

BROADWAY CAPITAL

MANAGEMENT

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A CONVEX VALUE APPROACH FOR ABSOLUTE RETURNS

BROADWAY CAPITAL - CONVEXITY HUNTER

DEFINE WHAT YOU DO IN A SENTENCE?

Using a proprietary process, I hunt for asymmetric mispriced securities with convex payouts and then construct capital-efficient means of owning them via derivatives (calls and puts).

WHAT IS YOUR PROCESS?

Based on my 25+ years' experience value investing across multiple markets, the process of identifying a new idea comes from frequent quantitative-based screens, investigative journalism, and a wide network of idea-generating sources.

The first pass is identifying areas where I do NOT have a defined edge, which eliminates potential blind spots and serves to maximize efficiency. Warren Buffett calls this the "circle of competence".

The next step is to identify, from the screens, the top candidates for further investigation. "What is it worth?" is the primary question and "How can we lose" is the second.

If the security trades at a substantial enough discount (or premium) to the calculated-value, the next step is to build an appropriate options strategy to capture maximum risk-reward. Heuristically, I'm looking for a 5:1 or better reward to risk ratio.

We are buying calls and puts to benefit—in a non-linear way from mispricing in the market.

WHAT IS CONVEXITY?

Simply a non-linear reaction based on a linear move. In this case, options payouts.

WHAT MAKES YOU DIFFERENT?

Convexity through options selection, and an underlying bottoms-up value oriented mentality — we are buying exposure to businesses and events. Process, no adherence to prediction, probability-based modeling, ability (and desire) to short expensive indexes, etfs, individual companies. In 2022, money managers underperformed because they didn't make use of puts. Some were constrained by mandate. We are not.

WHAT IS YOUR VIEW ON THE MARKET/MARKET FORECAST?

I have none worth sharing and never forecast, as this is a bottoms-up portfolio. The portfolio is designed to prepare, NOT to predict and to benefit from mispricings. The relative amount of cheap or expensive securities in my screens informs a broader view of general market attractiveness. A constant hunt for convex ideas keeps forecasting to a minimum.

HOW LONG HAS THIS STRATEGY BEEN IN EXISTENCE?

I launched in March, 2020.

WHAT ARE YOUR MINIMUMS?

\$1 million for the hedge fund, \$2 million for customized separately managed accounts.