ROW Onsite – 10/23/14 – Newport Beach, CA – Ryan O’Grady (CEO), Jeffery Weiser (PM), MH, TR

HISTORY

* FXC Global Currency Program launched in 2001 when firm AUM was $4B
* Ryan designed program, Jeff traded the signals, Deb wrote the code
* They think that the CEO believed that clients were mad about just being up 11.5% in 2008
* CEO started intervening into the program which led to their desire to leave
* At ROW, traded own money initially, may 2013 was turning point for external interest
* Now 186mm firm AUM
* On the Typhon Hydra platform

TEAM

* Laurie is becoming ROW’s chief compliance officer
* Interns sign NDAs with ROW, all are paid interns so what they work on is owned by ROW
  + Summer interns this year worked on AdaBoost which is used in email spam filters
  + Ryan said that the interns often don’t know what exactly they are working on
* Jeff is in Newport beach 20% of the year
  + He said that trading from CA was an issue due to the time zones, like Europe trading in the middle of the night
* Expect to move to new NY location in December – 295 Madison – which will be just slightly smaller than the CA office
* Ryan noted that other background checks have picked up information on another Ryan O’Grady from Oikos

STRATEGY

* “layered simplicity”
* New research - equities and metals being added broadly into program (equity is currently not in trend following and metals currently are in the program at all)
  + New version with equity and metals will be 0.96 correlated with old version
* Clusters – harder to get multiple things wrong
  + Used clusters of 3-4, not 50, because correlations matter the larger the clusters get
  + Not a new idea, Eigen Portfolios have been around, though Ryan doesn’t like that concept
  + 3-4k different time series from 58 assets
* 22% of risk is in models that act inversely to price (see page 5 of presentation and compare to older presentations) and 5% is selling options = give up a portion of right tail for stability
* Trend is approx. 51% of risk
* Inputs – all from Bloomberg, in addition to asset prices also use inflation data, trade data, commitment of trader data
  + Fundamental data is mostly used with FX
  + Ryan gave Seng credit for use of trade data
* Model mix / allocations – set to achieve normal skew (see pg 5 of presentation)
  + Wanted a long vol profile which is different than most hedge fund strategies
  + TF is long vol, then balance TF with other strategies
* Trend = moving average and breakout submodels
  + Clusters improve results over single assets
  + Filters / “feature variables” then add additional value to models and differentiate their models to the NE trend index - feature variables find better trades
* Mean reversion = different from oscillators
* Volatility strategy = options, inefficiency in options market makes it attractive
* Five FX markets are NOT used in clusters because they are so idiosyncratic
  + Trade these as single markets like a traditional CTA
* Trade reports are run at 7:30 am ET for FX and 10:30 am ET for Futures
* While Jeff has flexibility to trade when he wants to during the day he typically trades within an hour of getting these reports – Reports and timing for Asia and Europe?

RISK MANAGEMENT

* “minimize maximum regret” philosophy
* Not taking an opinion on the markets, taking an opinion on the quality of the data going into the models
* Monitor outliers in daily PnL
* Jeff’s 20 yrs in business and relationships, gets calls when things are going on
* Fat tail monte carlo simulation
  + Take note when ever annual risk estimate exceeds 20%, then work to find the areas that are pushing risk higher and decide whether or not to reduce them
  + Monte carlo risk estimates are higher than the other “GARCH” risk estimates because the monte carlo simulation is forcing fat tails
* They have set limits at the asset level, cluster level, and at model/strategy level
* Feature variables limit risk and generate outperformance

SYSTEMS

* Matlab = central coding language
  + All ideas are written in matlab and sent to Ryan for his review before approval
* CGQ = data for futures
* Bloomberg = for fundamental and FX data