Oxbridge Capital Partners
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Introduction

Oxbridge Capital Partners (OCP) has continued on the same strong trend as in our last quarterly review, achieving 40% for this half of year benchmark. More specifically we will point out how our overlays performed as expected in the last few cryptocurrency draw-downs and more specifically in the months of January where we have seen a cryptocurrency pull back of -15%, yet achieved in our overall strategy, a return of 4% in the same month.

Remark We have introduced OCP in our last quarterly report. Please refer to that previous document if you wish to have an introduction to the fund.

Our Cryptocurrency Strategy

Our Cryptocurrency focused strategy increased in efficiency in the last 6 months as we got access to a broader range of underlier. More specifically we added half a dozen of additional risk factors to arrive to a more manageable risk level.

Figure 1: Our Cryptocurrency focused strategy has been responding superbly in the last 6 months though we have experienced a draw-down in the last month.

The cryptocurrency market has been more driven by speculators in the last year than by the physical aspects of valuation. We have recently increased the time we allocate to research in order to have a more fundamentals focused approach to our investment even though we were already quite well equipped in that domain. An example of such approach is for instance our current "best cryptocurrency of 2018" dossier which hypothesizes that 2018 will be the year of the decentralized profit-sharing exchanges and few candidates have emerged such as KuCoin and COSS. Even-though KuCoin is clearly a better tool right now, our fundamentals driven approach questions whether it is really better by a factor of 10, which is what the current price differential suggests.

Our Gold and Energy Overlay Strategy

One of our easiest to understand overlay is our Gold and Energy strategy which rational is justified by the history of money creation and more specifically, in our recent past to what has led to the Bretton Woods Agreement and subsequently its abolition in 1971 under Nixon's presidency. Though not necessarily interesting on its own, this overlay has been reacting extremely well in cryptocurrency draw-downs. For instance, this strategy returned 5% in January after being more or less flat in the 6 months prior to that (when cryptocurrencies were doing well). The incorporation of a strategy with negative backtested alpha (that strategy achieved a loss of 10% in the most recent 6 months of the backtests) in the recent past did not make consensus within OCP. However, a mix of data driven quantitative analysts, economics common sense and responsible risk management led us to incorporate this strategy which proved to be an excellent move.

Figure 2: Our Gold and Energy strategy has been achieving its role of cryptocurrency overlay, best performing, in the latter draw-down periods.
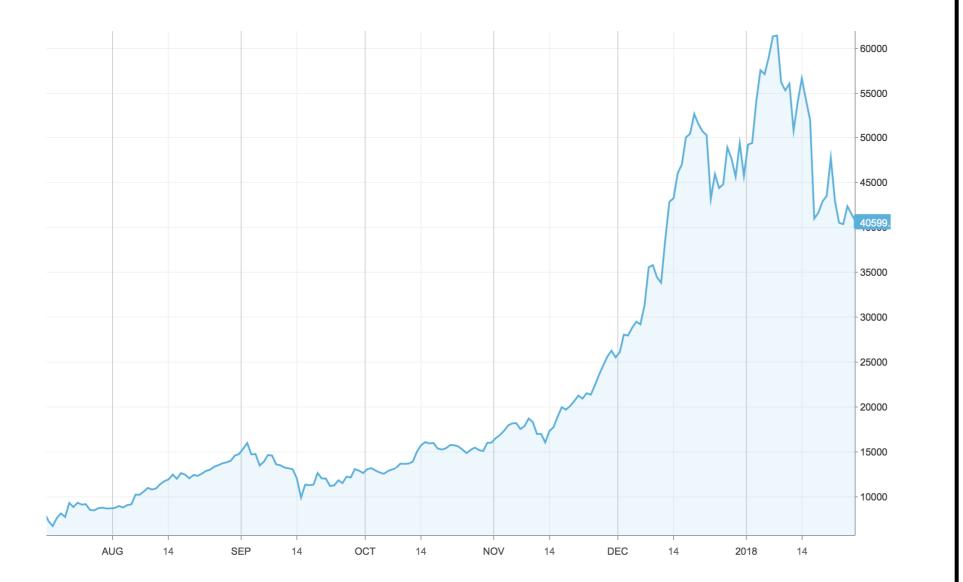
Our Crypto-Mining Overlay Strategy

Though not necessarily intuitive our video game focused strategy has proved to be a source of interesting overlay for cryptocurrencies. More specifically gaming computer cards are currently the best cryptocurrency mining tools out there and in situations in which the underlying cryptocurrencies are high, the benefits of mining increases. As people move away from mining, the transaction costs increases and hence encourages mining. For instance, this pure equity strategy achieved 14% in January alone (in which cryptocurrencies went down by 15%). Bare in mind that this strategy is equity only (no cryptocurrency in there).

Figure 3: Our Cryptocurrency Mining focused strategy has been achieving its role of lower hybrid proxy/overlay to our diversified cryptocurrency strategy.

Our Banking Overlay Strategy

Another overlay strategy we are using is a Bank focused one. The rational being that the bigger banks would lose part of their business as a result of a rise in the Cryptocurrency markets and vice versa. Below we can see that the returns of our Bank overlay strategy does overall well in months where our cryptocurrency core strategy is in a drawdown. For instance, this strategy achieved 7.5% in January (vs -15% for cryptocurrencies).

Figure 4: Our Banking focused strategy has been achieving its role of cryptocurrency overlay, best performing, in the latter draw-down periods.

Our Tech Overlay Strategy

In the proxy spirit of the mining strategy we have discussed earlier, we also have a tech focused strategy which have achieved great results since inception and more specifically in times where our cryptocurrency strategy did poorly. For instance, this strategy achieved 7.5% in January (in which cryptocurrencies went down by 15%).

Figure 5: Our Technology focused strategy has been achieving its role of lower hybrid proxy/overlay to our diversified cryptocurrency strategy.
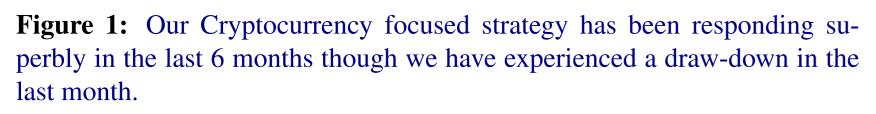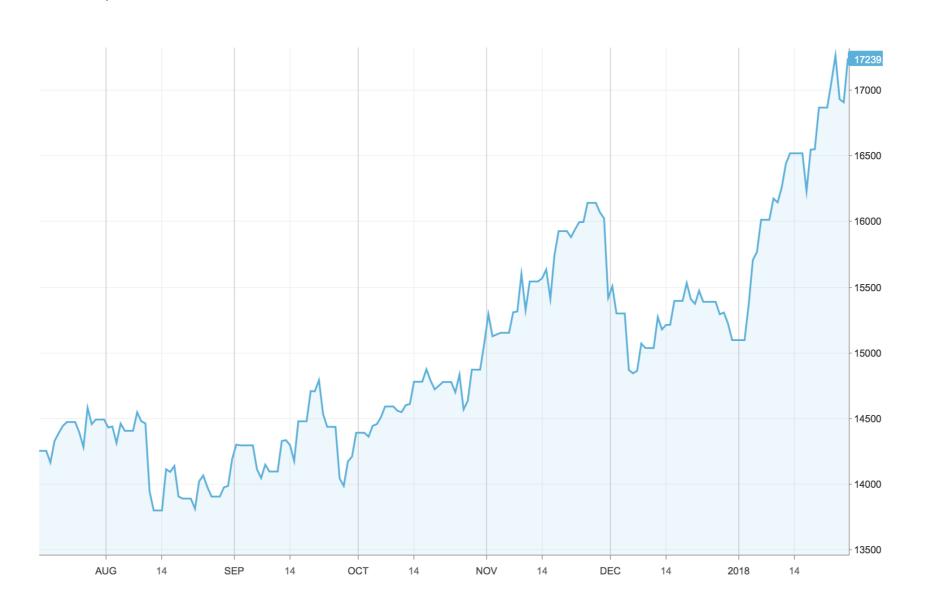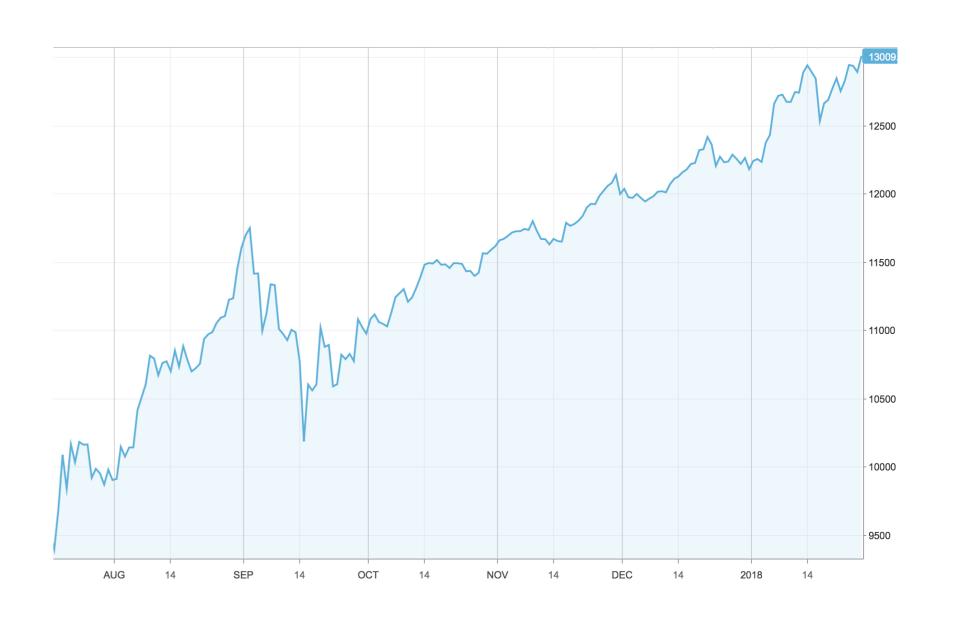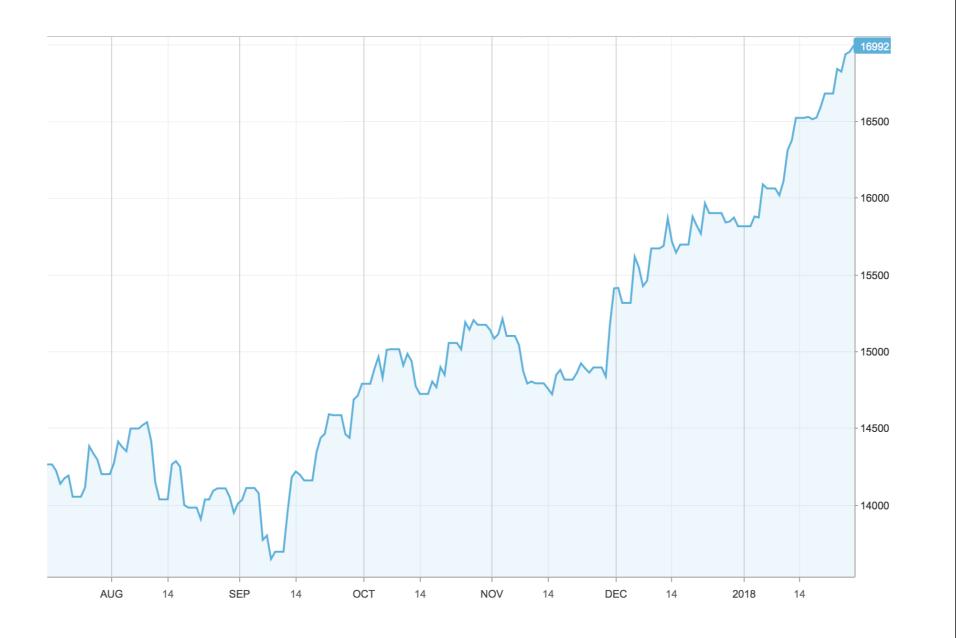
Our Overall Strategy

Our Cryptocurrency strategy was incorporated in a portfolio consisting of 4 overlays striving to aim for a fair balance between abiding by the rules associated to the risk parity theory amongst the core strategy and the overlays while keeping the rebalancing cost in mind. Overall we have been able to sustain strong consistent results on a bi-monthly timescale, achieving 5% per month on average. The only regret we have is associated with limited access to a diverse set of cryptocurrencies which decreased our Sharpe Ratio in the first two months of trading. A limitation we addressed thereafter. As we can since mid-September, our returns have stayed consistent with our objectives while we can see that clearly volatility have decreased.

Figure 6: We have have achieved, in our low frequency cross asset strategy about 40% in the last 6 months.

High Frequency Strategy & Automation

We have been researching several strategies at the higher frequencies and currently are learning additional APIs in anticipation of incorporating our first few automated trading strategies by the end of the year. More specifically, using Machine Learning Techniques, we have been trying, with success, to decipher some of the relationship between the different cryptocurrencies. More specifically using conditional models to volatility level, fork history and recent gains yields promising results.

Call for Investors

We are currently discussing increasing our capital with external investors and will close the window sooner than later as cryptocurrency strategies especially in the higher frequency cannot accommodate exorbitant capital. For this reason, in order to limit the number of investors we have reviewed our fee model back to the "2 & 20" or "1 & 30" fee models.
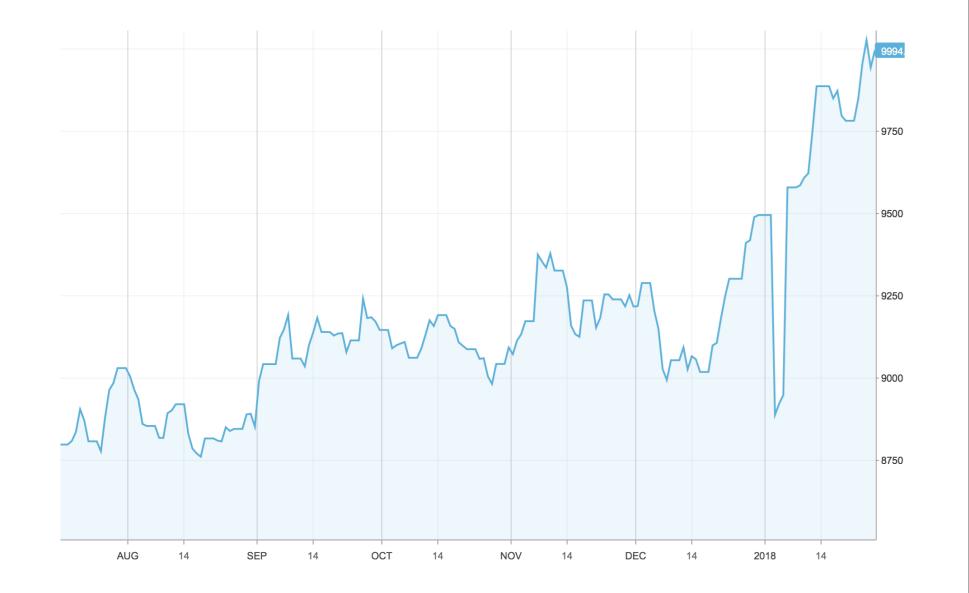
Babak Mahdavi-Damghani (BMD), projected CRO (currently deputy CEO), did his PhD in Machine Learning for Quantitative Finance at the University of Oxford. He has a broad range of work experiences in the financial industry and is also the author of numerous publications (eg: Cointelation, IVP, UTOPE & HFTE model).

Alex Ksikes (AK), projected CTO did his PhD at the University of Cambridge in Machine Learning. He has a broad range of experience in the start-up and tech industry including as an early adopter of Bitcoin and other cryptocurrencies. He is also the author of numerous publications in Machine Learning and tech related topics.
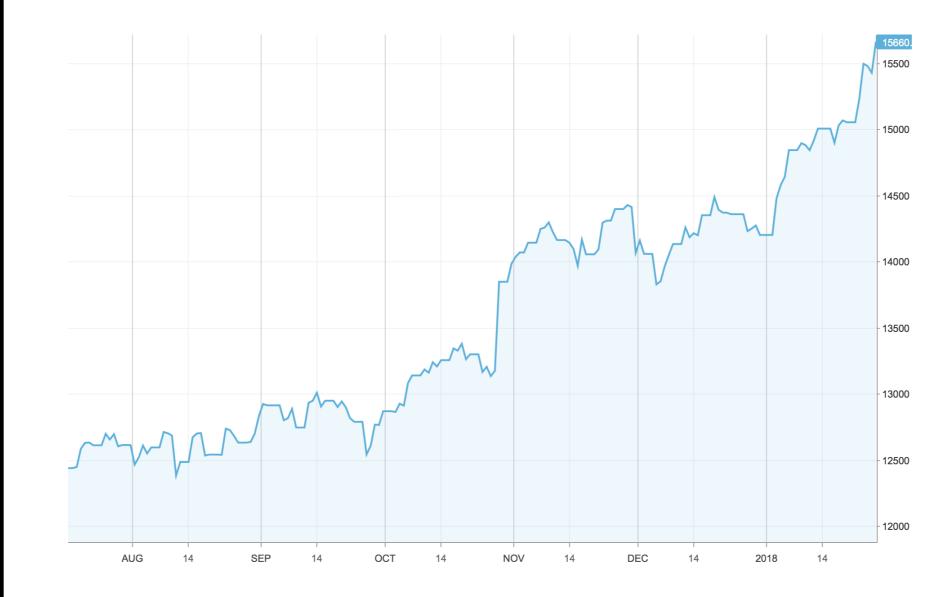
Fred Firouzi (FF), projected CFO, did his undergraduate and postgraduate studies at the Ecole Polytechnique where he specialized in Probability Theory & Finance. His expertise is in the pricing and hedging of complex financial products exhibiting jumps in price. He also has extensive experience in algorithmic trading and API handling.

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