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The Under The Radar Hedge Fund Crushing The Market With Its Tech Picks

Left Brain Capital has more than doubled investors' money...

Rupert Hargreaves • June 6, 2018 0 30 2 minutes read

Little-known asset management firm Left Brain Capital is certainly not letting its size get in the way of returns.

The Left Brain Capital Appreciation Fund, which reported just $16.8 million in assets under management at the end of April 2018, has produced a total return for investors of 256.6% since the beginning of 2016.

According to a copy of the firm's April tear sheet, a copy of which has been reviewed by ValueWalk, Left Brain's flagship fund has returned 11.8% year-to-date.

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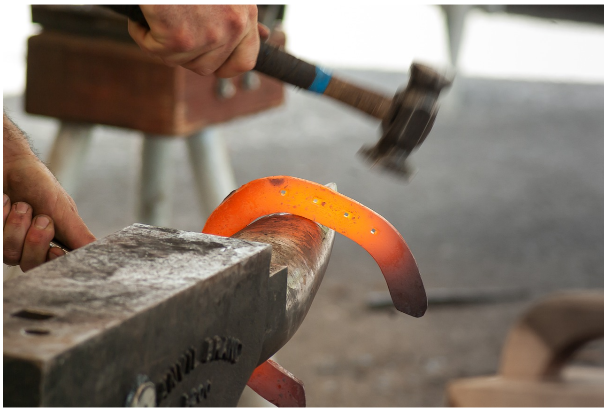
We last covered the firm in March of this year when Left Brain was coming off a strong January and February. At the time, the firm reported gains of 18.5% for the year to the end of February and a total return of 277.8% since inception.



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After a troubling performance in March, when the fund lost 7.6%, it has since recovered its composure and ended April up to 2.1%. The March loss was its most significant since inception.

Return Summary	Left Brain Capital	S&P 500	Russell 2000
Total Return	256.62%	29.56%	37.27%
Average Gain	6.89%	2.06%	2.95%
Average Loss	-2.60%	-1.79%	-2.47%
Max Monthly Gain	23.24%	6.60%	10.99%
Worst Monthly Loss	-7.55%	-5.07%	-8.85%
Max Drawdown	7.55%	6.48%	8.98%

Risk Summary	Left Brain Capital	S&P 500	Russell 2000
Sortino Ratio (0%) Monthly	2.87	0.68	0.54
Sharpe Ratio (0%) Monthly	0.71	0.38	0.32
CALMAR Ratio	9.60	1.81	1.62
Correlation		0.69	0.43

THE PERFORMANCE OF THE PARTNERSHIP HEREIN IS PRESENTED NET OF FEES AND ALLOCATION TO THE INVESTMENT ADVISOR AND THE GENERAL PARTNER.

Left Brain describes its investment strategy as “niche” using a combination of fundamental and technical considerations to select securities “from across the capital structure.”

Bonds feature heavily in the Capital Appreciation Fund’s portfolio. As I noted last time I covered the fund, 17% of portfolio assets are invested Petsmart, Inc. bonds. A further 6.3% of assets were invested in Valeant bonds at the beginning of the year, but it seems as if this trade has now run its course for the asset manager. The Valeant holding has been replaced by an 8.7% stake in California Resources bonds.

According to Founder & CEO of Left Brain, Noland Langford, the bulk of the Capital Appreciation Fund’s returns this year have come from five equities, Netflix, The Trade Desk, Amazon, Square, and Teledoc.

Netflix is Left Brain’s third largest position and with the stock up 90% for the year to the end of May, its the fund’s best-performing position.

According to Mr. Landford, investors are only just starting to understand the Netflix story, and he believes “there is a lot more upside in the shares over the next several years” because the company has “underappreciated pricing power.”

The team estimates that for every $1 Netflix increases its subscription price, $1.5 billion falls to the bottom line. They estimate the company could increase prices 10 times before customers start to churn generating substantial additional profit. “The bottom line is if you have a multi-year time horizon Netflix shares have a very bright future!” a recent update from Left Brain to its investors’ notes.

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The second best performing stock for the firm this year is The Trade Desk. Compared to Netflix, this company is virtually invisible to most investors, but that hasn't stopped the stock gaining 90% year-to-date.

The Trade Desk is an independent programmatic advertising business. They provide analytics for decision-making for advertisers and are not affiliated with any advertising agencies, a quality Mr. Langford believes increases trust with customers. The companies already profitable and reported revenue growth 100% for the first quarter with GAAP net income of $9.1 million. "with a market cap approaching $4 billion, uncontested leadership in the high growth programmatic industry with a TAM of $650 billion, we think the shares have a lot of headroom in the years ahead" notes Left Brain.

Alongside Amazon and Square, Teladoc has been the fifth best performing stock for the fund this year. The business is the nations' leading TeleHealth provider with 75% market share. The company is expanding into new areas and has been growing revenue at 40% per annum. Mr. Langford and team believe the company could be worth as much as $9 billion in a few years if it hits Left Brain's target of generating $1 billion in revenues by 2022.

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