SO WHAT IS TREND FOLLOWING ANYWAY ?

TREND FOLLOWING IS NOT NEW...

- ## DAVID RICARDO - 1883

“Keep down your losses, never let them get away from you. Let you profits take care of themselves”

- ## JESSE LIVERMORE - 1923

“…the big money [is] not in the individual fluctuations but in the main movements -- that is, not in reading the tape but in sizing up the entire market and its trend.”

“I believe that having the discipline to follow your rules is essential.”

“The Trend is your friend”

“Always trade with a stop”

“The speculator has to insure himself against considerable losses by taking the first small loss”

”Profits take care of themselves but losses never do”

“Protect your self by selling your stock before the loss assumes larger proportions”

”I never argue with the tape. Getting sore at the market does not get you anywhere”

TREND FOLLOWING IS NOT NEW...

- ## NICOLAS DARVAS - 1959

“The only sound reason for my buying a stock is that it is rising in price. If that is happening, no other reason is required. If that is not happening, no other reason is worth considering”

“I have no ego in the stock market,” he says. ”If I make a mistake I admit it immediately and get out fast.” Darvas thinks his system is the height of conservatism.

Question: Have the markets changed?

Darvas: “Have the markets changed... In short No. You see the markets are simply human emotion reflected in $$’s. People really need to get this into their heads. It’s not about logic. Company results. Mathematics but emotion. When emotion and logic collide. Emotion will always come out ahead. The way I traded in the 1950’s and made such fantastic money was simply the same method Livermore and Barauech traded before me. I traded the same way right the way through the 1960’s and 1970’s. And I am certain it will be the same going into the year 2000. It’s all about riding huge waves of emotion to the maximum. The big money is made from these moves. It’s crazy. But we are only human…Well you see, to me my method had to make sense. I had to be able to explain it to my partner (who knows absolutely noting about stocks) and she had to grasp the reason why it worked. In short it had to have a lot of common sense about it. My Darvas method was simply looking for the most in demand stocks, in the best sectors in a market Not GOING down. I would ride them as far as the ride would let me and exit when it was over…Makes sense right? But if you ask many traders to explain their method and straight away they mention Elliot Waves, Fib. Retracements, Cycles etc…my question is always... So WHY should a stock go up because of this? I am always left with a blank expression. They simply had no valid reason to trade these stocks. It had no common sense reason to go up. And I found most complicated technical analysis is like this. Great on theory short in common sense.”

TREND FOLLOWING FOCUSES ON RISK MANAGEMENT BEFORE PROFITS...

- **PAUL TUDOR JONES**

  "Mr.Stupid, why risk everything on one trade? Why not make your life a pursuit of happiness rather than pain?"

  "...never overtrade"

- **STAN DRUCKENMILLER**

  "I learned that you could be right on a market and still end up losing if you use excessive leverage"

- **BRUCE KOVNER**

  "Undertrade, undertrade, undertrade..."

  "My experience with novice traders is that they trade three to five times too big.They are taking 5 to 10 percent risks on a trade when they should be taking 1 to 2 percent risks"

TREND FOLLOWING CAN BE TAUGHT...AS THE TURTLES PROVED

I'm one of few people who have interviewed Richard Dennis...and you can find the conversation on my podcast **(published on April 17 & May 9, 2017 on TopTradersUnplugged podcast)**

THE WALL STREET JOURNAL

TUESDAY, SEPTEMBER 5, 1989 — ©1989 Dow Jones & Company, Inc. All Rights Reserved

Winning Commodity Traders May Be Made, Not Born

YOUR MONEY MATTERS

By Stanley W. Angrist

Can the skills of successful commodity trading be learned? Or are they innate, some sort of sixth sense a lucky few are born with?

Richard Dennis, the legendary Chicago commodity trader, who turned a grubstake of $400 into an estimated $200 million or so in 18 years, has no doubt. Following an experiment with a group of would-be traders recruited from around the country, he's convinced the secrets of commodity trading can be learned.

Richard Dennis

Over the past 4 1/2 years, a group of 14 commodity traders he taught earned an average annual compound rate of return of 80%. In contrast, about 70% of all non-professional commodity traders lose money on a yearly basis.

"Trading was even more teachable than I imagined," he says. "In a strange sort of way,

A Turtle Race Worth Watching

Performance of 14 commodity-trading advisers taught by Richard Dennis

	AVERAGE ANNUAL COMPOUND RETURN	FIRST HALF 1989 RETURN	ANNUAL RETURNS (Range 85-88)[1]	QUARTERLY RETURNS (Range 85-89)[1]
Stig Ostgaard	124.1%	0.4%	87.8 to 296.7%	49.0 to 317.5%
Elizabeth Cheval	114.1	41.1	51.6 to 178.0	-27.1 to 203.3
Michael Cavallo	107.7	16.1	33.6 to 307.4	-54.7 to 195.5
Chesapeake[2]	94.4	6.4	45.7 to 147.7	-13.1 to 160.1
Paul Rabar	89.1	20.0	78.1 to 125.9	-24.8 to 189.6
Philip Lu	88.9	36.0	36.3 to 132.3	-9.2 to 148.2
Craig Soderquist	82.4	21.3	58.9 to 135.9	-20.0 to 132.2
James DiMaria	70.9	0.8	17.3 to 154.9	-20.2 to 192.3
Brian Proctor	64.5	-13.2	-20.1 to 151.9	-41.6 to 155.8
Howard Seidler	64.2	23.0	15.8 to 123.6	-16.6 to 90.3
Tom Shanks	63.7	18.8	-29.1 to 195.1	-37.8 to 183.1
Jeff Gordon	41.8	16.4	3.2 to 111.1	-5.6 to 83.9
Michael Carr	38.9	13.7	-18.1 to 88.0	-31.7 to 112.4
By Comparison				
Barclay CTA Index[3]	25.10%	10.90%	4.3 to 55.4%	-12.10% to 32.4%
S&P 500 Index?[4]	19.20%	16.50%	5.10% to 31.6%	-22.50% to 21.3%

1) Returns overstate performance because traders paid small or no commissions and no management fees through first quarter of 1988. However, they received no interest credit on trading capital.
2) Chesapeake Capital Corp. is jointly owned by R. Jerry Parker and Russell J. Sands.
3) The performance of more than 110 commodity-trading advisers who have been trading more than four years
4) Total return, including dividends -Source Barclay Trading Group Ltd.

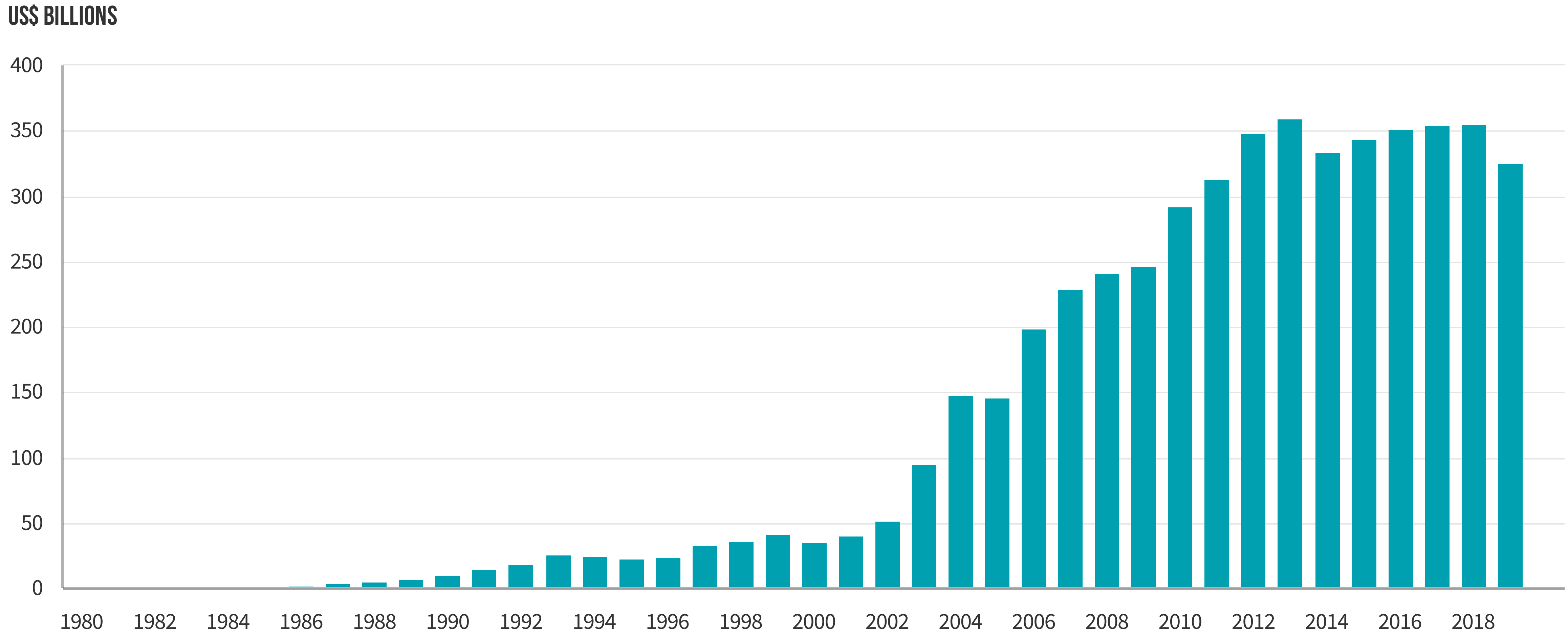
WHAT IS MANAGED FUTURES?...SHORT ANSWER

- AN INVESTMENT MANAGEMENT/TRADING STYLE PERFORMED BY PROFESSIONAL MANAGERS – USUALLY REFERRED TO AS CTAS: COMMODITY TRADING ADVISORS.
- INVESTMENTS ARE MADE IN FUTURES, PRIMARILY ON ORGANIZED DERIVATIVES EXCHANGES, COVERING 100+ MARKETS AROUND THE GLOBE.
- INVESTORS MAY INVEST IN FUNDS (ONSHORE, OFFSHORE OR UCITS) OR VIA MANAGED ACCOUNTS.
- MANAGED FUTURES IS PROBABLY THE MOST TRANSPARENT, LIQUID AND REGULATED ASSET CLASS AVAILABLE TO INVESTORS.

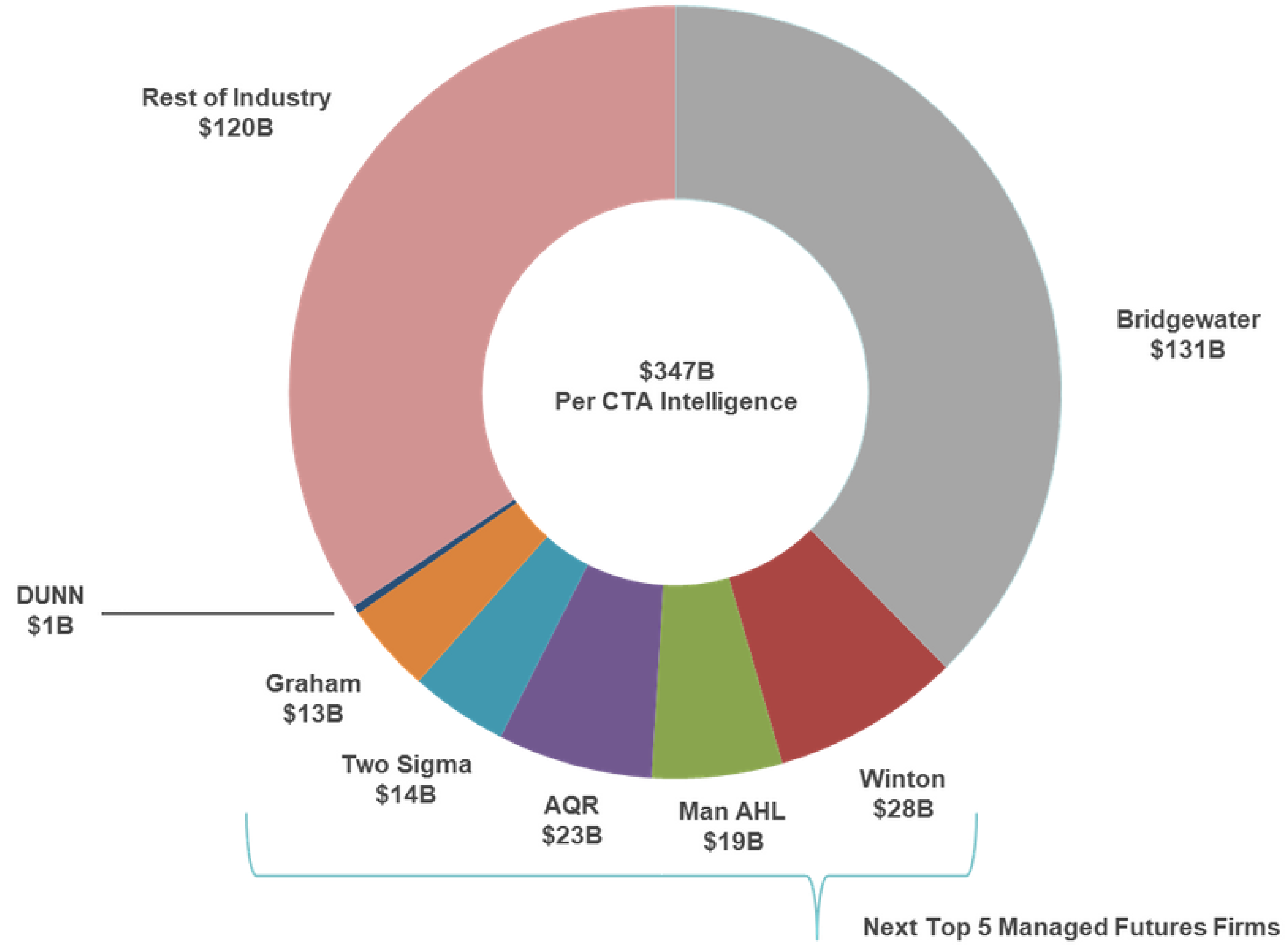
WHAT IS A CTA?...SHORT ANSWER

- TRADES FUTURES OR OTHER DERIVATIVES
- USES COMPUTER-DRIVEN ALGORITHMS TO GENERATE INVESTMENT DECISIONS
- USES MARKET PRICES AS THE PRIMARY INPUT TO THE TRADING MODELS
- IS BROADLY DIVERSIFIED ACROSS MANY FINANCIAL AND COMMODITY MARKETS
- PROFITS FROM SUSTAINED PRICE MOVES REGARDLESS OF DIRECTION
- SUFFERS IN TIMES OF QUICK “REVERSALS” OR IN NON-TRENDING ENVIRONMENTS
- IS REGULATED BY THE CFTC AND OR OTHER NATIONAL REGULATORY ORGANIZATIONS
- HAS A RETURN PROFILE “SIMILAR” TO AN OPTION STRADDLE STRATEGY
- EXHIBITS A DIVERGENT INVESTMENT STYLE (LIKE VENTURE CAPITAL)

MANAGED FUTURES AUM AS OF JUNE 2019



HOW MUCH IS MANAGED BY THE LARGER CTA'S



TOP TRADERS UNPLUGGED

TREND FOLLOWING IS BASED ON SIMPLE CONCEPTS

- MARKET SELECTION (DIVERSIFIED OR FINANCIALS-ONLY...SMALL MARKETS, BIG MARKETS, LESS LIQUID OR LIQUID)?
- WHAT IS YOUR RULE FOR ENTERING A TRADE?
- HOW MUCH ARE YOU GOING TO RISK PER TRADE?
- WHEN DO YOU EXIT A WINNING TRADE?
- WHEN DO YOU EXIT A LOOSING TRADE?

It's like Venture Capital...many small bets...looking for a few BIG winners (like UBER or FaceBook)

It's OK to be wrong...it's NOT OK to stay wrong

“Cut short your losses, and let your profits run on”

- David Ricardo, legendary political economist,

Source: The Great Metropolis, 1838

TOP TRADERS UNPLUGGED

CORE BELIEFS OF A TREND FOLLOWER

- FOLLOW YOUR RULES 100% OF THE TIME
- THE ONLY INPUT YOU NEED IS THE PRICE
- TRADE SMALL, SO YOU CAN STAY IN THE GAME
- DIVERSIFY YOUR RISK ACROSS UNCORRELATED MARKETS AND SECTORS
- GO LONG AND SHORT
- LET WINNERS RUN, BUT CUT YOUR LOSSES QUICKLY
- HAVE A LONG INVESTMENT HORIZON, NO STRATEGY WILL WORK ALL OF THE TIME
- VOLATILITY CAN BE OUR FRIEND AND VOLATILITY IS NOT THE SAME AS RISK
- THE TREND IS YOUR FRIEND, BUT THE RULES ARE YOUR GUARDIAN ANGEL

WHY INVEST IN MANAGED FUTURES?

Potential Benfits:

- VIRTUALLY ZERO CORRELATION TO THE STOCK OR BOND MARKETS…
- POSITIVE PERFORMANCE IN BEAR MARKETS – ACTS AS A BUFFER / “INSURANCE” TO YOUR TRADITIONAL STOCK AND BOND PORTFOLIO
- HIGHLY LIQUID, TRANSPARENT & REGULATED
- ADDITIONAL DIVERSIFICATION AND LOWERS OVERALL PORTFOLIO RISK WHEN ADDED TO A TRADITIONAL STOCK / BOND PORTFOLIO
- RETURNS DO NOT DEPEND ON THE STRENGTH OF THE US, EUROPEAN OR OTHER GLOBAL ECONOMIES

SOME OF THE BEHAVIORAL RISKS THAT TREND FOLLOWING HELPS TO OVERCOME

- EGO – TENDENCY TOWARD OVERCONFIDENCE AND BEHAVING IN WAYS THAT MAINTAIN FEELINGS OF PERSONAL COMPETENCY OVER CLEAR-EYED DECISION-MAKING
- CONSERVATISM – ASYMMETRICAL PREFERENCE FOR GAIN RELATIVE TO LOSS AND FOR THE STATUS QUO RELATIVE TO CHANGE
- ATTENTION – DISPOSITION TO EVALUATE INFORMATION IN RELATIVE TERMS AND LET VIVID POSSIBILITIES TRUMP REALISTIC PROBABILITIES WHEN MAKING DECISIONS
- EMOTION – PERCEPTIONS OF RISK AND SAFETY THAT ARE COLORED BY BOTH OUR MOMENTARY EMOTIONAL STATE AND PERSONAL LEVEL OF EMOTIONAL STABILITY - EMOTIONS ARE GOOD FOR MAKING LIFE AND DEATH, TIME-SENSITIVE CHOICES, BUT ARE LESS USEFUL IN OTHER CONTEXTS, LIKE INVESTING

TOGETHER, THESE BIASES CAUSE INVESTORS TO EITHER UNDER- OR OVER-REACT TO INFORMATION, CAUSING PRICING INEFFICIENCIES AND IRRATIONAL BEHAVIOR


KNOW THE
RULES


FOLLOW THE RULES
FOLLOW THE RULES
FOLLOW THE RULES

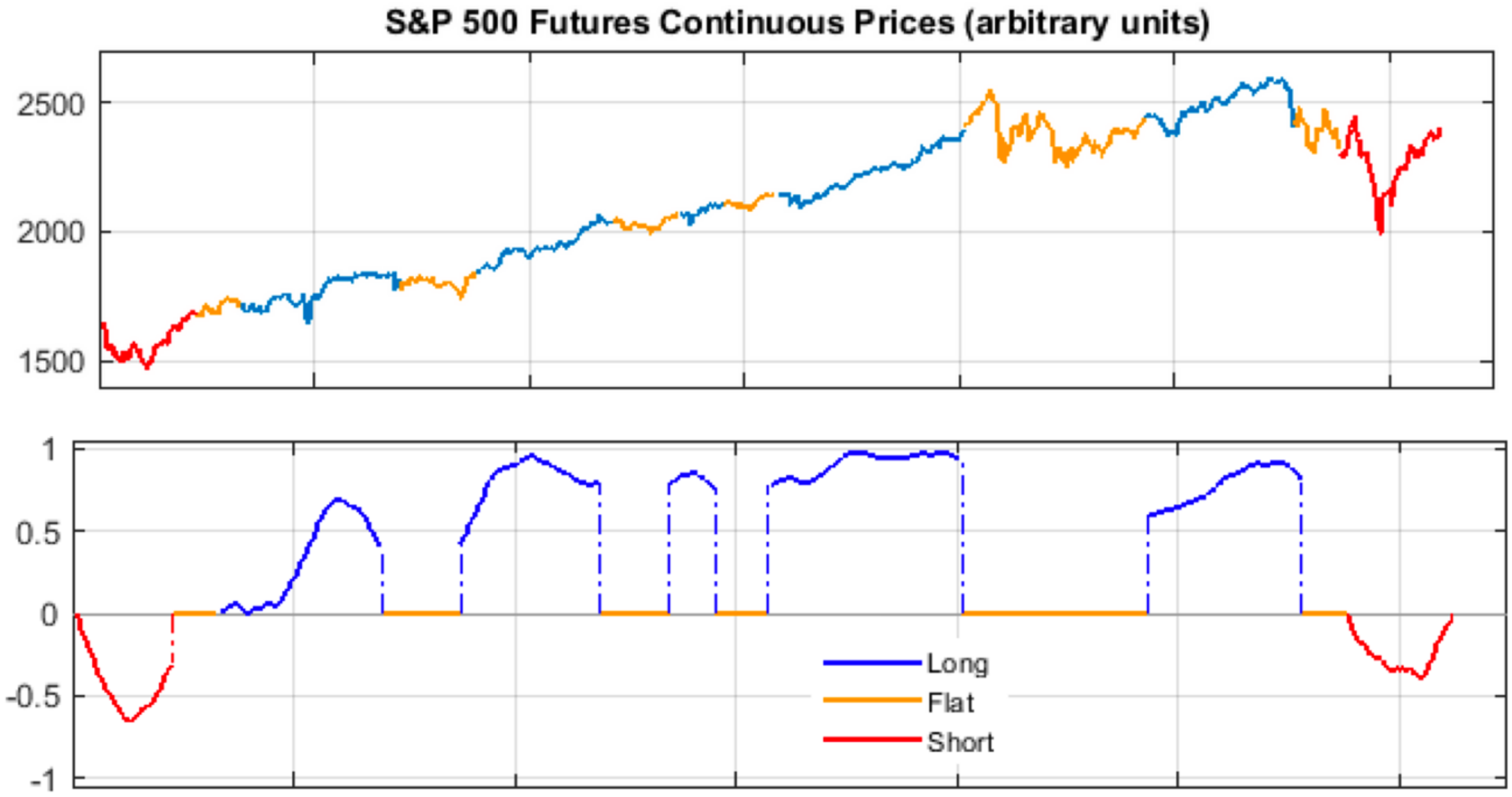
EXAMPLE OF A TREND FOLLOWING APPROACH ON THE S&P

January 2016 through April 2019. Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

TOP TRADERS UNPLUGGED

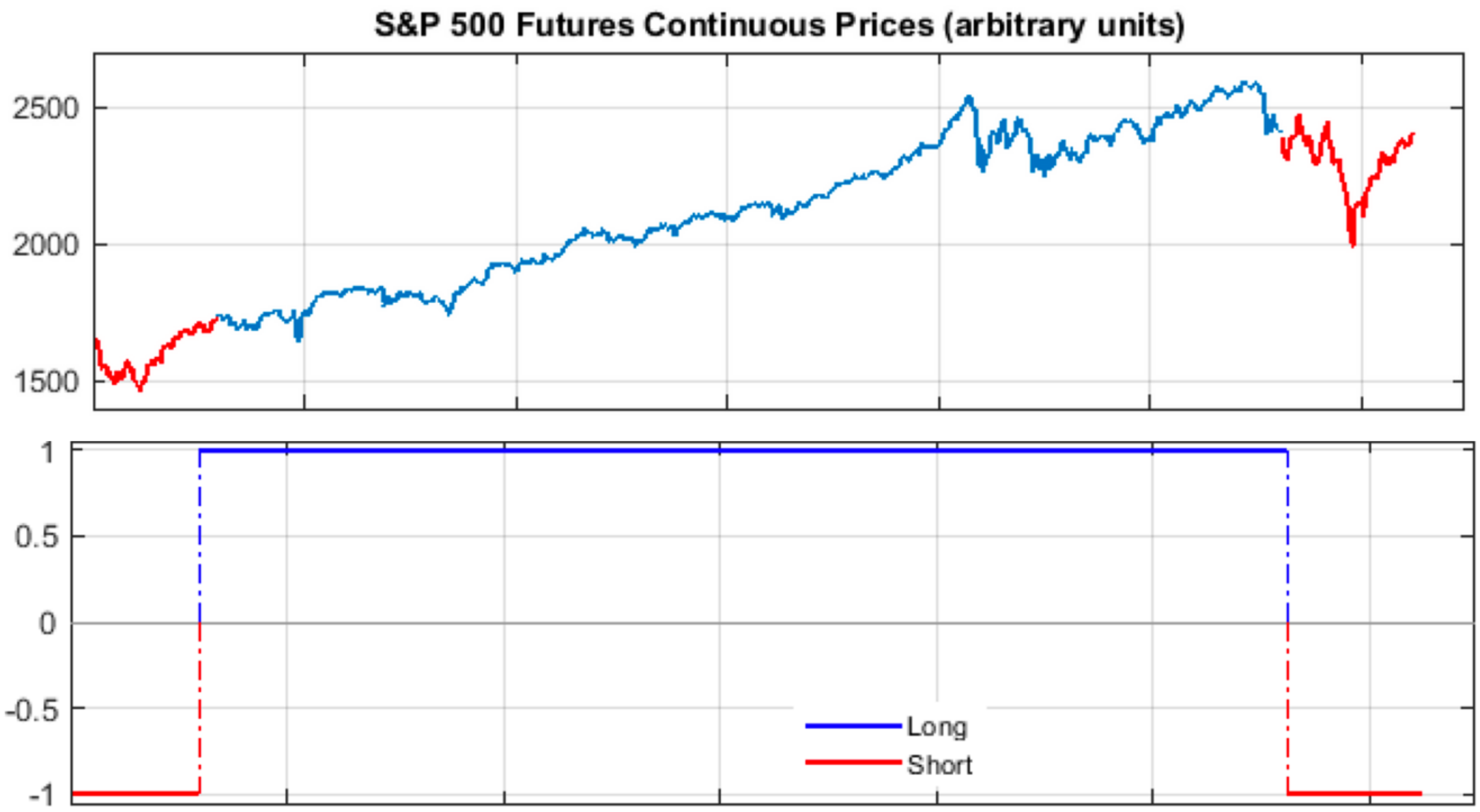
EXAMPLE OF A TREND FOLLOWING APPROACH ON THE S&P

January 2016 through February 2019. Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.



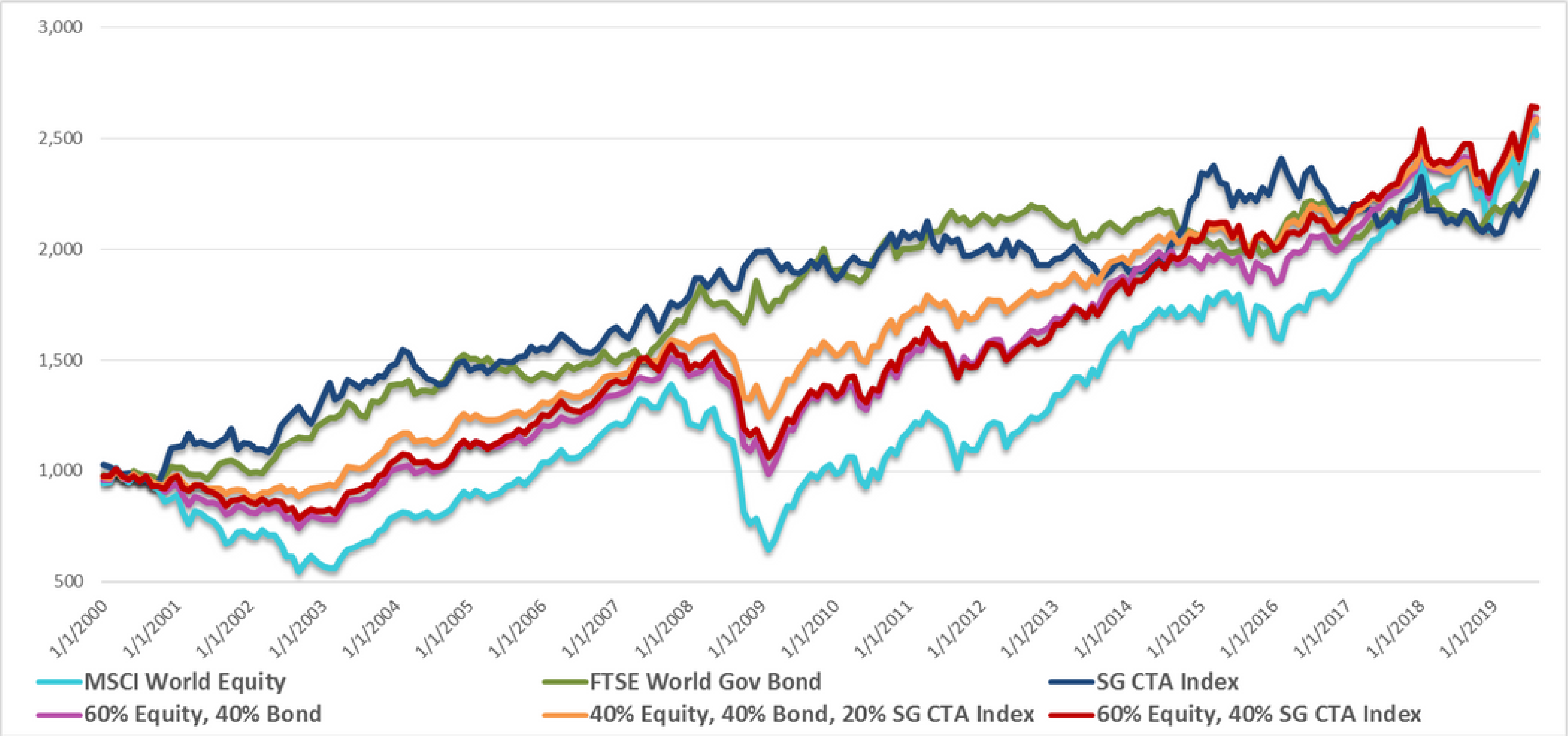
EXAMPLE OF A TREND FOLLOWING APPROACH ON THE S&P

January 2016 through February 2019. Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.



PERFORMANCE OF THE 2 MAIN ASSET CLASSES + CTA'S

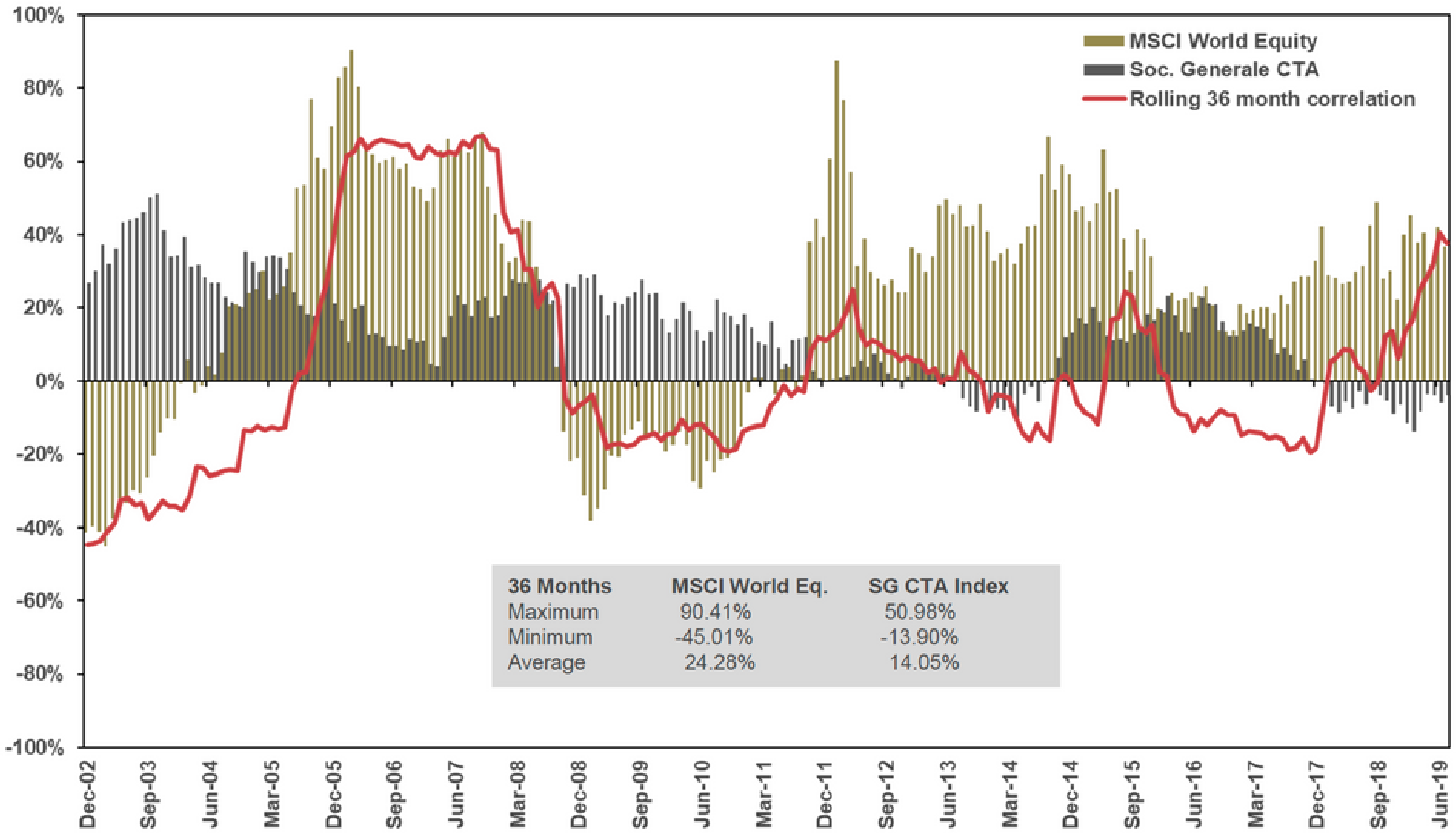
January 2000 through August 2019



Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

CTA'S OFFER CONDITIONAL CORRELATION

December 2002 through July 2019

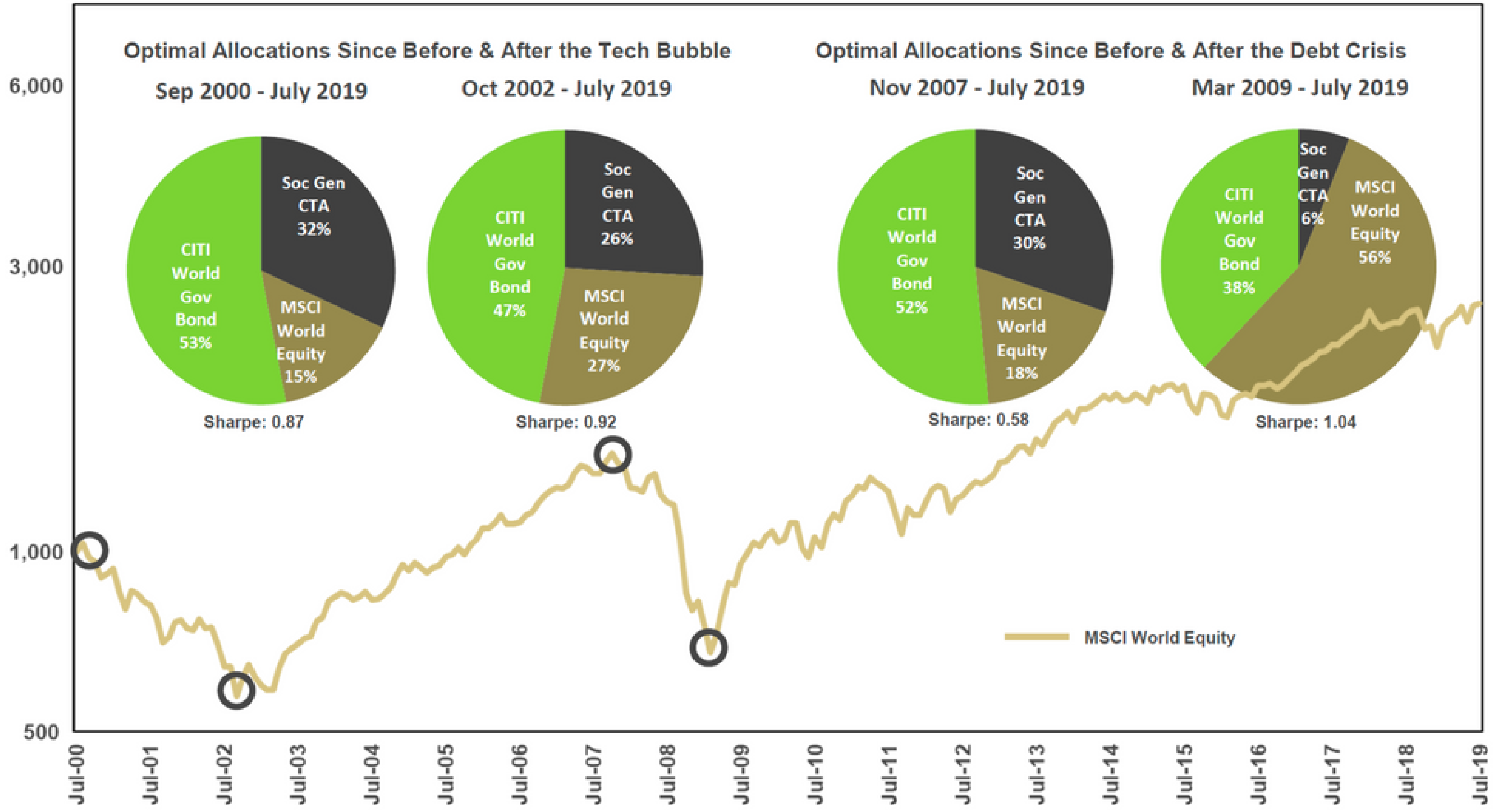


Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

TOP TRADERS UNPLUGGED

OPTIMIZING RISK & RETURN

Optimal Allocations with SG CTA Index Before & After the Last Two Equity Crises

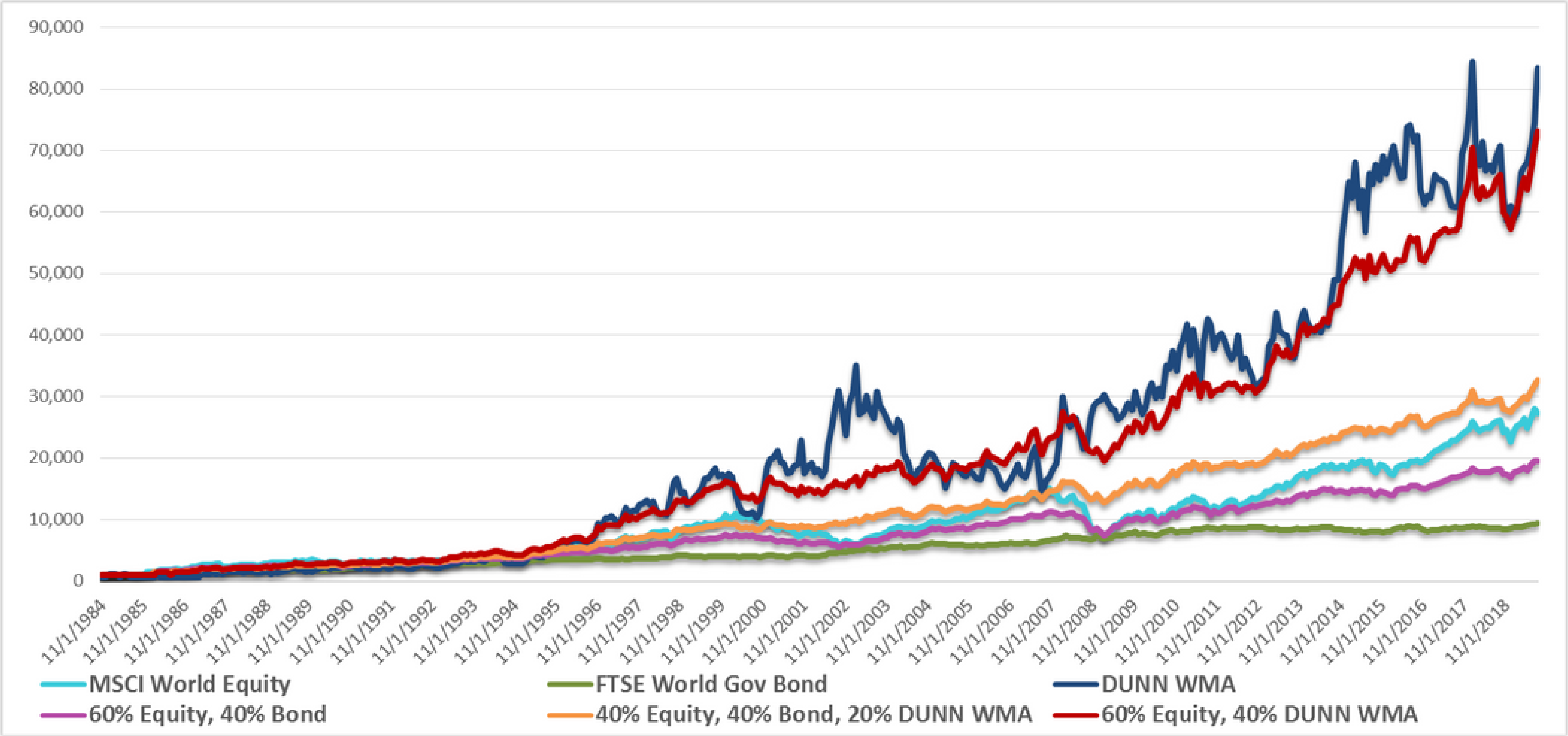


Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

DOES IT WORK IN REALITY?

TURNING FROM THEORY TO REALITY USING ACTUAL DATA FROM DUNN CAPITAL

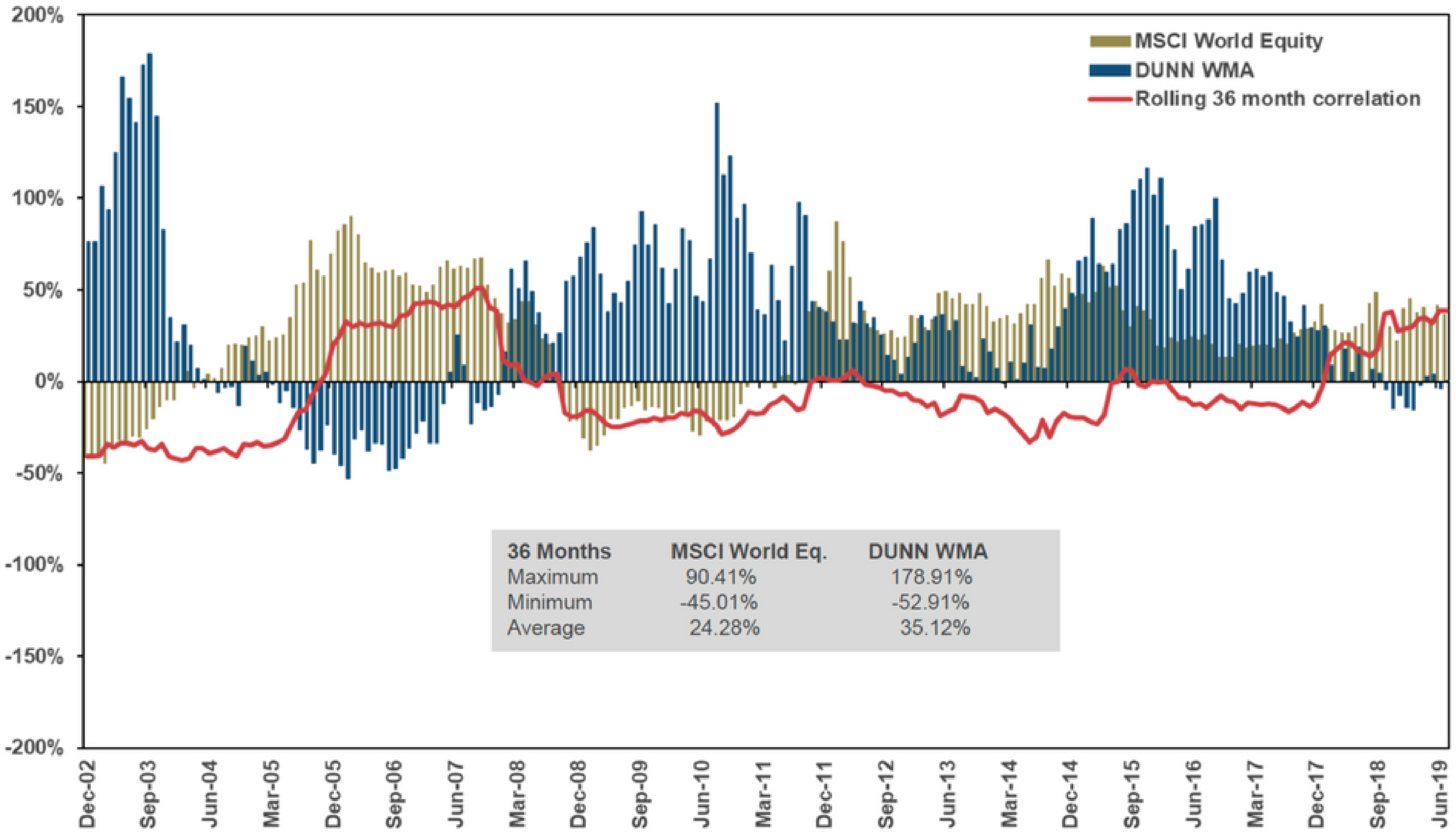
November 1984 through August 2019



Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

DUNN ALSO OFFERS CONDITIONAL CORRELATION

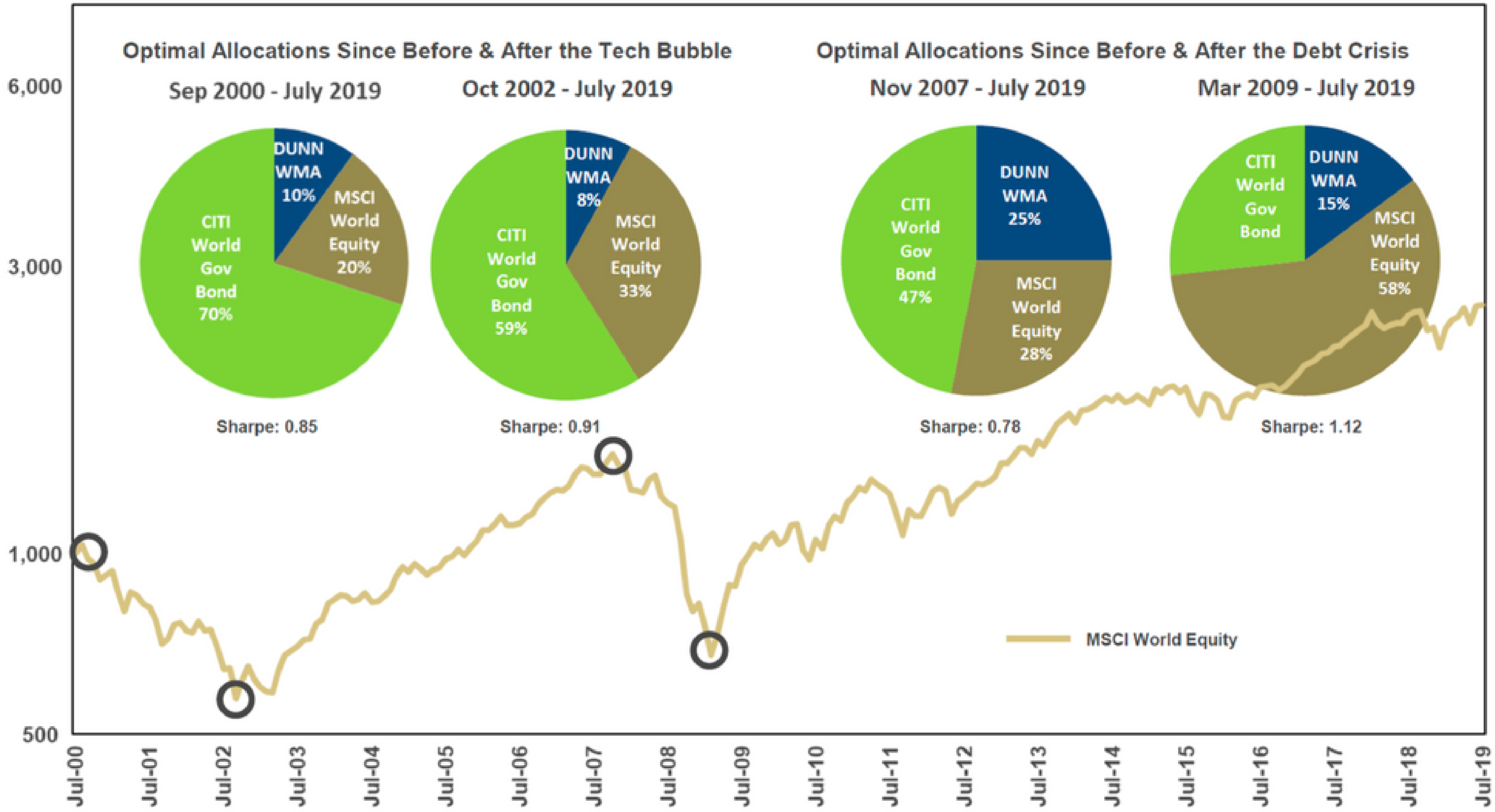
January 2000 through July 2019



Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

OPTIMIZING RISK & RETURN

Optimal Allocations with DUNN WMA Before & After the Last Two Equity Crises



Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

EXAMPLE OF WHAT IT MEANS IN RAW NUMBERS

100% MSCI World vs a mix of **40% MSCI World, 40% FTSE World Government Bonds & 20% DUNN WMA**
November 1984 to August 2019

Futures trading is speculative and involves risk. Past performance is not necessarily indicative of future results.

PROTECTION IN BEAR MARKETS…TREND FOLLOWING CAN HELP

- **SHORT RATES ZERO-BOUND, NO ROOM TO ADJUST**

  The standard response to stock market bear market/crash was to buy short-term instruments. Traditional managers can still do that, but with rates zero bound, benefit is limited.

- **AMPLITUDE OF LONG-BOND RESPONSE IS DECLINING**

  A variation of the move to short-rates is to move into longer maturities. These have ample liquidity, but in a crisis, there may be large slippage associated with a massive shift away from stock into bonds if there is a run for the exits. Hence, the amount of protection may be less than the amplitude of the move.

- **TREND FOLLOWING PROVIDES SPEED, DIVERSIFICATION AND LEVERAGE TO ADJUST SIZE OF RESPONSE**

  The necessary adaptation is to use Trend Following. Trend Following can react very rapidly, going both short the equity markets and long the bond markets. In a stock market crisis, commodity markets tend to follow the equity markets, so there is room to expand exposure through short commodity positions. Lastly, risk adjustment is also possible through currency positions, say long dollar, or long Japanese Yen or long Swiss Franc futures. The key is the speed of changing out of risky positions, avoiding the rush to the exits. The other advantage is to be able to adjust leverage to match the amplitude of equity market declines.

- **REAL RISK: MARKET LOSES CONFIDENCE, STOCKS DECLINE, AND BONDS DECLINE**

  As we saw with the European credit crisis, the next crisis may see a simultaneous decline in stock and bond markets if there is a loss of confidence in the government(s).

- **THE LAST 10 YEARS STOCKS AND BONDS HAVE BEEN NEGATIVELY CORRELATED APP. 85% OF THE TIME.**

- **…BUT IN THE LAST 50 OR 100 YEARS STOCKS AND BONDS HAVE BEEN POSITIVELY CORRELATED APP. 66% OF THE TIME, WHICH MEANS THEY NORMALLY DON'T OFFER PROTECTION TO EACH OTHER.**

JUST A FEW MORE RESOURCES THAT YOU ARE WELCOME TO...

- THE ULTIMATE GUIDE TO SYSTEMATIC TRADING
- THE BOOK I WROTE WITH KATHRYN KAMINSKI
- MY TOP RANKED PODCAST: TOPTRADERSUNPLUGGED, WITH MORE THAN 3 MILLION DOWNLOADS

TOP TRADERS UNPLUGGED

WHAT PEOPLE SAY ABOUT THE PODCAST...

Niels - I'm not blowing smoke (at all).

You have been the BEST resource for me, and have added unquantifiable value in terms of educating me on a field I have LONG believed in (every since reading about the turtle traders, in doing my own quant portfolio analysis (positive skew with great gain/loss ...and, I've obsessively listened to your show. Sometimes pulling into gas stations to pause the show and take notes.

I LOVED the Wayne episode. I love all your episodes. If y'all talked for 4 hours, I would listen from start to end. Please keep it as time-agnostic as possible. Your field demands that level of granularity. Only through educated myself can I expect to change minds.

Absolute Gold ★★★★★
by Trucker JohnZ – Mar 24, 2019
What do you get when you put a Dane, a German and an American in one show? Only the absolute greatest investment podcast out there. I can't even begin to express how much I love The Systematic Investor portion of TTU, and of how much I've learned from these three great minds. Thank you for doing this podcast.

The BEST systematic/trend following resource ★★★★★
by SamGoBlue – Jan 29, 2019
Are you seeking information and transparency? Do you value simplicity and honesty? Do you want to learn about risk and money management? Are you interested in alternative investment strategies and long-term capital growth? You will learn this and much more with this podcast through the lens of trend following and systematic investing. Start with episode 1 back in 2014 and work your way through. It's impossible you won't learn something useful and applicable.

Invaluable insights ★★★★★
by Go4dapin – Oct 22, 2018
Have been listening to top traders unplugged for almost a year and the information has been invaluable in learning about trend trading.

TO LEARN MORE...

- IF YOU WANT A COPY OF MY LATEST BOOK FOR FREE
- JUST GO TO: WWW.TOPTRADERSUNPLUGGED.COM/MACRO

YOU CAN FOLLOW ME HERE...

www.toptradersunplugged.com

@toptraderslive

MORE EDUCATIONAL RESOURCES AT: WWW.DUNNCAPITAL.COM/MACRO