



MODULE 2 UNIT 2

Video set Video 2 Transcript

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NIR VULKAN: You've just heard from the co-CEO of Man AHL, and now it's my pleasure to introduce you to the "L" from AHL, and co-founder of Aspect Capital, Martin Lueck. He is the Research Director and President at Aspect Capital, where he also chairs the Investment Management Committee and he is part of Aspects Risk Management Committee.

He has expert knowledge of an array of topics, with special focus on managed futures, commodity trading advisor, and hedge funds. He's here today to talk to us about Aspect Capital and what has contributed to their success, as well as touching briefly about LTCM's failure and other issues in the history of systematic trading.

MARTIN LUECK: I'm Martin Lueck. I'm Director of Research at Aspect Capital in London.

You have been in the systematic trading industry for a significant amount of time. In your opinion, what has brought about the most impactful change?

LUECK: As you highlight, I've been doing this for about 30 years and when we began, it seemed like an unusual thing to be doing. In fact, three physicists going into finance was the anomaly. We were the exception, not the rule. So, over that sweep of time, there are a number of seismic shifts that have happened in the finance industry.

The key points I would highlight would be the acceptance of systematic strategies as a viable way and a reliable way for investors to have their assets managed. What's the expression - algorithmic aversion - is declining, and that means that investors are more prepared to entertain the idea that a computer can digest the available information more quickly and more impartially than a discretionary trader can.

There's a level of increased sophistication, both in investor understanding and in the transparency that managers are able to offer and I view this as a really positive thing. In the early days, what we were doing and, and peers, it was presented as a black box. It was, you know, very clever people doing mysterious things on their computers and if it had gone up for a while, then people would invest, and if it had gone down then they would divest.

You can't rely on them yielding returns all day, every day. But, they are persistent over the arc of time. I get carried away and I say that what we do is the single most liquid and diversifying investment you can make to a traditional portfolio of stocks and bonds. So, in saying all of that, systematic strategies allow investors and managers to have a common taxonomy. To have a language where the strategies that we deliver; the returns, the utility that we deliver, are expressed before the investor, you know, we can look at our back our track record, but we can offer the investor the opportunity to tailor what they need out of our products, out of other people's products. It gives them more tools in how they organize their portfolios and that's just led to greater acceptance of the strategy and a greater use of it.

How do you stand out from the crowd in a particularly competitive work environment?

LUECK: It's competitive and it depends how you measure competition. I think that how we stand out is longevity, experience, and the culture that we've tried to develop as a firm. The opportunity of systematic strategies is that they are repeatable and testable looking back over what markets have done in the past. So, experience counts for an awful lot and I would think that our firm distinguishes itself in the longevity and the amount of experience that we have as a collective group. That's the first point I'd make. The second is the broad experience of that team and the fact that we work as a collegiate group, we're not reliant on a disparate group of very smart individuals working in isolation.

In your opinion, what were the contributing factors to the collapse of LTCM?

LUECK: Everyone has their challenges and LTCM was a learning experience, both for the individuals involved in the firm and also for the industry more broadly. This actually is relevant to the Aspect story because our original seed capital, when we set up the firm in 1997, came from a Swiss investor who had been invited to invest in LTCM and the black limos swept up and the presentation was very much, "We are the gurus of Wall Street and it's a very complicated strategy, we aren't going to bother to explain it to you because you'll never understand, but you must trust us". And our investor declined to invest with the firm, which made him a pariah amongst his juniors and peers because they said, "You have to invest. We have a limited opportunity to go with the best of the best", and his attitude was, "If I don't understand the strategy, I'm just not going to invest it".

Subsequently, he was proved right and I think that that speaks to, you know, to two things. First of all, you know, the herding of investors. If something looks hot, doesn't necessarily mean it is hot; and secondly, I don't know, who am I to give advice to the superstars of LTCM, you know, individually and academically. However, I think that there's an element of, you know, always being curious and stress testing your simulations because we know a lot more about what can go wrong that clearly were just not built into the models that they applied.

What advice would you give to those considering investing in the systematic trading industry?

LUECK: Experience is key and so despite these being, you know, systematic models, your relationship with the manager is going to be very important and I think that's the first thing to say. You want to build a relationship with your systematic manager. If the manager tells you that it's just too complicated and you must trust us, that to me doesn't start the relationship on a good basis because you're only as good as recent performance would be. You can't build an understanding. And, as you're looking at systematic managers, in my opinion, they need to be able to articulate where their edge is coming from and where the returns of the strategy are coming from. They need to be able to do that in a way that you can understand, that is plausible and that doesn't give away their IP. And I really do think that's possible across the strategies and that's how you build out your portfolio. That's why these kind of strategies are really useful, because you can articulate a priori, what the utility of the systematic strategy is within an investor's portfolio. So, you have to be able to refer back to that original conversation to say why it has or hasn't done what you expected it to do for the investor.

And then, you know, models are always developing. Systematic managers have to be evolving what it is they do, so you need to have an ongoing dialogue with your investment manager. You should be very wary of simulations. And actually, I think that's even more true for the model developer than the investor. You've got to be ruthlessly honest with yourself about what that simulation is showing you. So, I would say for investors and for model developers, don't be blinded by the complexity and sophistication and, you know, the buzz words that are involved in your systematic strategy.

VULKAN: Did you understand all the concepts in this video? If you would like to review any of the questions, click on the corresponding button.