

Whether sunny or
bleak, convictions
about the future
satisfy the hunger
for certainty.
We want to believe.
And so we do.¹

Surprise, Surprise, Surprise

Earlier in the chapter “Systematic Trend Following,” I included a small excerpt from CNBC’s Erin Burnett interviewing trend following trader David Harding a few years back. On April 8, 2011, CNBC anchor Joe Kernen interviewed Harding as well. At the time of that interview, Harding’s firm Winton Capital was managing \$21 billion dollars in assets for clients via trend following strategies. Now that you have read Trend Commandments, consider Kernen’s interview and my questions that follow.

Kernen started the interview reading from a piece of paper that described Harding as a systematic trend follower who believes scientific research will succeed in the long run. He wondered out loud if “computers” were used and asked Harding to describe his trading strategy.²

Harding, on remote from London, responded that his firm “goes with the flow.” He follows trends and makes money going long on rising markets and short on declining markets. He mentioned that there had been enough trends for his firm to make money nearly every year for the last 15 years.³

The ancients were known to engage in reading entrails of animals to forecast the future.

Kernen pounced, wondering whether he could blame Harding and other trend followers for Oil and Gold going higher and “for the pendulum swinging much further than it should on a fundamental basis.”⁴ Harding thought there might be some truth to Kernen’s point, but there was only so much time to elaborate. Kernen, under his breath, with a huge wide smile emerging, interjected at that acknowledgement: “Uh, yeah.”⁵

Harding reminded Kernen that his firm was limited by speculative position limits set by the government and that his trading size was tiny by comparison to major investment banks. Harding went on to further clarify that he doesn’t trade by a “gut feel.” He added: “We don’t just make it up.” He also didn’t apologize for his scientific approach to markets, an approach he defined as “rigorous.”⁶

Markets are not efficient or orderly. They are an endless
battleground. Opposing views fighting each other to a
standstill until one side
eventually prevails and surges ahead. The emergence of price trends often
reflects the end
of a battle.⁷

Kernen replied with a shot across the bow bringing up failed hedge fund Long Term Capital Management (LTCM). He saw it as ironic that LTCM folded in the same year (1997) that Harding’s firm launched: “I heard science and I heard you’ve never had a down year, and it just reminded me of LTCM.” Kernen talked sarcastically about the Nobel Prize winners at LTCM, their “algorithms,” and the fact that they never had a down year until their blowup.⁸

Harding quickly clarified that his firm did have a down year in 2009 and that his performance success actually went back over two decades—23 years to be exact. He noted that his first firm AHL (which he sold) was now the world’s largest managed futures fund. He also addressed LTCM head-on, stating that the book *When Genius Failed* (the story of LTCM blowing up) was “required reading” at his firm.⁹

Kernen, with condescension, quipped: “I bet it is.” He then went on to ask Harding if he could provide some of his best “picks.” That question makes perfect sense for every fundamental trader who thinks he can predict the future, but it is a ridiculous question to ask a trend following trader. Harding replied that he could not forecast markets: “I can’t give you best picks.” He pointed out that his success comes from having a slight edge and proper betting.¹⁰

Kernen, still not about to acknowledge anything positive about trend following, smugly asked if Harding would know when the party was over. Harding was nonplussed, noting that there has been a long history of successful trend following going back 40 years. He also compared 2010-2011’s great trending markets to another era—the 1970s.¹¹

Kernen, with little journalistic objectivity, shot back that he had heard those kinds of expressions before: “‘Please let there be another real estate boom because I spent all the money I made.’ I heard commodities guys saying that for a while [too].” He then wrapped up with standard pleasantries and one last zinger hoping that Harding could come back again “with the same moniker [and] same title.”¹²

Before analyzing the interview, consider a definition of critical thinking:

“Critical thinking is the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered from, or generated by, observation, experience, reflection, reasoning, or communication, as a guide to belief and action. In its exemplary form, it is based on universal intellectual values that transcend subject matter divisions: clarity, accuracy, precision, consistency, relevance, sound evidence, good reasons, depth, breadth, and fairness.”¹³

With that in mind, here are some questions to ponder:

1. -Is it believable that Joe Kernen, the anchor of CNBC’s longest running program, had no knowledge and/or comprehension of trend following, or other descriptions of it such as managed futures or CTAs? If he was forced to raise his right hand under the threat of perjury, do you think he would still have such a limited understanding of trend following and managed futures?
2. -When Kernen asked about trend followers purportedly pushing markets further than they should be fundamentally, did that mean he had a way to determine the correct price level of all markets at all times?
3. -When Kernen brought up Long Term Capital Management in attempt to compare Harding to its demise, did he not understand that Harding did not believe in efficient markets? Had he ever looked at a monthly up and down track record of Harding or any trend follower?
4. Why ask a trend following trader for “picks”?
5. -When Kernen asked Harding if he would come back with the same moniker and title, was he implying that he believed Harding would blow up soon and be back on CNBC under some reformulated firm name—like what the proprietors of Long Term Capital Management did after their blowup? Has he ever asked Warren Buffett that question?

I can easily see some painting this interview differently:

“Harding set himself up for the LTCM tie-in by framing himself as a computer science shop looking at data and being black box.”

“You have to expect Kernen to kick you. That’s what he does. Just like you know what you’re going to get from Glenn Beck or Stephen Colbert.”

“Harding basically says, ‘We are the smartest guys on the planet, trends work, and we look at a lot of data.’”

One reader, a reader who runs a fundamental advisory service, wrote me:

“Whether Kernen’s questions were clueless or not is really irrelevant. He did not argue with Harding on any point, and he gave Harding a good opportunity (within the time available) to explain how his firm implements trend following. [Kernen] was an ‘adult in the room.’ I’m thinking that’s the way serious trend followers ought to consider presenting themselves instead of sarcasm and ‘we don’t predict’ as if that is an obvious answer to any question.”

The evidence does not bear those criticisms out. There is a deeper game at play beyond my questions. Joe Kernen is not devoid of academic intelligence. He holds a bachelor’s degree from the University of Colorado in molecular, cellular, and developmental biology and master’s degree from Massachusetts Institute of Technology. He worked at several investment banks including Merrill Lynch.

I am no Harding fanboy or apologist, but I have spent time with him. That research time, coupled with his public career and track record, make him one of the most learned trend trading voices of the past twenty years. It is clear to me that Kernen had a preformulated agenda. His questioning was a transparent attempt to marginalize Harding and trend following. Why would Kernen do that? Imagine if the interview started like this:

Some kids just have to move. They want it more.

They have no choice.

They must win.

“We at CNBC believe in efficient markets and the use of fundamental analysis. Our business model requires viewers to watch. Today, we have a guest on who has made billions with trend following trading, which does not require fundamental analysis or CNBC. Would you like to know how to make money without ever watching our channel again? Welcome David Harding!”

A Kernen ego will never debate this subject on neutral grounds, but that is no surprise. Learn from this interview and the analysis. For those with their eyes wide open, this is yet another moneymaking confidence builder.

Note: I have excerpted the interview. The unabridged interview can be found here:
<http://video.cnbc.com/gallery/?video=3000015574>