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## FUNERAL FOR A FRIEND

### TREND FOLLOWING IS DEAD (AGAIN)

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*"I wonder if those changes  
Have left a scar on you  
Like all the burning hoops of fire  
That you and I passed through" – Elton John, "Funeral for a Friend"*

*"Reports of my death have been greatly exaggerated." – Mark Twain*

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## FUNERAL FOR A FRIEND

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The bell tolls. The death of trend following has been announced. The grave has been dug and the obituary has been published. Dust to dust...

The mourners are gathered by the graveside. Tear reddened eyes distinguish the truly saddened from the less saddened who smirk to themselves in their familiar "I told you so" way. (At last! A prediction come true!)

This is a painfully sad affair. Trend following is dead. Again.

Cheer up! Our suspicion is that trend following is not dead. Our suspicion is that no resurrection is required.

This suspicion is not based on a judgment, a fundamental view or (even worse) a prediction from a besuited soothsayer. It is based on the evidence of the numbers. The statistical evidence is of continued life, not the eternal darkness of death.

***We do not claim to know everything about everything but one of the things we do know about is our own system. We do know how to read the vital life signs of our own trend following currency program, Insch Kintillo.***

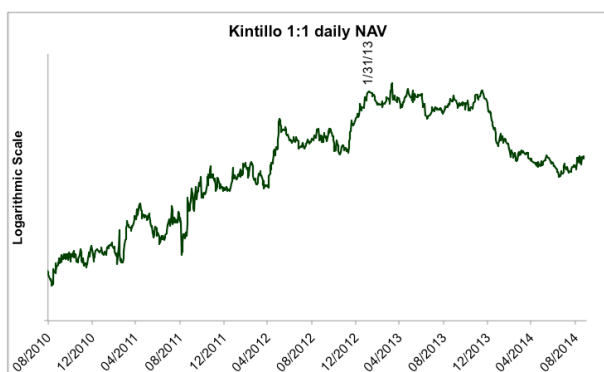
Similarly, we do not claim to know something about everyone but most true trend followers could probably demonstrate very similar findings to our own. Absent omniscience, as a true trend follower, we present the following as a real-world proxy.

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## A NUMBER OF NUMBERS

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The following report is a summation of three distinct periods in the track record of Insch Kintillo.



First there is the entire ("All Time") record from January 2000 until the end of August 2014. This record contains a number of highs and lows but, in its entirety, represents one of the very best and longest investment profiles of any trend follower in the world.

Second, there is the most recent ("Good") record from 1<sup>st</sup> September 2010 until 31<sup>st</sup> January 2013. (This was close to the most recent all time NAV high, although it was exceeded in April and May 2013 and very nearly exceeded in December 2013.)

Finally, we have the current ("Bad") record from 1<sup>st</sup> February 2013 until the end of August 2014. This period has seen the demise of one of the largest currency managers in the world (FX Concepts). It has been characterized by an unprecedented expansion of Central Bank balance sheets (Quantitative Easing), virtually zero interest rates resulting in the mandated disappearance of interest rate differentials and extremely low volatility. It has also resulted in a pervading sense of pessimism in FX markets.

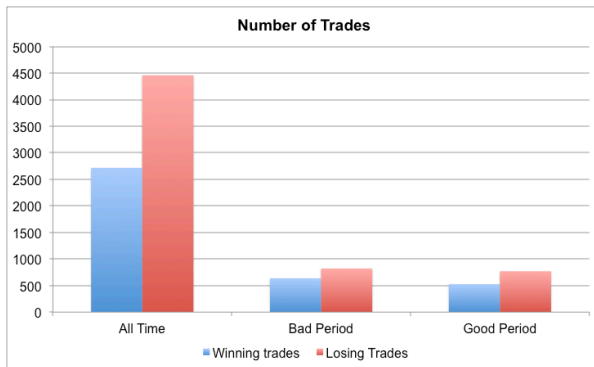
We present the comparative analysis of these periods using a number of numbers as follows:

**These numbers are available for each of the 16 cross-rates that (currently) comprise the portfolio. For the purposes of simplicity the numbers are presented on a trade basis, on a monthly basis and as portfolio averages.**

Trade Summary	All Time	Bad Period	Good Period
<b>Calendar Months</b>	176	19	29
<b>Effective Months</b>	146	18	27
<b>Nr. Trades</b>	7194	1461	1299
<b>Winning trades</b>	2717	637	526
<b>Losing Trades</b>	4461	821	769
<b>Average HP of Winners in days</b>	15.15	6.57	14.08
<b>Average HP of Losers in days</b>	5.46	4.44	5.78
<b>Average Gain per trade in %</b>	1.51	0.78	1.53
<b>Average Loss per trade in %</b>	-0.86	-0.75	-0.83
<b>Average gain in winning trades %</b>	1.70	0.76	1.59
<b>Average loss in losing trades %</b>	-1.00	-0.74	-0.88
<b>Average holding period in Days</b>	9	5	9
<b>Turnover</b>	30	57	31
<b>Average Number of Monthly Trades Per Currency Pair</b>	3.29	5.21	3.03
<b>Proportion of winning trades</b>	0.39	0.44	0.42
<b>Proportion of losing trades</b>	0.60	0.54	0.55
<b>Number of winners / losers</b>	0.67	0.88	0.85
<b>Win/Loss Ratio</b>	1.69	1.03	1.81
<b>P&amp;L Contribution of Winner Trades</b>	65.5%	33.1%	67.0%
<b>P&amp;L Contribution of Loser Trades</b>	60.5%	40.3%	48.3%
<b>Net PL Contribution per trade</b>	5.0%	-7.2%	18.6%

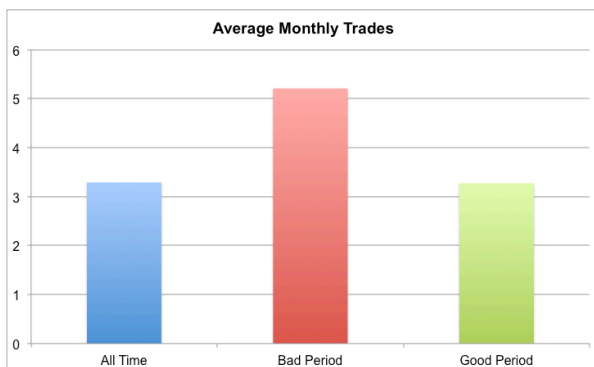
Look at some of the numbers in slightly more detail:

## Number of Trades



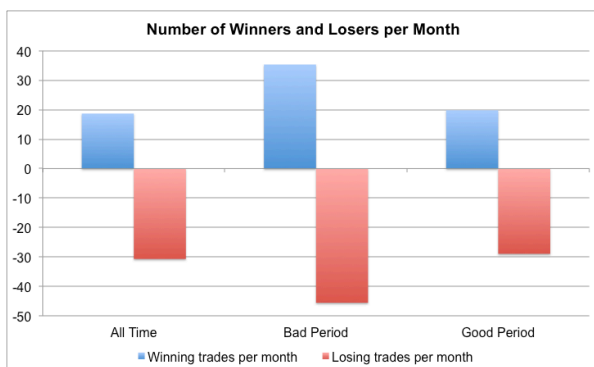
Losing trades occur more often than winning trades, just as we expected, given the algorithm's systematic response to price action.

## Average number of monthly trades



The number of trades in the bad period exceeds, by approximately 60%, the number of trades in the good period and during the life of the program. This confirms that the algorithm abhors frequent trading and is right to do so.

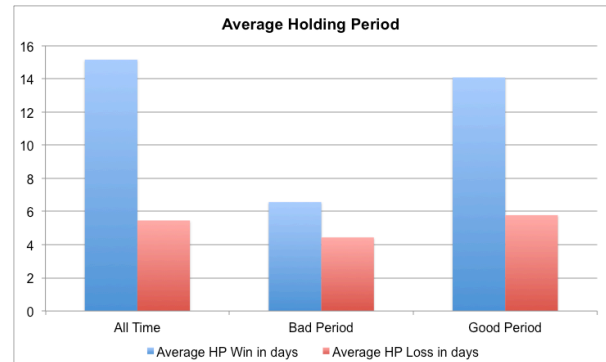
## Number of Monthly Trades



The system trades more often both in winning trades as in losing trades in the bad period.

**The frequency of trades is a crucial factor for the profitability of the algorithm.**

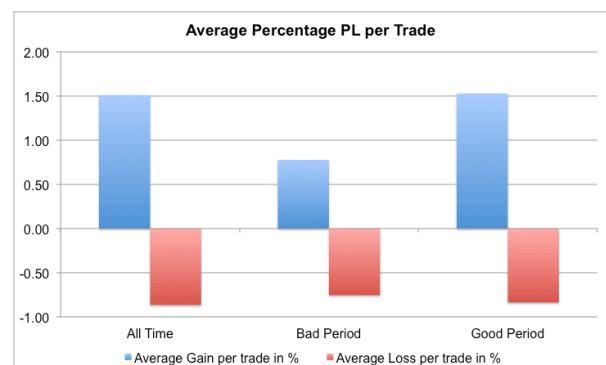
## Average Holding Period Winning and Losing Trades



During the bad period the average holding of winning trades is dramatically reduced from 15 to 6 days.

Conversely, during the bad period the holding period of losing trades remains reasonably constant between 6 and 4 days.

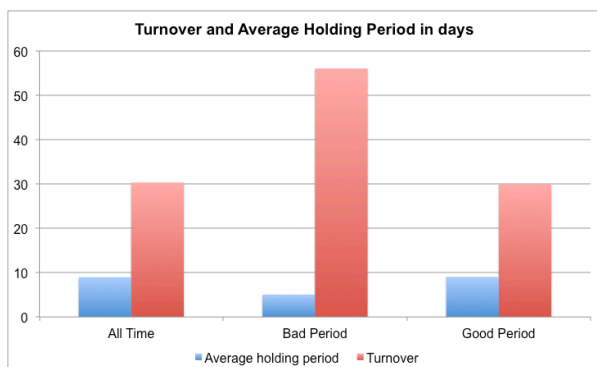
## Average gain/loss per trade



During the good period gains are more than twice losses. During the bad period gains are about equal to losses in percentage terms.

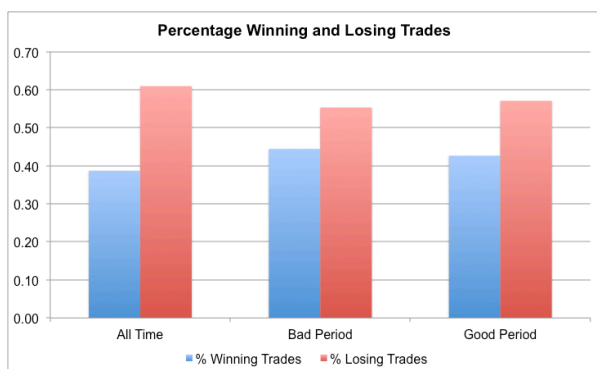
**The size of profits made by winning trades is the other crucial profit factor.**

### Turnover and Average Holding Period



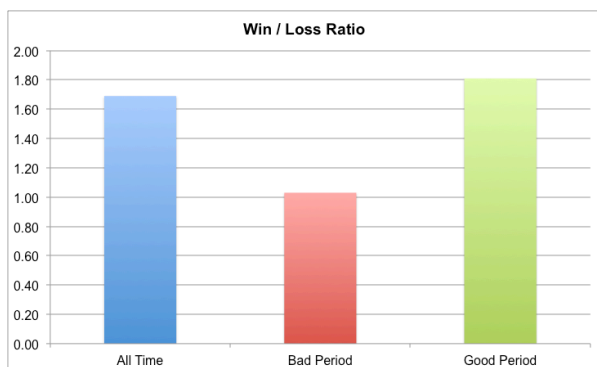
During the bad period the turnover is almost double that the turnover recorded since inception. (Turnover is calculated here as 250 days/average holding period).

### Percentage of Winning and Losing Trades



During the last four years, the ratio of winning trades to losing trades has been higher than the same ratio since inception. It is interesting however to note that this ratio has been practically the same during the bad and the good period.

### Win / Loss ratio

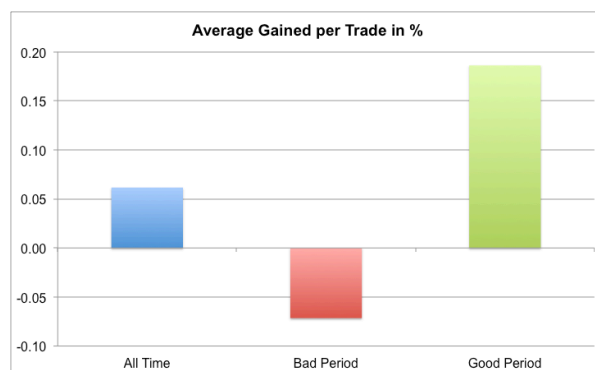


In the bad period, the ratio between an average gain and an average loss is approximately 1. However, in the good period, the average amount gained by a

winning trade exceeds by far (is almost double) the amount lost by a losing trade.

This overcompensates for the higher proportion of losing trades versus winning trades, leading to a positive net profit/loss contribution of each trade (winner or loser).

### Average gained per trade in %



The average profit and loss contribution of each trade has been negative in the bad period and positive in the good period and over the life of the system.

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## THIS TIME, IT WON'T BE DIFFERENT

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These numbers are a statistical description of a trend following system that has endured and survived an unimaginable range of "events", changing economic circumstances and outright crises.

These numbers are not those of a dead system. They are the metrics of a system that has done exactly what it was intended to do.

***Insch Kintillo is very much alive and, as long as markets trade freely, trend following will never die.***

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## GOOD NEWS

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All of this is good news but what effect might Insch Kintillo have on a portfolio of equities? Why invest in Insch Kintillo and not in equities?

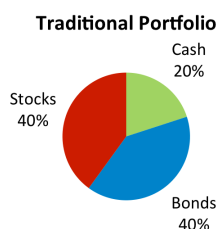
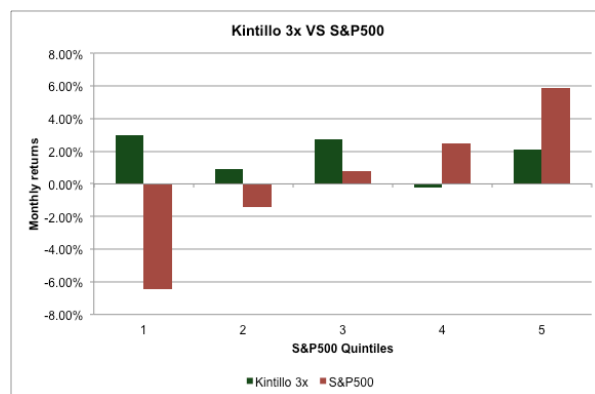
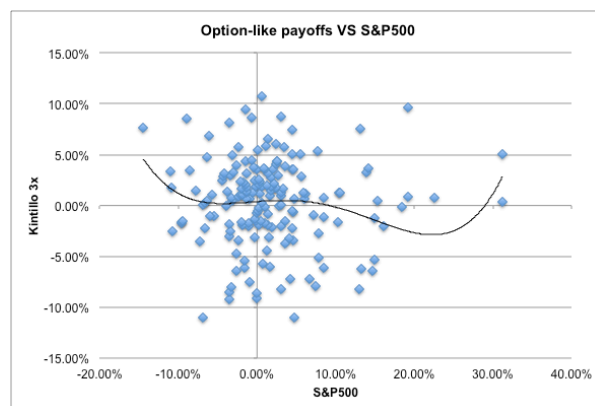
Well it turns out that Insch Kintillo offers a very interesting "option-like" benefit. That is, Insch

Kintillo yields option-like payoffs, similar to the payoffs of a straddle strategy on equities.

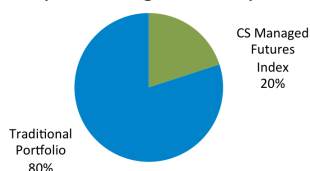
*To put all of this in some context, just consider the stock market as represented by the S&P 500. (Bear in mind that approximately 75% to 80% of those investments managers who use this particular index as their benchmark fail to match or exceed it. Nonetheless, as it is well understood and easily accessible we may make some comparisons before moving on to the detailed analysis.*

As the plot of Insch Kintillo 3x monthly performance grouped by S&P 500 Index quintiles shows, Insch Kintillo has a return profile similar to a straddle on US equities.

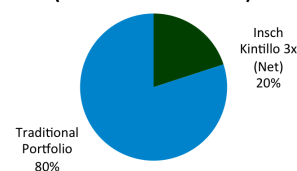
The figure below displays the effects of adding a small proportion of Kintillo to a traditional portfolio made of equity, bonds and cash on various portfolio statistics. The total return, the standard deviation, the worst drawdown and the return to risk ratio are much improved by this addition.



**Enhanced Portfolio  
(20% Managed Futures)**



**Enhanced Portfolio  
(20% Insch Kintillo 3X)**



**Traditional Portfolio**

**Enhanced Portfolio (20% CS Managed Futures Index)**

**Enhanced Portfolio (20% Insch Kintillo)**

	Traditional Portfolio	Enhanced Portfolio (20% CS Managed Futures Index)	Improvement of:	Enhanced Portfolio (20% Insch Kintillo)	Improvement of:
<b>Total Return</b>	35.04%	50.66%	15.62%	91.62%	56.58%
<b>Annual Return</b>	2.06%	2.82%	0.76%	4.51%	2.45%
<b>Autoregression(1)</b>	0.12	0.06	-0.06	-0.06	-0.18
<b>Annual Std. Dev. (AR1)</b>	7.88%	6.41%	-1.48%	6.36%	-1.52%
<b>Worst Drawdown</b>	-26.78%	-19.28%	7.50%	-19.32%	7.46%
<b>Return/Risk Ratio</b>	26.10%	43.99%	17.89%	70.87%	44.77%
<b>Sharpe Ratio</b>	7.55%	12.04%	4.49%	19.63%	12.08%

Cash: US 3M T-bill

Bonds: Dow Jones Corporate Bonds Index

Stocks: S&P500 Index

Managed Futures: CS Managed Futures Index

Monthly Data from Jan.2000 to Sep.2014

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## CONCLUDING WITH A BEGINING

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Our conclusion is simple and is best summarized in a useful form by updating a previous report we compiled: Riders on the Storm. (Click [here](#) for the original version July 2013)

No textual changes have been made to the report other than in the title. We admit we were early in producing the original report by about 15 months. The numbers and charts, however, have been updated. The tale they tell is unchanged.

*For those who can see it, Insch Kintillo represents a very substantial opportunity to replace mere risk with return. Taking the opportunity will require careful thought, calculation and courage.*

*A good place to start is by reading ["KINTILLO VERSUS EQUITIES: RIDERS ON THE STORM – THE SEQUEL"](#)*

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