ROW Onsite – 9/29/14 – Newport Beach, CA – Ryan O’Grady (CEO), Jeffery Weiser (PM), TP, KL (and TR by phone)

HISTORY

* FX Concepts before the program that Ryan created and Jeff was the PM on (the Global Currency Program) had trend following strategies, provided currency research, and did some overlays
* In 2000 the Global Currency Program was created and seeded by FX Concepts with $10mm
* As the program grew Ryan and Jeff started acquiring shares in the firm, up to approx. 10%
* Once a year the firm held and auction for employees to acquire or divest equity, most of the activity was the CEO reducing his stake and Ryan and Jeff had been the largest buyers
* In 2008, the firm’s “old school” models and written research recommendations outperformed the Global Currency Program which was up 11.5%, well below the 40% return the CEO was looking for, the CEO – John Taylor – was the making the calls on the written research
* At the auction in 2009 Jeff sold his stake at the highest price ever
* Ryan leaving the firm was more complicated as there were trigger points in investor contracts if he left, so a transition plan was put in place and he agreed to sell his stake over a period of time
* The money that Ryan and Jeff received from selling their equity was used to seed ROW’s products and fund operations

STRATEGY

* They were looking to take the good from FX Concepts and create a strategy capable of generating steady returns
* They think of the strategy almost like a fund of funds, using a variety of strategies and understanding that they have to match strengths and weaknesses within the program
* ROW’s strategy is long vol, like most trend followers, but is set up to perform well when trend following is out of favor, correlation to trend is 0.4
* Trend following – to maximize profit trend following should be long term, but they have shortened the time frame because of the interaction with other strategies
  + May 2013 was a key time period for the strategy and firm – taper talk caused a reversal in the long term trend and other CTAs were correlated with bonds for the whole month
  + January 2014 as well with other CTAs like Aspect down 4%
* “Clusters” or multivariate combinations are used across all models
  + Help find opportunities that others can’t/don’t
  + Example – 2, 5, 10 yr UST, a classic CTA would give 1/3 of risk to each, but they are all highly correlated and will provide a similar trade, but with clusters you can find a unique mix of risk
    - 1) Long, long, long, 2) short, long, long, or 3) short, long, short
    - 1) height of curve, 2) steepness of curve, 3) curvature of curve
  + Models are run on all three situations
* Don’t believe in trend or mean reversion in insolation, they believe that price action moves in cycles
  + Low vol use trend following, high vol use mean reversion
  + Then determine signal strength
    - Low frequency asset is good for trend following and will receive an above average weight
    - Carry model will also want to trade it
    - Mean reversion could also take the opposite trade as the trend matures
      * Mean reversion and Value strategies have a negative relationship with price
* Stop losses are not used
* Trend strategy – uses moving averages with several different sub models
  + Similar to everyone else’s TF but differs by weights
  + Higher allocations to low frequency assets
* Carry – evaluate backwardation/contango of market
* Pattern Recognition – model finds rhythm of market: trend, consolidation, trend consolidation
  + While trend is looking for low frequency, pattern is looking for high frequency with price reversals and can take the opposite position
* Mean reversion – uses the commitment to trader model which evaluates whether the market is over long or over short and if that matters
  + Must evaluate the historical characteristics of each market, some are always long
  + Acts inversely to trend – losing money this year as Ags/Softs are trending

RISK MGMT

* Discretion is only used after the systematic program creates the portfolio, then evaluate exogenous event that they know the models can’t see
* Transaction cost management –
* No models are customized to a single asset class
* Risk management = 3 layer system – 1) trade, 2) model, 3) discretion
  + 1) individual trade – a leverage and vol target are set for each cluster
  + 2) model/system – each is limited to x% of risk
    - Other models can’t use unused risk from other models
    - Theoretically could go to zero risk as there is no minimum, but a low number is typically mid single digits
  + 3) discretion, see above
* Volatility is estimated by stress testing the portfolio
  + 1) proprietary monte carlo
  + 2) multiple EMA
  + If any vol measure exceeds 20% they talk about intervening/ using discretion
    - Est Vol will go up when trend following is successful
* Daily risk report shows est risk levels, correlations and stress tests

JEFF’S ROLE

* Has flexibility to trade the system’s signals throughout the day NOT just at the open and close – so he can add value through timing the day within the day
* Jeff has the flexibility to choose between futures and options on futures – also area to add value
  + Options can reduce risk within the trend following model