

As a group, CTA’s have done poorly since 2011 with the exception of 2014 when they caught the massive downturn in commodities. In spite of this they have had huge investment inflows from institutional investors who have large equity exposures and can’t afford another downturn like 2008. The trend is only your friend if you can find it. Omega Metrics® Trend Trading shows that with the right technology, we can.

### The trend is only your friend when you can find it.

It’s apparent from hedge fund indices of CTA or Managed Futures funds that performance since 2011 has been dramatically different from the past.

The SG CTA Index and the Crédit Suisse Managed Futures Index both show peaks in Q2 2011 followed by a decline that was only temporarily reversed by the dramatic slide in oil and other commodities in 2014.

But that transformation was short-lived. Since the end of 2014 the SG Index has had an annualised return of -2.5%.

The sort of trends that trend followers have relied on have apparently not been present, nor has the lower level of volatility been kind to the traditional trend following approach as Bloomberg’s Dani Burger and Sid Verma noted this week.<sup>1</sup>

### Revolution in Trend Following

As Figure 1 shows, even as oil prices have bounced around the \$50 per barrel price in a prolonged ‘side-ways’ market there have been trends—but they have been short ones and apparently invisible even to the ‘sophisticated technology’ which trend following funds assure their clients is being employed.

These are the same sort of short term trends that appear at what eventually turns out to be the tops of equity market booms, prior to the longer downward trend of the subsequent bust.

Omega Metrics® Trend Trading was developed to profit from short term trends in equity, commodity and foreign exchange markets.

Omega Metrics® Trend Trading employs higher frequency trend analysis and an adaptive process for choosing parameters in systematic long-short trading programs. These typically hold positions for periods

of a few days (with no intra-day trading). They incorporate our transformational risk management technology, sizing positions to a daily Expected Shortfall target.

Multiple strategies are given an equal share of the risk budget. Because each strategy is either long or short, the full risk budget is only deployed when all strategies have the same directional signal.

### The Omega Metrics® Trend is your friend

Table 1 and Figure 1 show the performance of Omega Metrics® Trend Trading with an equal capital allocation to Brent Crude Oil and the S&P 500 Index from January 2015 to the end of June 2017.

Although CTA’s invest in a wide range of instruments to diversify risk, their poor performance has been accompanied by significantly higher volatility than Omega Metrics® Trend Trading has produced using only two assets.

According to Burger and Verma, CTA funds are experiencing large inflows from investors, in spite of their poor performance. Institutional investors typically have very large portfolio exposure to equities and cannot afford another loss like they suffered in the last equity market bust. CTA’s are performing poorly but, like bonds with negative yield, may be expensive insurance against even worse losses

But in the past year, the SG CTA Index has had a correlation of 0.66 with the S&P 500 Index—not a hopeful sign. Over the same period Omega Metrics Trend Trading has had a correlation of -0.62 with the S&P 500 Index while returning over 12% compared with a loss of 9%.

The trend really is your friend, but you have to be able to find it.

<sup>1</sup> Dani Burger and Sid Verma Bloomberg July 10 2017.

<https://www.bloomberg.com/news/articles/2017-07-10/quant-funds-that-chase-trends-are-this-year-s-biggest-losers>

**January 2015 to June 2017**

The Omega Metrics® Trend Trading strategy simulation uses risk controlled long-short strategies in Brent Crude Oil and the S&P 500 Index. The strategies chosen were the ones with the best return to drawdown ratio in the year prior to the start of the simulation. All results are fully out of sample.

<b>Table 1</b> Jan. 15-Jun. 17	Annualised Return	Annualised Std. Dev.	Maximum Drawdown	Maximum Monthly Loss	Monthly Alpha wrt. S&P 500 Index
Omega Metrics® Trend Trading	18.2%	7.9%	-3.4%	-1.5%	1.51%
S&P 500 Index	6.7%	10.6%	-14.2%	-6.3%	n/a
SG CTA Index	-2.5%	8.5%	-13.9%	-4.2%	-0.10%

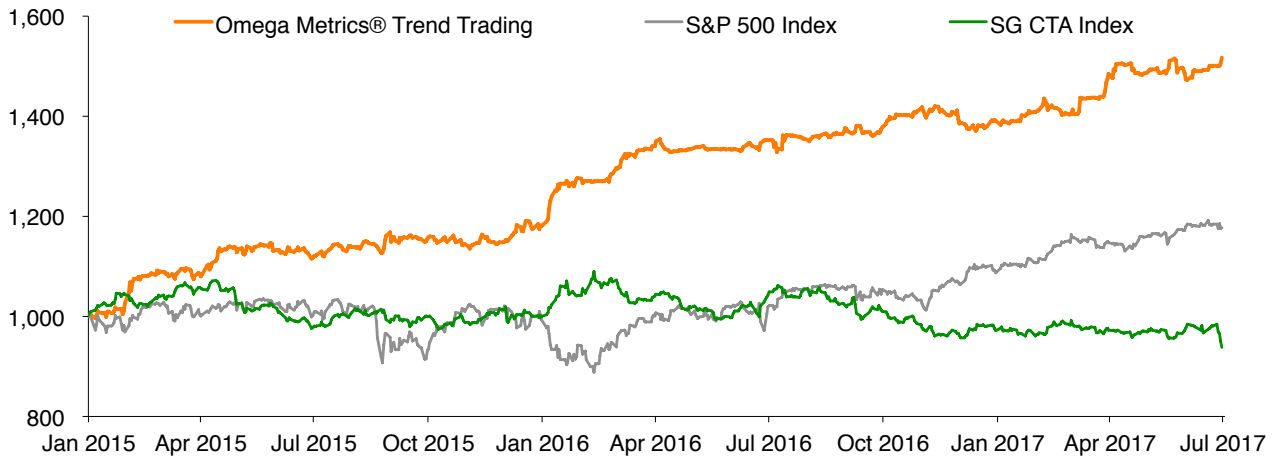


Figure 1. 2015-2017, S&P 500 Index and SG CTA Index are normalised to 1,000 on January 1, 2015.

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