
TREND FOLLOWING WITH A MANAGED FUTURES “MASTER NINJA”

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Last week’s podcast was a deep dive into trend following and [managed futures](#) strategies with MIT Ph.D. Katy Kaminski, who co-authored the book *Trend Following with Managed Futures: The Search for Crisis Alpha*. My co-host Wesley Gray, CEO of Alpha Architect, refers to Katy as the “master ninja”¹ of managed futures investing—he is a major groupie, having read her book multiple times.

Kaminski was fascinated by the futures market right away, when she first dealt with them in-depth as part of her PhD teaching curriculum. She liked the idea of managing risk and exposures via futures rather than through traditional equities.

Kaminski recounted how she would give academic talks and academics would ask whether she had looked at the Fama/French factors in her futures work—and it was like the academics were speaking a different language; the [Fama/French](#) factors look at explaining returns across the cross section of equity markets and have less relevance for the aggregated market returns at a higher level.

Kaminski discussed how many pension funds do not quite understand how managed futures returns are structured and how often 80%–90% of capital is held in [Treasury](#) securities that earn short-term rates of interest and the other 10%–20% of capital is invested in futures with very high risk—like a barbell strategy. Now, one of the reasons managed futures had disappointing returns over the last decade is the historically low interest rate regime that generated low returns on the Treasury collateral. But with the Fed hiking interest rates, the underlying collateral for managed futures strategies is starting to earn higher basic returns and is arguably becoming increasingly important.

Are Managed Futures Dead?

Kaminski said she had in the course of her career seen many instances where managed futures strategies were pronounced dead given their challenging environments, but every time that has happened, an event occurred that caused performance to come back meaningfully.

This was a great conversation with one of the world’s premier researchers on managed futures. For those who want to learn more, our conversation touched on things like:

- How to think about creating the underlying assets within a managed futures strategy
- How to think about how dynamic one’s trading strategy should be in balancing short-term and long-term signals

- How to consider long-term return potential of managed futures
- How to think about building a portfolio, including why Kaminski likes diversifying a standard 60/40 equity bond portfolio with a 20% allocation into managed futures strategies.

To listen to the full conversation, click [here](#).

¹“Master ninja” is a reference to Katy Kaminski made by Wesley Gray on Twitter. See <https://twitter.com/alphaarchitect/status/964623187844661251>

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DEFINITIONS

Managed futures: An alternative investment strategy in which futures contracts are used as part of the investment strategy.

Fama-French: Refers to a factor-based model to describe stock returns developed by Eugene Fama and Kenneth French. Their original three-factor model breaks down the components of stock returns to market risk, company size and book to market ratio, or value.

Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.