Hesiod Financial, LLC

Monthly Report

March 2019

Monthly Overview

Highlights

- U.S. stocks remained steady this month, with the S&P 500 Index gaining 1.4%. The first quarter of 2019 concluded with the S&P 500 Index rising 13.0% in total, compensating for all of the losses occurred in the last quarter of 2018.
- The current economic expansion has reached the age of 105 months, making it the third-longest expansion in U.S. history. By May 2019, it will become the second-longest stretch of economic growth on record.
- The yield curve between the 10-year Treasury bond and the 3-month Treasury bill inverted for the first time since 2007. This happens when the yield of the 3-month Treasury bill surpasses the yield of the 10-year Treasury bond. Many consider yield curve inversions to be predictive of economic recessions, but this recent inversion only lasted five days before the 10-year bond overtook the 3-month bill once again.

Sector of the Month

CS/IT - Communication Services / Information Technology

MCHP was sold for a 6.27% profit. PAGS is currently performing well and is expected to keep on pace. The stabilization of the Brazilian economy and large increases in connectivity will allow the CS/IT sector to continue to expand.

Sector Outlook

Communication Services / Information Technology

Most of the CS/IT sector has recovered since the market drop in October. But, we believe that by targeting the few companies who haven't rebounded, our sector will be able to maximize our profit in the upcoming months. We also believe that increases in connectivity, cloud computing, and the IOT will drive growth for our sector.

Our sector was forced the sell our MCHP position after it our stop/loss number. Fortunately, 6.27% profit was still able to be made. We feel confident in our position in PAGS, as we see not only the microtransaction market, but the Brazilian market as a whole, expanding during our investment horizon.

Materials / Energy / Industrials

Oil has made a tremendous comeback this month on the tails of an expanding economy. Oil futures have risen ~10% from $56 to $62. Global economic factors, as discussed in last month's report, continue to drive oil prices, as Venezuela and Iran still face strong economic sanctions from the US. American oil capacity have decreased as well, as active American oil rig count dropped last week. EPD saw similar growths (~5%) this month, as NGL demand also continue to materialize. The lower volatility of EPD is fairly attractive in this economy and sector.

The airline industry is highlighted by the crashes of two Boeing 737 Max's. The timeline for BA system repairs and updates is unclear and most likely different for different countries and regulations. This industry has seen system failures leading to high fatalities before, and BA will most certainly survive this incident, but this will damage the Boeing brand, leading to potential repercussions for future Boeing business and its subsidiaries.

Sector Outlook (continued)

Consumer D&S / Healthcare

The consumer discretionary and staples sectors have performed well this month, both outperforming the S&P 500 Index significantly. Unemployment rates and interest rates continue to remain low and wages continue to rise. Average hourly earnings has risen 3.4% during the 12 months ended in February. The March reading for the Consumer Confidence Index is still high, but dropped this month to 124.1, possibly showing some concern from consumers. The U.S. and China have remained in trade talks throughout this month, and we hope to see positive news in the form of a trade deal being reached. Overall, consumer sentiment looks to be positive, but there are still obstacles preventing market outperformance such as fierce retail competition and trade disputes.

Healthcare has underperformed the S&P 500 Index in March, seeing volatility as expected. Healthcare remains to be at the center of attention of many political debates in Washington, but it is doubtful that meaningful legislation will be passed. Fundamentals within the sector remain strong, and demand for products and services continues to rise. Healthcare's outlook is positive assuming there is little political action.

Crypto & Digital Assets

Despite its consistent dormancy throughout the early part of 2019, followed cryptocurrencies have made enormous moves since the end of March into early April with some like Bitcoin Cash more than doubling in this timespan. This is the second large jump in recent memory with the first being at the bottoming out in mid-December 2018, which is to be expected as the crypto-winter came into full effect. This second spike is more interesting being closely related to the SEC considering introducing bitcoin and other cyrptocurrency ETFs as a sponsored security.

We will continue to follow this market closely and see if there will be any predictable upside to investing in these cryptocurrencies for short term or long term gain. The crypto market can be difficult due to the strict supply and demand structure with giant spikes occurring when highly positive news comes out and vice versa. The digital assets market continues to stay dormant until further education about its potential arises as well as products that capture the public's interest.

Sector Outlook (Continued)

REITs / FIGs

The real estate sector becomes more attractive with low interest rates. Apartment and office markets have been generally strong, however, a recent surge in supply puts pressure on profitability. This sector has recently outperformed as a result of longer-term interest rates stagnating at relatively low levels. We believe that the ongoing story of the death of brick-and-mortar retailers is overdone. E-commerce makes up only about 9.9% of total retail sales at the end of Q4. Combined with low interest rates, this sector will benefit from overall market volatility.

The financial sector has struggled with the flattening of the yield curve giving rise to concerns regarding revenue growth. Financial institutions generally lend out at long-term rates and pay out interest at short-term rates. As the yield curve flattens, by definition this spread starts to grow smaller, causing issues with revenue. Longer-term interest rates appear to be capped, particularly with the Federal Reserve taking a more dovish stance now. We largely see a lot of positives in this sector from high interest income, strong balance sheets, and increased dividend payments. We are confident that the financial services industry will be able to adjust to the changing economic environment and will rebound from recent selling.

Options

Our sector did not have any trades in the month of March. Earnings season wound down, and the focus has been on preparing longer-term options trades for the upcoming months. Additionally, our sector is proud to announce the addition of an Options Day Trading Desk which will be launching mid-April. Select members from the options sector will participate in the Day Trading Desk. Our aspiration is to yield the highest and most-consistent returns -- within Hesiod -- through an outstanding team that has excellent experience with technical analysis and day trading.

HESIOD FINANCIAL

Portfolio Analysis

Performance

	Monthly (%)	YTD (%)	Inception[1] (%)
Hesiod Financial	0.7%	2.3%	2.3%
S&P 500 Index	1.4%	15.3%	12.4%

Key Statistics

Sharpe Ratio	N/A
Sortino Ratio	N/A
Standard Deviation	N/A
Weighted Avg. Beta	1.18
Weighted Avg. Market Cap	59 B
Weighted Avg. P/E	30.26
Gross Exposure	71.49%

[1]Inception at 1/8/19

Hesiod Labs (hLabs)

Project Luca

After the team took the time to reflect on the state of Luca during Spring Break, a few members of the team had discovered that the Firebase integration with the current Java codebase was not feasible due to a variety of restrictions with the framework. Even after trying to integrate AWS, the codebase was unable to be deployed using the platform. The Luca codebase had been fully operational with all of the functionality completed and ready for deployment but unfortunately, the program could only be run on local machines and was not able to be hosted on the web due to a variety of constraints involving the nature of the frameworks being utilized. As a result, the team had synthesized the collective decision to divide into two separate teams: one continuing the development of Luca in a more web-friendly ecosystem and the other focusing on the new product from hLabs. The consensus was that this approach would allow Luca to be finished in a proper manner while giving the rest of the team an opportunity to move away from Luca in order to pursue an algorithm repository that would better suit the needs of the research teams of Hesiod.

HYPAR

The hLabs Yield Prediction Algorithm Repository is the latest project and second phase of the hLabs mission. It was the idea of creating algorithms that would enhance the research of Hesiod which brought hLabs into fruition. HYPAR will serve as a collection of programs each of which contain functions that utilize the conventional technical indicators as well as graphical representation libraries in order to provide the requisite tools for all members within Hesiod to provide stronger research on securities through data-driven analysis. The more advanced algorithms within Luca will be used to backtest investing philosophies as well as provide predictions of future growth or decay of a variety of securities.

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