



Baron Point Financial Group

The Diversified Algorithmic Fixed Income
Alternative Strategy Family™ (DAFI™)

DAFI™ | 2025 3rd Quarter Commentary

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Foreword

*Nothing is new on Wall Street, simply a repackaging of prior works of art laid down by **intelligence** that evolves with the **feelings** and **emotions** of **people**. It has been this way, since the Buttonwood Agreement was signed in 1792, by 24 stockbrokers under a buttonwood tree in New York City.*

- James Philip Coppola III

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Baron Point Alternative Investments Group (BPAI) provides regular and comprehensive analysis of topics and strategies used at the firm with its alternative investment programs.

For this installment, we provide you our quarterly commentary as of the 3Q25, regarding The Diversified Algorithmic Fixed Income Alternative Strategy Family™ (DAFI™).

DAFI™ is a family of systematic absolute return strategies that are the culmination of **Victor Sperandeo's (Trader Vic)** 55 years of legendary success in money management, garnered through every market cycle thought of, and others modeled by major Wall Street global investment banks. It is **100% rules-based, using only highly liquid futures index contracts listed and traded on U.S. regulated exchanges employing rules-based systematic operating procedures.**

The DAFI™ Strategy is a portfolio comprised of multiple highly diversified major market components and invests both long and short in some of the world's most liquid markets. The DAFI™ Strategy components are assorted using a proprietary methodology that presents the potential to **exploit and more accurately capture the net effects of trends in global Gross Domestic Product (GDP).** Scalable to well over US\$ 25 billion, this absolute return strategy is an innovation that history may very well consider another remarkable achievement by Trader Vic.



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01 DAFI™ | 2025 3rd Quarter Commentary

“The American Republic will endure until the day Congress discovers that it can bribe the public with the public's money.”

- Alexis de Tocqueville, Democracy In America

The **Diversified Algorithmic Fixed Income Strategy™ (DAFI™)** has not had a losing month in 2025 and is up 18.16% net for RT3 and 8.86% for RT2. The RT2 is modeled to \$100 million in exposure, the RT3 \$250 million (2.5x exposure).

The DAFI, an algorithmic trading strategy, was designed for consistent absolute returns with low volatility. In 2025 to date, that consistency has resulted in excellent performance, and let us consider the environment in which this has occurred. Trump's tariff policies and their inconsistent implementation, failure to conclude agreements with critical countries (India and China), and the markets having difficulty discounting the end results. Trump earned the sobriquet TACO (Trump always chickens out) by reducing the tariff levels when the market declined in April. The current 50% tariffs on China and India are being used as cudgels to dictate to sovereign nations that they adhere to U.S. Foreign policy, i.e., do not buy Russian oil.

DAFI's highly diversified futures portfolio had excellent returns from its stock and gold exposure, mild returns from U.S. treasury debt, low returns from crude oil, and negative returns from commodities. What it reflects, contrary to statements from the Fed, is a stable but declining inflation scenario, as shown by “Truflation”, which measures over 13 million prices daily without hedonistic adjustments, substitution, or creating subjective measures for rent/shelter and home prices (unlike the Consumer Price Index (CPI)). Truflation's YTD inflation number as of September 30, 2025 is 1.22%. The CPI is clearly a politically based index which purports to portray a suggested “cost of living” index but is a complete failure as a reflection of actual price increases. This allows the government to manipulate policy via the Fed, using data fabricated



with statistical adjustments instead of actual market prices; the end result is a losing proposition for investors.

The key factor that is materially invalid is a completely alien concept called “Owners’ Equivalent Rent” (OER), a ridiculous witch's brew of suggested methods to keep increases in the price of shelter as low (or high) as the Bureau of Labor Statistics (BLS) wishes. The BLS can make the CPI outcome anything it wants as the OER has an approximate weighting of 40% in the CPI Index. Here is a statement of fact from the BLS, and a tacit admission of its political design (Source: BLS August 2008 Monthly Labor Review; Article: Common Misconceptions About CPI):

“The CPI’s objective is to calculate the change in the amount consumers need to spend to maintain a constant level of satisfaction.”

Satisfaction? Does this conjure Orwell and his book 1984? This is wildly preposterous and an unreasonable goal for a “price index”, which should be calculated the same exact way each month. It is supposed to measure price increases on a constant basket of goods and services. Instead, the BLS uses it to provide the Fed the pretense to set interest rates according to its desired political outcome.

Currently, the Fed is keeping short term rates high for political rather than economic reasons. For proof, consider the market price of the 2-year Treasury Note vs. the Fed Funds rate, which since 1970 has a 95% correlation. According to A.I.:

“The 2-year U.S. Treasury yield and the federal funds rate exhibit a strong positive historical correlation of 0.95 (with an R squared of 0.90), based on data dating back to 1970. This is the farthest back reliable analysis extends, as consistent 2-year Treasury yield data begin in mid-1976 (with earlier periods potentially using interpolated or proxy estimates for the short end of the yield curve). The close relationship reflects how the 2-year yield often serves as a market-based proxy for near-term expectations of Fed policy, leading the funds rate by several months in many cycles.”



This means that the Fed is 70 bps above what the market considers correct. The 2- year note is yielding 3.55% and fed funds are offering 4.25%. The current Truflation index shows a 1.22% price increase YTD, while the CPI is 2.90%, or 138% higher! The CPI measures 200 categories of prices covering between 80,000 to 100,000 price quotes each month.

Market participants are focused on the future; with the economy weakening due to tariffs, and the current stage of the economic cycle as shown in residential and commercial real estate, low auto sales (notwithstanding the recent surge in EV sales, a one-off driven by the expiration of the \$7,500 tax rebate on September 30th), credit card delinquencies, payrolls, and the highest level of bankruptcies since 2009. Interest rates will be coming down steadily. This is bullish for the DAFI strategy, and if inflation subsequently rises it will help our performance while interest rates decline, as we have a decent allocation to crude oil, Gold, and commodities.

There is no doubt that future fiscal policy will mirror the past, as Neo-Keynesian economics (always spending to create deficits) is the politician's go-to path to reelection. An economic slowdown and/or recession in the near term is likely, but only as a prelude to inflation in the long run. Trump has stated that he wants Fed Funds at 1.50%-2.0%; Powell is Chair of the Fed for only 5 more FOMC meetings.



02 Disclosure Appendix

Disclosure Appendix

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