

Uncorrelated Investing Market Commentary

The articles below are authored by the CTAs, who are responsible for content.



Tom Rollinger, a partner at trend follower Red Rock Capital, previously worked in Edward O. Thorp's family office. In addition to their CTA, the firm is launching a long/short commodity product at the end of the September.

Red Rock Capital

Our flagship Systematic Global Macro program came into July sensing and alerting us to beware of upcoming noise and non-direction; it was right. We designed the strategy to be adaptive and it was: it reduced our exposure, made it harder to get into new positions, and reduced the potential size of them if we did. We were pleased to make +1.56% in July during such a tough month when all the main CTA indexes lost ground. As I compose this, through August 22nd, we are up another +1.39% month to date for August and Newedge CTA Index is down -1.29% and the Newedge Trend Index component (i.e. 10 largest trend followers still open for investment) is down -1.58%.

Why are we outperforming? Based on our relative performance to major CTA indexes and to several of the top CTA firms that we track, it appears many of them have been trading (and, hence, risking) significantly more than us since July. This is not surprising to us; our flagship program was designed to capture the high-value payoff portion of globally trending markets by blending the benefits of both momentum and probability theory. We utilize a proprietary and quantitative "market profiling" technique to identify and categorize current market conditions into four phases. To maximize risk / reward we minimize the amount of time we are exposed to 3 of the 4 phases. Historically it appears that most of the blue-chip trend followers get into trades sooner, stay in longer, and regularly take on more risk than we do. Our strategy has not liked what it has "seen" in July & August, and therefore, we've been in a protective - but prepared - posture.

Our most profitable positions during July & August to date have been due to European stock indices gaining strength: Germany, France, and the EuroStoxx 50 were significantly profitable for us over the past two months. The strengthening British Pound and Copper have both caused small losses during the period. Our strategy is signaling potentially costly volatility & "chop" in European bonds & rates so it has kept us on the sidelines to protect our capital. We've seen mixed performance from the few energies we've been in (most of the other energies do not pass our filters currently) and have been pleased to see U.S. 5-year, 10-year, and 30-year fixed income markets produce profits for us.

What will the rest of the year produce? We do not know, but we can share our thoughts on our positioning for it. We know that our flagship program is designed to generate alpha through capturing directional - i.e. "good" - volatility embedded in globally diversified, multi-directional, and sustained price trends. Active risk-management is in place on multiple levels with our program. We manage the program at an internal volatility setting that helped us produce +49% net performance in 2008 - and we expect and plan for regular drawdowns of reasonably-sized magnitude. The program has a full 50% exposure to physical commodities (many large peers have 70-85% exposure to financial futures nowadays) and an equal 50/50 exposure to both long and short trades (it appears several, well-known CTAs may have thrown in part or all of the towel on short side exposure, leaving them exposed). The *volatility* of our returns has gone down in a directly correlated manner to the overall returns of the CTA indexes - i.e. during a tough period for the industry, we have been intuitively reducing our overall risk. So long as we continue to protect capital during tough periods like this, we feel we are very well positioned to capitalize on more beneficial market conditions, if and when they materialize.