward strategies inspired by the pioneering spirit of legendary investor Edward Thorp.

Independence: Operating as a small, agile team allows us to make swift, decisive moves. We are not bound by the conventional constraints that often limit larger firms. This independence gives us the flexibility to pivot quickly, adapt to market changes, and seize opportunities as they arise.

Luxury of Time: Unlike seasoned investors who may be pressured by immediate returns, we have the advantage of time. This enables us to take a longer-term view in building our portfolio. Our BMP Fund, named to reflect a balanced, methodical approach, focuses on well-rounded long term equities, providing stability and growth over time. By balancing the aggressive strategies of the Thorp Fund with the steady growth of the BMP Fund, we aim to create a robust and resilient investment portfolio.

Our strategic goal is clear: to aggressively increase our Assets Under Management (AUM) and establish a solid equities base. This approach allows us to leverage our strategic insights to build a portfolio that not only seeks immediate growth but is also positioned for sustained success in the long run

Fundraising

Currently, we are interested in meeting people who are willing to donate and soft-commit to our project. Any donations or money coming into the fund will be purely for accessing better opportunities with the options contracts we buy or to create a stronger equity base. Since we are in the process of becoming a legal entity, we are also looking for investors, who are willing to soft commit to the venture. If anyone has any questions, we are always willing to sit down and talk to potential investors and discuss the details of the fund.

Thorp Fund (Options and Quantitative Modeling)

The Thorp Fund is a B.D. Sterling Fund for trading leveraged financial instruments while using quantitative modeling. This fund has a much shorter time frame and takes on more risk while keeping the long-term probability of profit asymmetrical to chase high-level returns for a long period of time. We look for opportunities anywhere between a few days to a few months. While we are exploring opportunities for long-term positions that extend beyond a year, these strategies demand a level of capital that exceeds our current risk tolerance given our current assets under management (AUM).

Currently, our flagship strategy is using Credit Spreads with in-depth due diligence on the underlying to ensure our probability of profit is in our favor. Credit Spreads are options strategies designed to minimize downside risk and reduce the amount of collateral required compared to outright selling options. Our strategy leverages the benefits of theta and delta, enabling us to earn premiums without requiring significant stock price movements to generate profits. With a maximum profit ceiling, we have the flexibility to close our positions early, capturing the premiums when we identify better opportunities or when we are satisfied with the returns achieved. Exiting a trade early, even with a lower percentage gain, can sometimes be more advantageous because it can lead to a higher annualized return. By closing positions sooner, we can reinvest our capital into new opportunities more frequently. This quicker turnover often results in compounding returns, potentially leading to a higher overall annual percentage return compared to waiting longer for a larger single trade gain.

Sustaining consistent success is crucial for long-term growth and stability. We prioritize developing a reliable and repeatable strategy rather than relying on one-time, large gains. Consistent performance over time not only mitigates risk but also provides steady returns, aligning with our goal of building enduring wealth. To achieve this, our approach involves leveraging advanced techniques such as Monte Carlo simulations and various back-testing methods to measure the 'R' variable, as popularized by Dr. Van Tharp.

We are also exploring quantitative modeling methods, including Brownian motion, to give us better probabilities of profit for a given trade when changing the stop loss and take profit, and this can result in us finding the optimal take profit and stop loss region. As the fields that we are exploring in the Thorp fund are very complex and intricate, we are merely learning and evolving strategies as we go on. We are more hungry and optimistic than ever about the opportunities and prospects

BMP Fund (Long Term Equities)

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The BMP fund is B.D. Sterling's equity fund. This fund is purely focused on buying great companies. While it is understandable for investors to be skeptical about our company picks, we have faith in our reasonings and will stick buy them to earn credibility. At the same time, we are not afraid to know when things go wrong, reassess, and pivot to something that works better. We have a few theories that we think will play out in the software industry, consumer discretionary sector, and cryptocurrency. BMP Fund has a value-based filtering system that is adopted from Charlie Munger with our addition of Technical Analysis. We do not use purely one type of analysis over the other, but rather we consider both when deploying cash. As an investor, we are trying to optimize current strategies, but we are not closing the door on any out-of-the-box thinking and ideas that would result in rare opportunities. Since there is no clear-cut way of doing the research, we draw ideas and inspiration from well-known value investors such as Buffer, Munger, and even our local investor, Mohnish Pabrai. From reading the Dhando Investor, Poor Charlies Almacnk, and the Berkshire Hathaway letters, we gather inspiration, not blind faith. We are still skeptical about what they or other people tell us, taking the information in and evaluating it for ourselves.

The groundwork for the 4 filter company selection is as follows:

The first filter is just to understand the business better. Is there a clear way how the company to do business? Is it easy to understand and can thrive in all market environments. We use this first filter to mainly look at things that are within our circle of competency. While we believe that the circle of competency is something that we can expand on. For the company selection, we stick with what we know and can understand.

The second filter is to take a look at the financial statements. Some of the basic things we like to look at are the ROI on capital, Sales Revenue, Cash flows, gross margins, CapEx, Debt structure EBITA, insider buying, Board of Directors composition, and the investors. We also look at intangible things such as management, competitive advantage, scalability, and potential impacts in unrelated fields. For the assets side, we look for the owner's cash being produced, inventory, overstated intangible assets as goodwill, and the impact of pension plans and stock options. In management, we look for an "able, trustworthy, and owner-orientated" team. We like to see when the management team will deploy cash efficiently and they are focused on the long-term growth of the company instead of quick fixes. All of the things mentioned are just items we consider, there is no specific checklist we have to make a decision. It all depends on the industry, company, and the market.

The third filter is to get a relative understanding of the company's fair market value range. We don't believe it to be fixed on a certain number rather we believe it can be range. We like to follow Munger's quote, "A great business at a fair price is superior to a fair business at a great price".

During filters 2 and 3, we also use certain Technical Indicators, just as confirmations of the company's trading range and the history of the price action. Technical Analysis usually helps us see the volatility, volume of trades, and momentum, which can give us a rough idea of the public sentiment and other confirmations of the company we are looking for.

BMP Fund (Long Term Equities)

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Finally, before we pull the trigger on the buy, we have the last filter to make sure there is no other stock with a better opportunity cost than the one we are looking at right now. We also consider our exit strategy to an extent. We usually try to see if our investment thesis will play out or if we are satisfied with the outcome. Otherwise, we can trim or change the position accordingly. We are not stubborn for our investment thesis to play out and are quick to pivot the thesis once new information comes to light. However, since the BMP fund is a very long-term focused fund, we don't see ourselves selling out of a position until there is something very unexpected that deems the thesis invalid. Once we decide on a company, we generally try to make a large and decisive bet on the company.

A few of the companies that we like currently are Palantir Technologies Inc (NYSE: PLTR) and Tesla, Inc (NASDAQ: TSLA) :

Our insights into Palantir fall into 3 main categories. 1) The management, 2) Commercial business, and 3) AI-powered applications. The notable management being Peter Theil (Co-Founder), Alex Karp (CEO), and others have been promising. With their leadership, we believe they will make decisions in the best interest of growing Palantir in the long term and across many industries.

We have seen Palantir serve the needs of the US defense and intelligence community, but we believe that there is yet to see more growth in the commercial sector with data management. While about 50 percent of the revenues are from government clients, we believe that the commercial sector will be the main growth driver for the future, to match or even exceed the revenue from government business.

Following the rally of Nvidia and the markets rewarding companies that make the picks for gold, we believe there is still a lot of potential in the businesses that are utilizing AI tools. While Palantir is reaching all-time highs, we believe in the long-term growth of the company and will be increasing our position in Palantir as our cash increases.

Our insights into Tesla are mainly in its 1) fleet of cars, 2) FSD, 3) Energy, and 4) Optimus. Starting a car company in this century is incredibly difficult. The way the current automobile manufacturers have decent revenues is not from the sales of their newer models, but rather the sale of replacement parts. That is why they can sell newer model cars at such a low margin and still be profitable. This is an incredibly hard hurdle to overcome, and yet we are seeing very good growth QoQ in the production and delivery of Tesla's cars. To match the increasing demand, Elon has created his Giga factories around the world, where it can take in raw materials and produce a car. This integration of design, manufacturing, and engineering gives Tesla an advantage in the production of its cars and meeting its demand. While increasing the fleet of Tesla on the road, Tesla collects more real-time data and improves its overall autopilot system. Tesla's Semi is also increasingly important to the growth of Tesla. We have seen more Tesla semi usage in the past year, which also uses Tesla AI and can soon replace the need for humans to make multi-week trips across the nation and back. This is another untapped market for Tesla to take over, once it can handle heavier loads.

Tesla's AI is unmatched because the sheer amount of data it has also increases the amount of quality data as well. For this reason, Full self-driving (FSD) is not too far away. With Tesla also being an eclectic car company, they also focus their efforts on creating better batteries and overall charging abilities of EVs to create an EV with better mileage. Tesla creates power walls that they can install in people's homes, their factories, and other projects Elon works on.

Optimus, being Tesla's newer venture is a humanoid bot, which can perform tasks around the factory and in people's homes. The cost of an Optimus robot has been said to be around \$20,000, made from roughly the same materials as the cars, so we believe that it can be made in-house. The practical uses of Optimus as laid out but may not be realized. We believe that this could be something that consumers don't know that they need, but wouldn't know until everyone has one, like the iPhone. If this takes traction, we believe this to be a huge growth driver for Tesla. Apart from the products and services that Palantir and Tesla offer, they also have a competitive advantage in their products. Tesla's AI is unparalleled in its safety and data volume. Both companies also have great management. Alex Karp and Elon Musk are the CEOs of Palantir and Tesla, respectively and it is great to see the founder lead teams, putting the company first, and focusing on long-term growth.

Management

Since we are full-time students at Texas A&M, Dhruv and I have currently split the CIO roles where Dhruv manages the leveraged side of the fund and I will manage the long-term equities side. While each person is in charge of a certain side of the fund and is allocated ~50% of the fund for each side, the work is not specific to each person. We both make sure we can understand each other's work and reason with them to deploy cash and enter trades. We also believe that we should not make someone do something that we would not do ourselves, so we are both capable of taking care of each other's workloads and helping each other.

Something in the future on personal development is that I will be getting my CMT certification under the guidance of Professor Wilson, and hopefully be a part of the Master of Science in Quantitative Finance and integrate those models into the fund's strategy. Additionally, Dhruv and I are co-founding a Scholars of Finance chapter at Texas A&M, which will provide us a run-through of operations and even let us explore new aspects and meet new people, which at the end of the day is for the improvement of BD sterling. Everything that Dhruv and I learn during our time at Texas A&M will be reflected in the growth and continuous improvement of B.D. Sterling.

Depending on the talent, individual time commitment, drive, and considering where BDS is during the school year, we are not closed off from the idea of onboarding type A people onto B.D. Sterling

Scholars of Finance is a national non-profit organization that reached out to me through LinkedIn to start a chapter at Texas A&M University. They reached out with a referral from my friend, Rohan Bajpai, who is the president of the Indiana University chapter. From the few meetings I had with the national rep, it seems like a good venture for me and for BD Sterling to pursue, while not directly mixing the two. Dhruv and I will serve as Executive Vice President and President, respectively, and will help establish the chapter at TAMU. We are currently interviewing a few candidates that we have in mind for the VP roles.

I am approaching this as a test run for how I am doing to conduct business at BD Sterling. With national backing and a team of VPs, all in charge of certain aspects of Scholars of Finance (SOF), I will test what works and what doesn't when running and having a team of individuals to lead.

My goals for SOF are 1) to establish the chapter as a long-lasting organization and 2) to create an equity fund that rivals the Aggie Investment Club's equity fund. The steps to accomplish the goal (1) is to have freshmen and sophomores involved as much as they can in the VP roles and help make decisions. As they get more involved, they can try out the other VP roles and have an understanding of how the organization is meant to be run. I also believe in a meritocracy organization, so I will not give VP positions to people solely based on their class, age, or GPA. If there is an incoming freshman, who doesn't know the difference between the MSC and ILCB, but is hungry to learn and give back to the organization and a senior, I will give to the freshmen. But that does not mean I don't value the seniors. I don't think any seniors will be as interested in joining us when AIC is already established. After a few years, when the current freshman/sophomores are seniors, I hope they will have understood the environment I have tried to create and they will be involved, as seniors, to advise the underclassmen. The equity fund is the second part of my plan during my time as president. As of the end of Spring 24, AIC has ~59k and ASF ~35k. My goal is to create a fund that rivals AIC in terms of AUM and annualized returns. This is not a small feat, so I will be focused on laying the groundwork first and fundraising at the beginning, and after my term as President, I will stay around as long as I can to help grow that AUM and work on the alpha generated. For the longevity of SOF, we will be scouting for talented underclassmen to be the head of investments. AUM and returns will come naturally if we invest time and effort in our investment management talent.

The idea for part 2 came from my discussion with Professor Brent Adams. Professor Adams is the Director of the Reville fund at TAMU which competes for the UTIMCO cup with UT's fund. Since I am pretty competitive, I thought a good goal for the org is to have a friendly competition with AIC. However, AIC and ASF don't know about SOF yet, I will inform them once the groundwork is laid out.

In the end, SOF is just a learning tool that Dhruv and I are exploring in order to improve on transferable skills to BD Sterling. Skills such as fundraising, talking to investors, talking to professionals and learning from them, managing and leading a group (if it comes to that), clear decision-making skills that will affect a lot of people and while not having a lot on the line, as compared to BS Sterling. Scholars of Finance is my way of doing test runs on the operations, while not having to worry about the equity and lower stakes

The road ahead,

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We are going into this with a lot of optimism, however, it is backed by constant checks with reality. While we are very long-term focused in terms of goals and the decisions we make, we are a big believer in improving a little bit every day. Even if it is as small as fixing a few documents, small steps in the right direction are something we strive for every day. Any action that we take for BD Sterling will be for the long-term profits and growth of BD Sterling. We are not a believer in short-term success/profits, rather we believe in the compounding principles that will create something magnificent.

Thank you for your time and getting to the end.

If there is anything you would like to discuss please give us a call, or shoot us an email.

- Bhuvan Siddaveerappa

CEO & Co-CIO, B.D. Sterling

- Dhruv Datta

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