



MAJOR MARKETS PORTFOLIO PERFORMANCE REVIEW

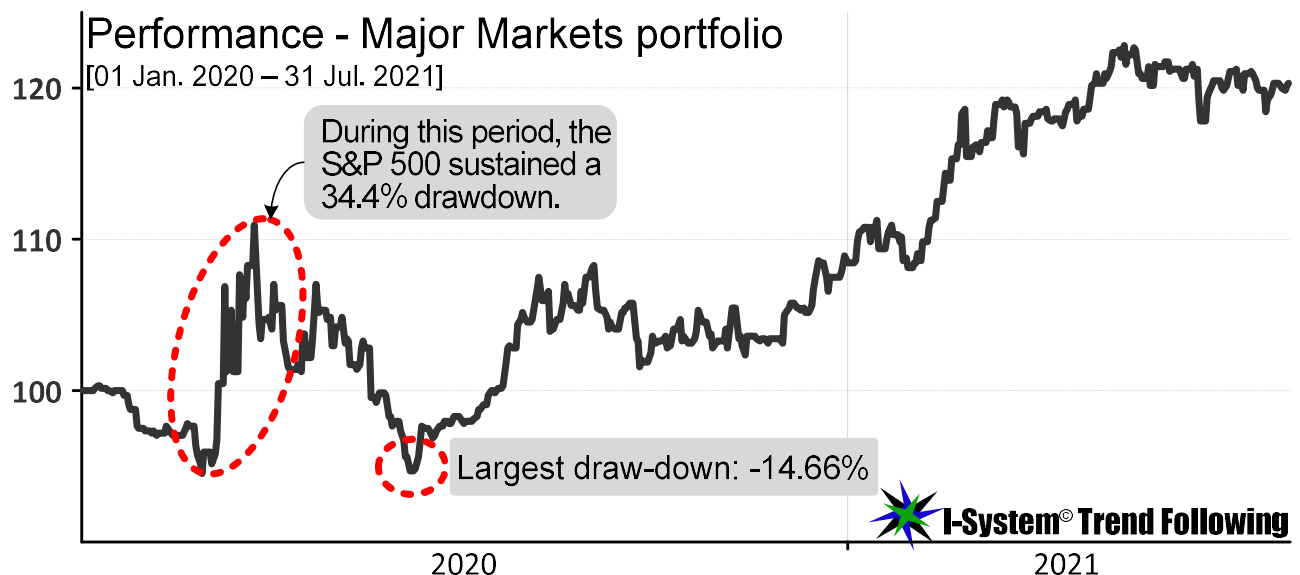
01 Jan. 2020 – 31 Jul. 2021

Image: deck of the 1960 replica of the SS Bounty. Image credit: Bounty's Facebook page

This document provides a visual performance summary of the 190 I-System strategies that comprise our Major Markets portfolio. With the exception of Bitcoin, the charts are all based on an equal risk weighting among markets and strategies in order to show an “*apples-to-apples*” comparison. There’s a brief commentary with each chart. The portfolio as a whole performed superbly well, showing once more the merit of well-diversified trend following portfolios.

Full Major Markets portfolio

For the purpose of this analysis I've allocated \$100,000 risk budget to each one of the 180 strategies comprising the Major Markets portfolio (excluding Bitcoin). Position sizes were set in a way that one standard deviation of daily P&L (profit & loss) changes corresponds to 20% of the risk budget, i.e. \$20,000, resulting in a very moderate risk profile. The portfolio's performance (after commissions) is illustrated below:

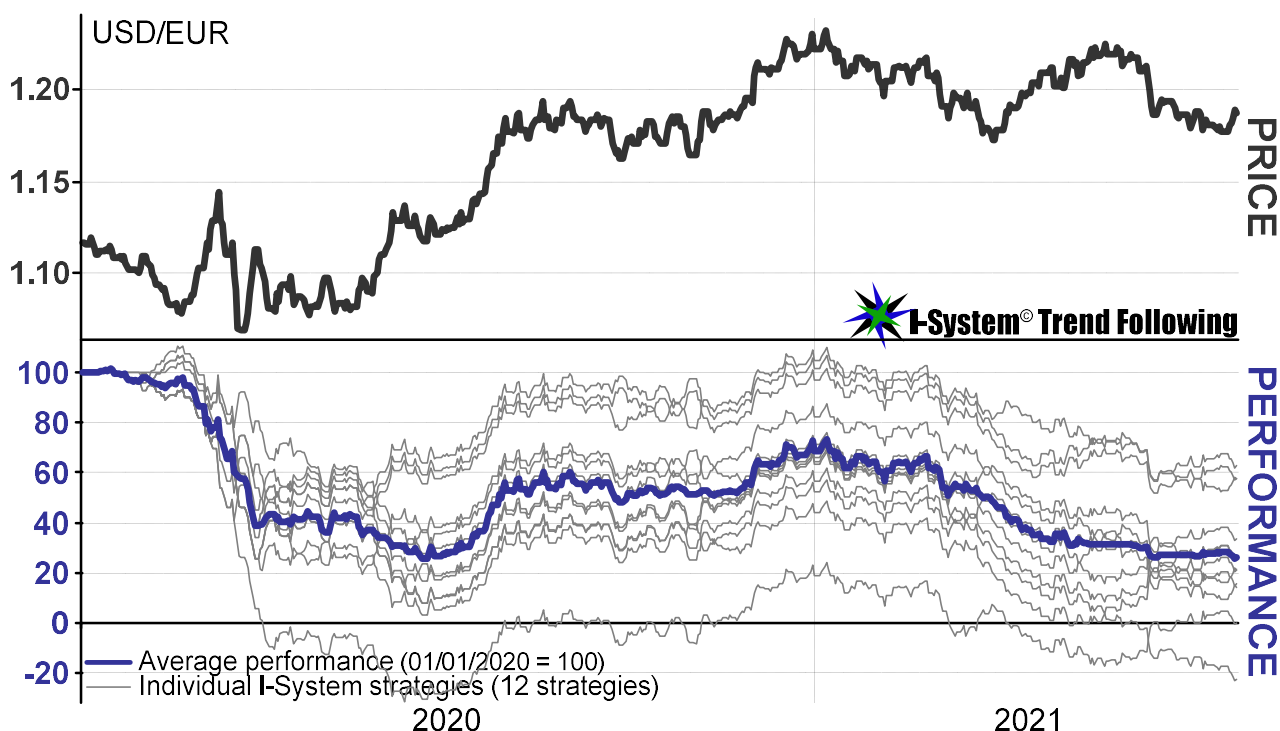


A well-diversified trend following portfolio is a robust diversifier – during one the most turbulent periods in the markets in March and April last year, it sustained only a small, 5% drawdown but generated positive performance from the equities market crash. The portfolio's largest draw-down of -14.66% ensued as the markets pulled back from the brink and reversed their decline.

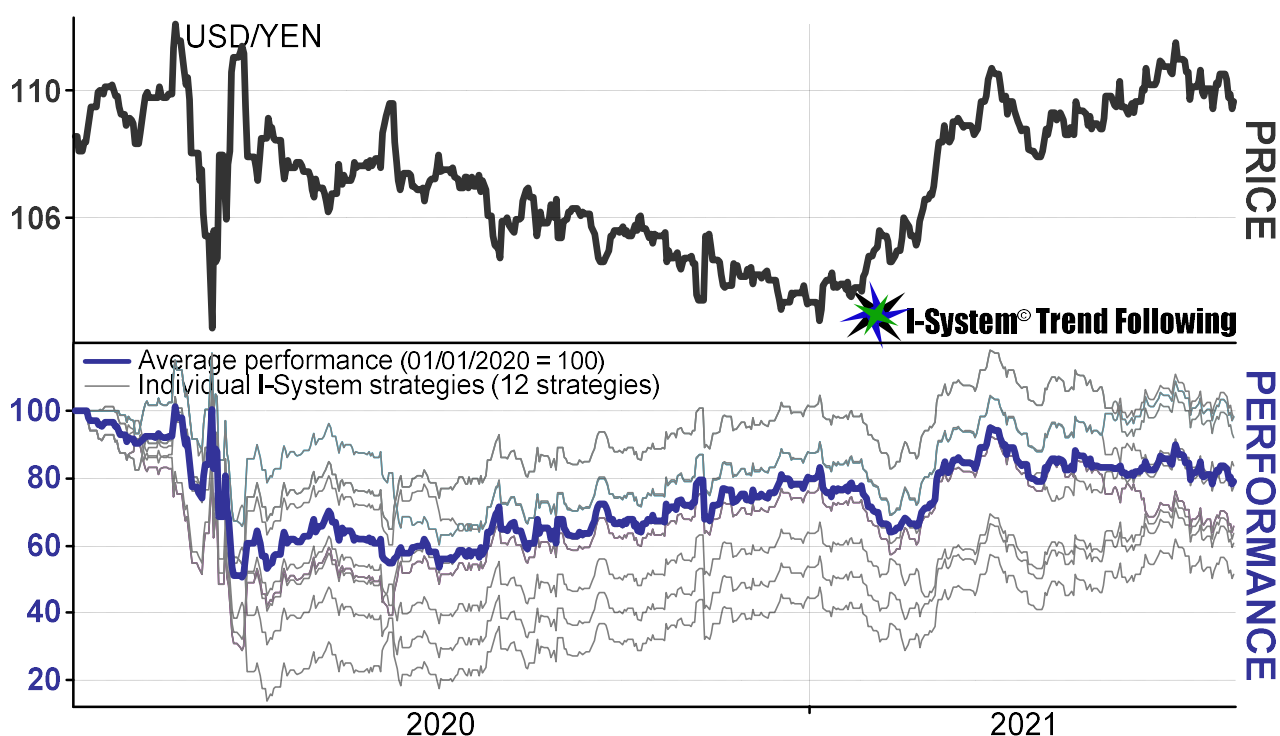
A comparison: (Jan 2020 – 30 Jul. 2021)	Major Markets	S&P500
Total return	20.27%	34.69%
Annualized return	11.71%	19.56%
Volatility (annualized)	12.71%	21.17%
Best month	8.50%	12.95%
Worst month	-4.94%	-12.92%
Worst drawdown (daily data)	-14.66%	-34.40%
Correlation	-10.30%	

The portfolio had its largest draw-down (-14.66%) when the markets recovered from their March/April collapse. Given that it is based on daily data, this was a very moderate drawdown (hedge funds normally report draw-downs on the monthly basis, which partially obscures the worst draw-downs that would be visible in daily data).

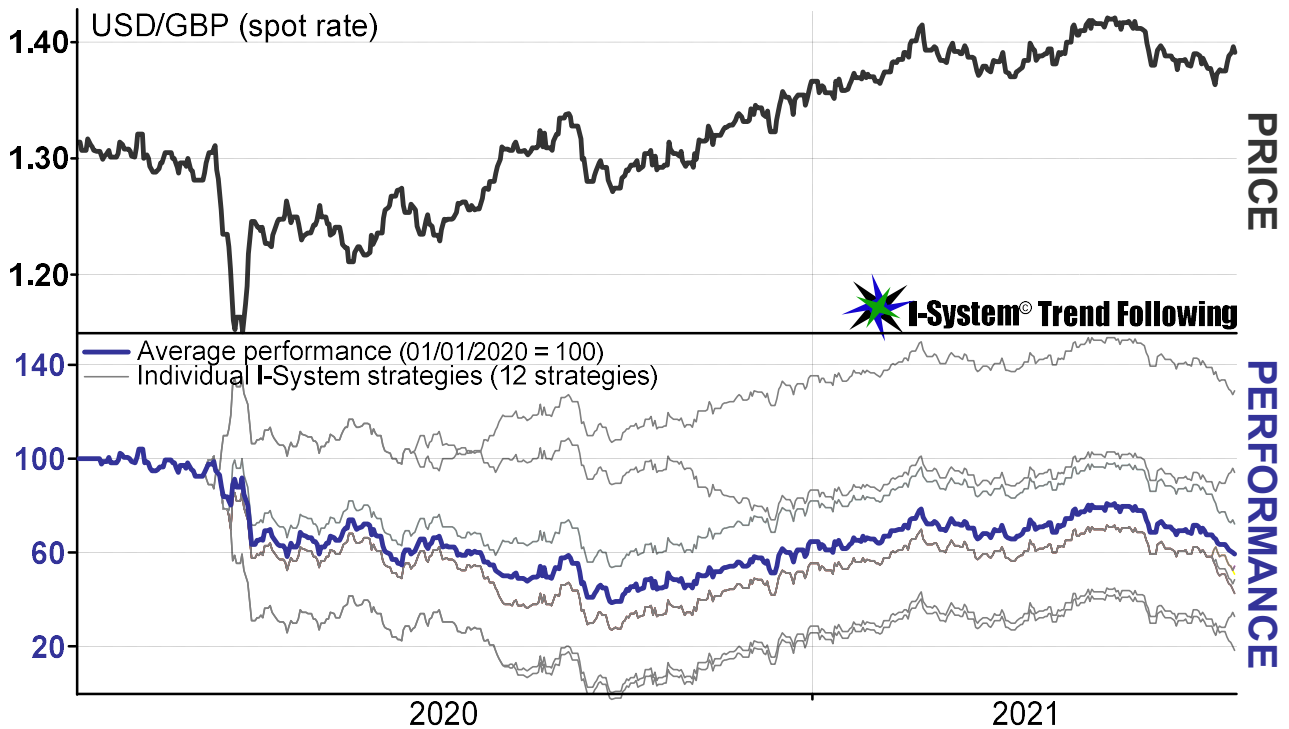
PART 1: CURRENCY PAIRS



This market is still looking for direction throughout 2021 which has resulted in a deep and long drawdown.

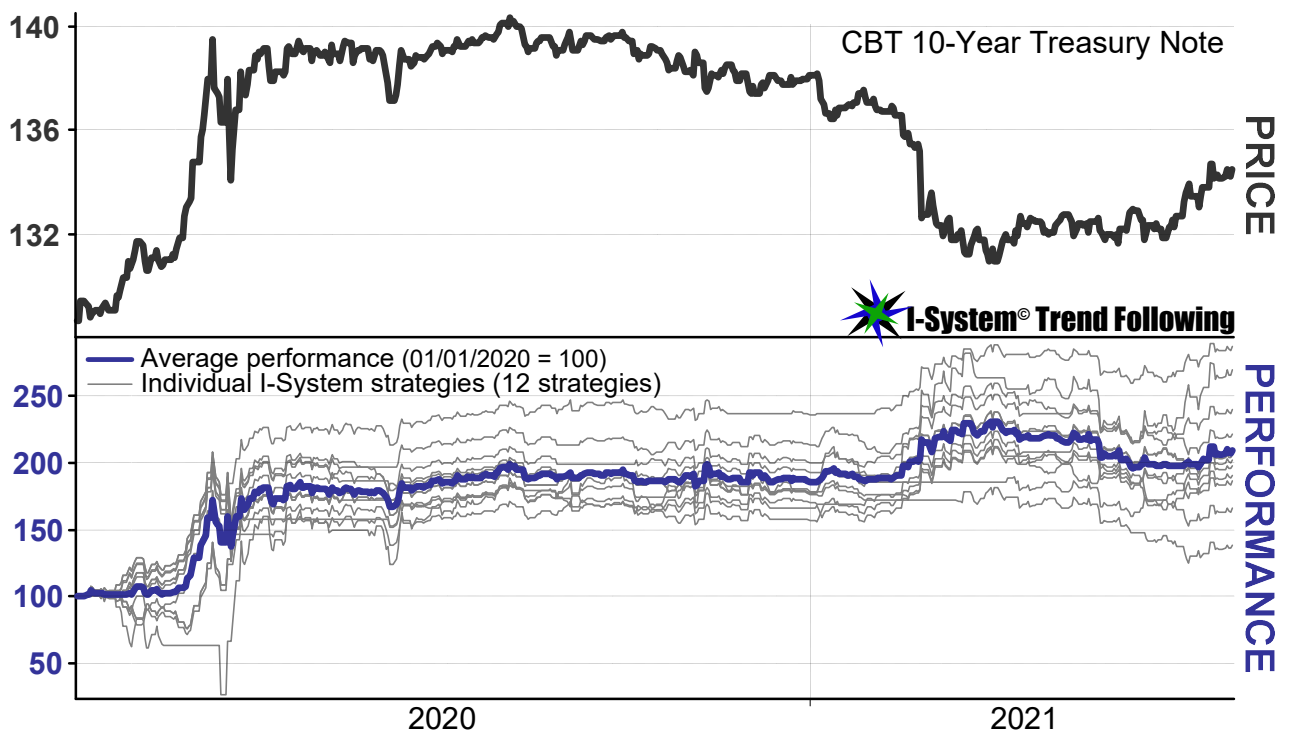


Apart from the massive jolt in Q1 2020, USD/YEN has offered some trending moves in the past 20 months even if it's been bumpy and volatile. Given the market conditions, I find the performance here largely satisfactory after Q1 2020.

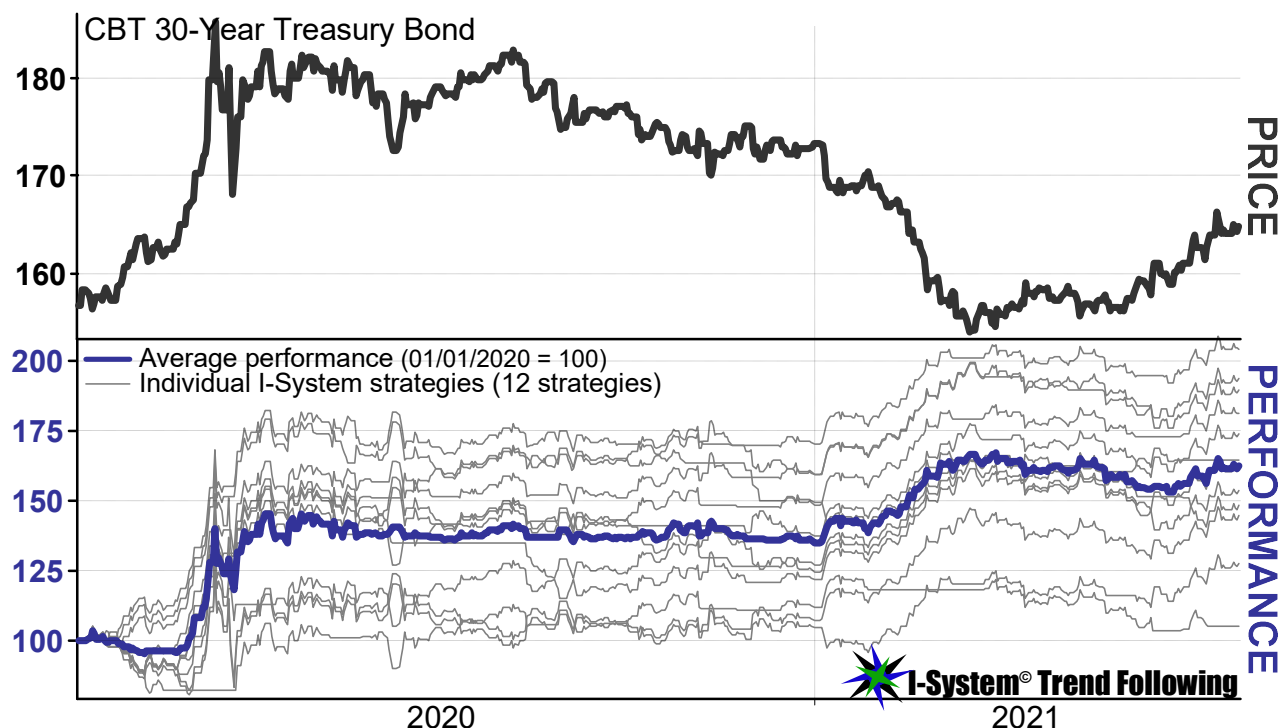


Here again the trend has flattened out in 2021 and the result for the year is almost exactly flat. In this chart, many of the strategies overlap so that not all 12 individual curves are visible.

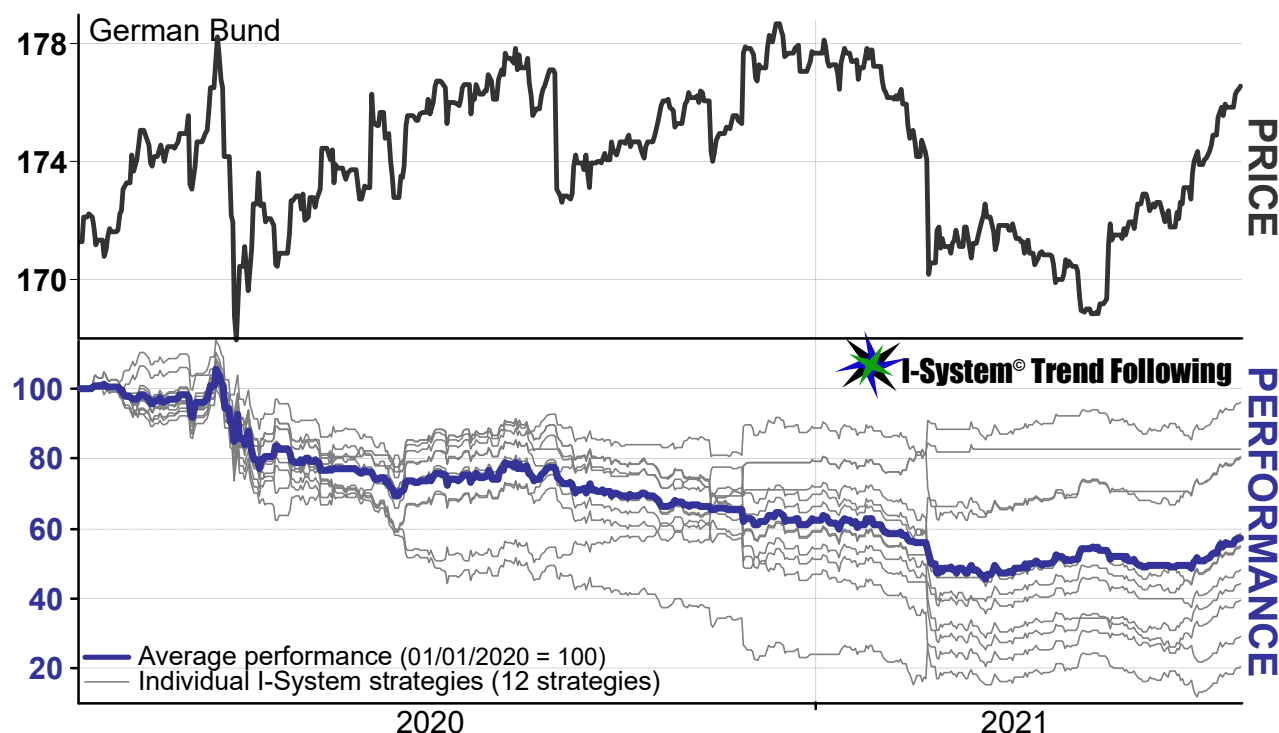
PART 2: TREASURIES



US Treasury futures have been among the top performers in the Major Markets portfolio. So far, 2021 has been positive, but the trend reversal and a long period of horizontal consolidation has taken the toll on performance.

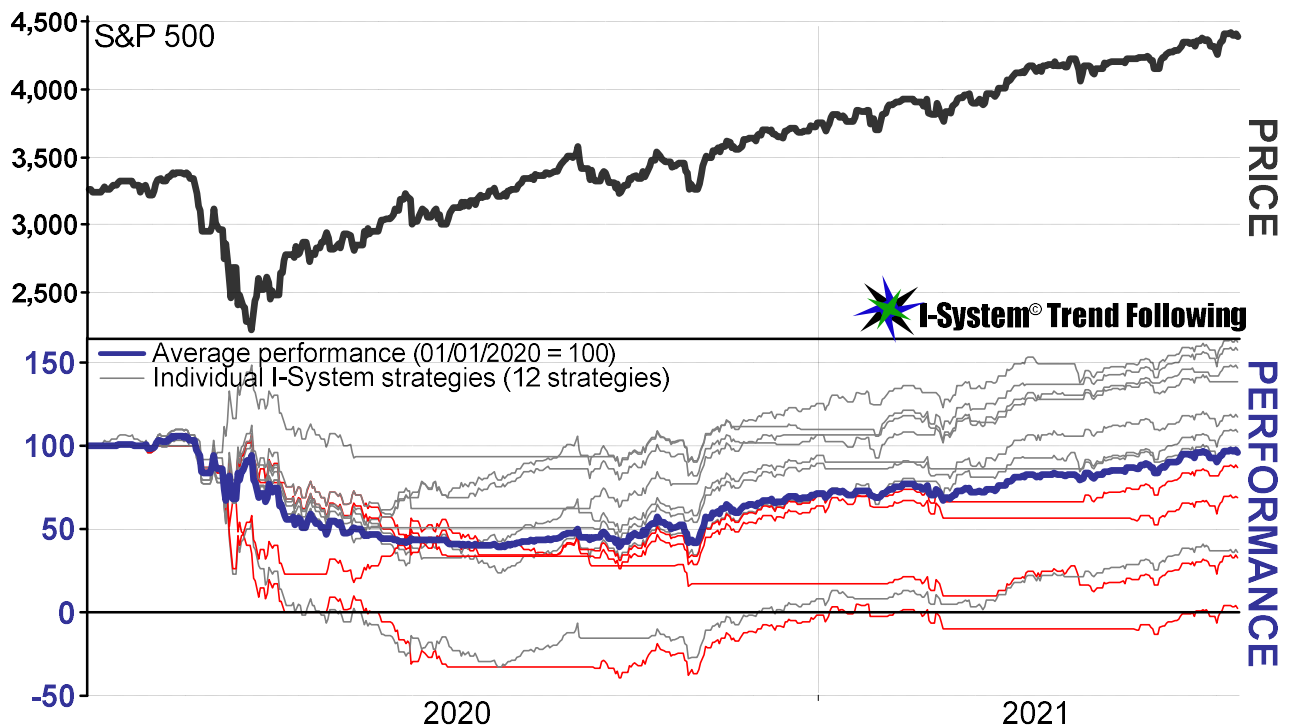


With the US long bond, the price trajectory was quite favorable to trend following strategies. However, because the 30-year Bond's short-term price fluctuations tend to be more volatile the equal risk weighting of the portfolio resulted in these strategies trading a smaller position size. The result is that we had better long-term performance on the 10-year T-Note futures (since the long-term price changes were similar in both markets).

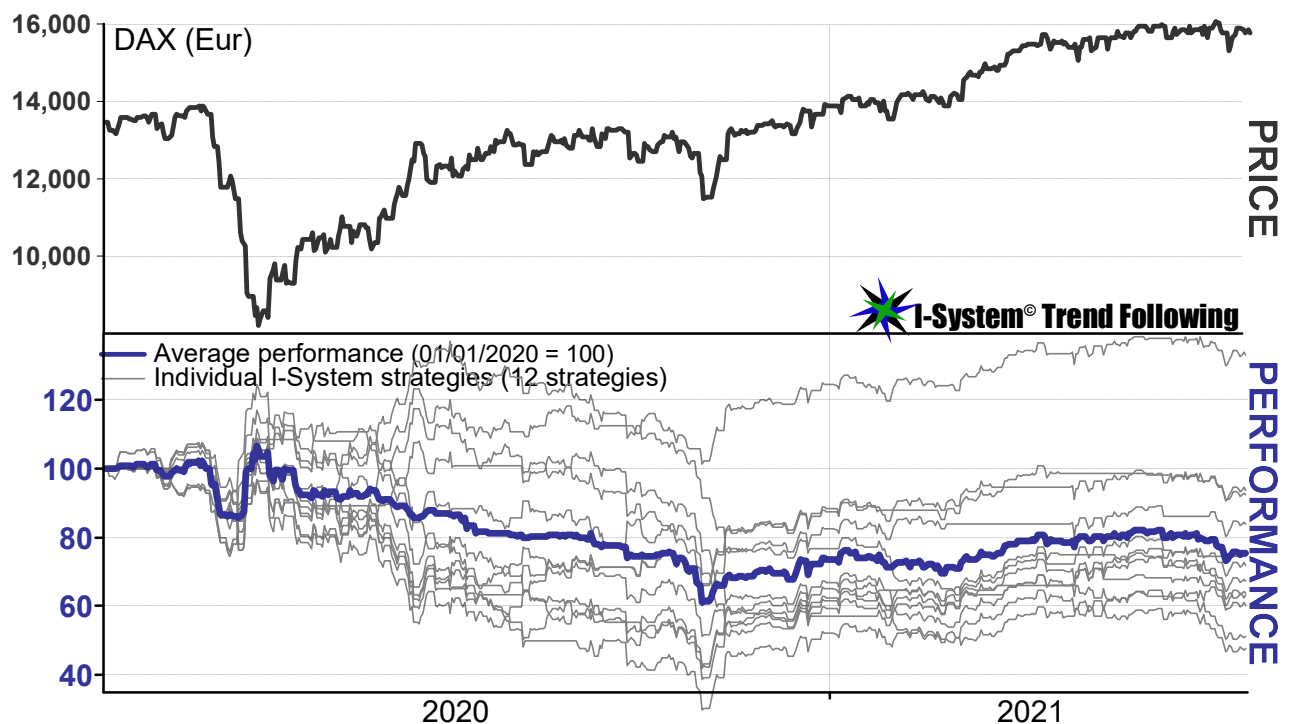


The Bund was one of the best markets for trend followers from 2016 through 2019. But after the 2019 price peak, the long and volatile sideways market caused a continued losing streak for the bund strategies. Unfortunately, this is a fact of life for trend followers.

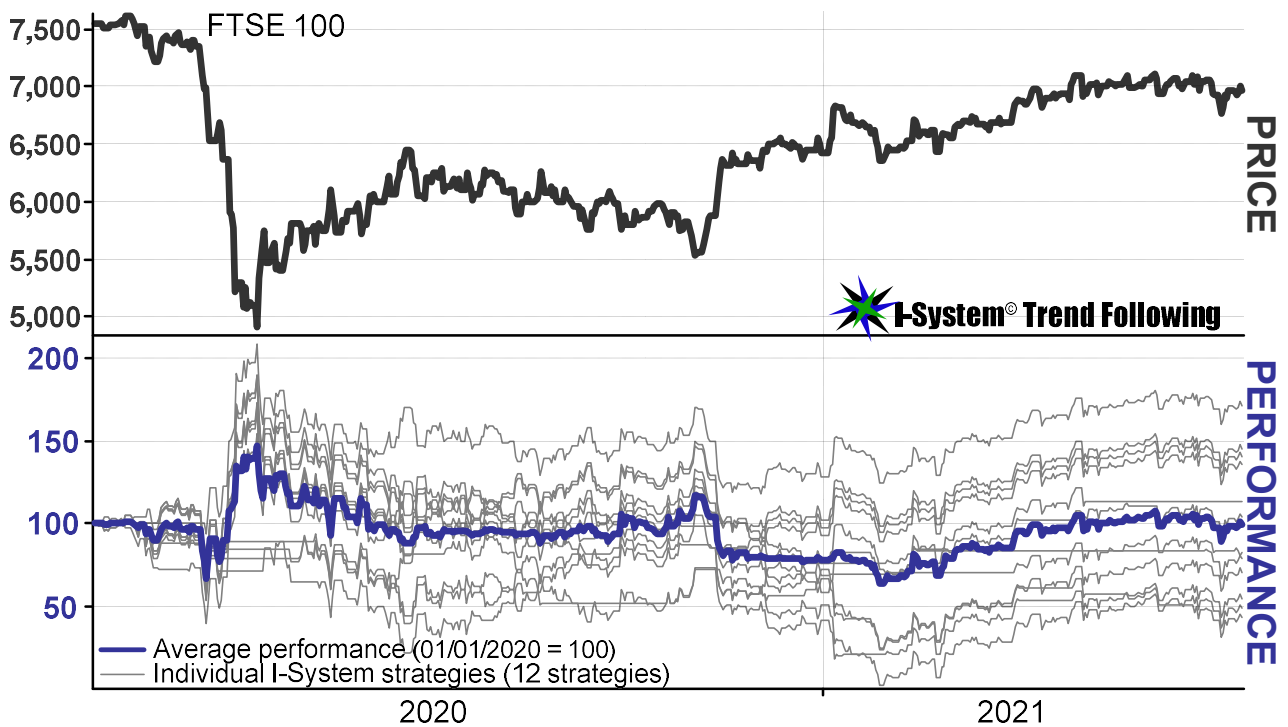
PART 3: EQUITY INDICES



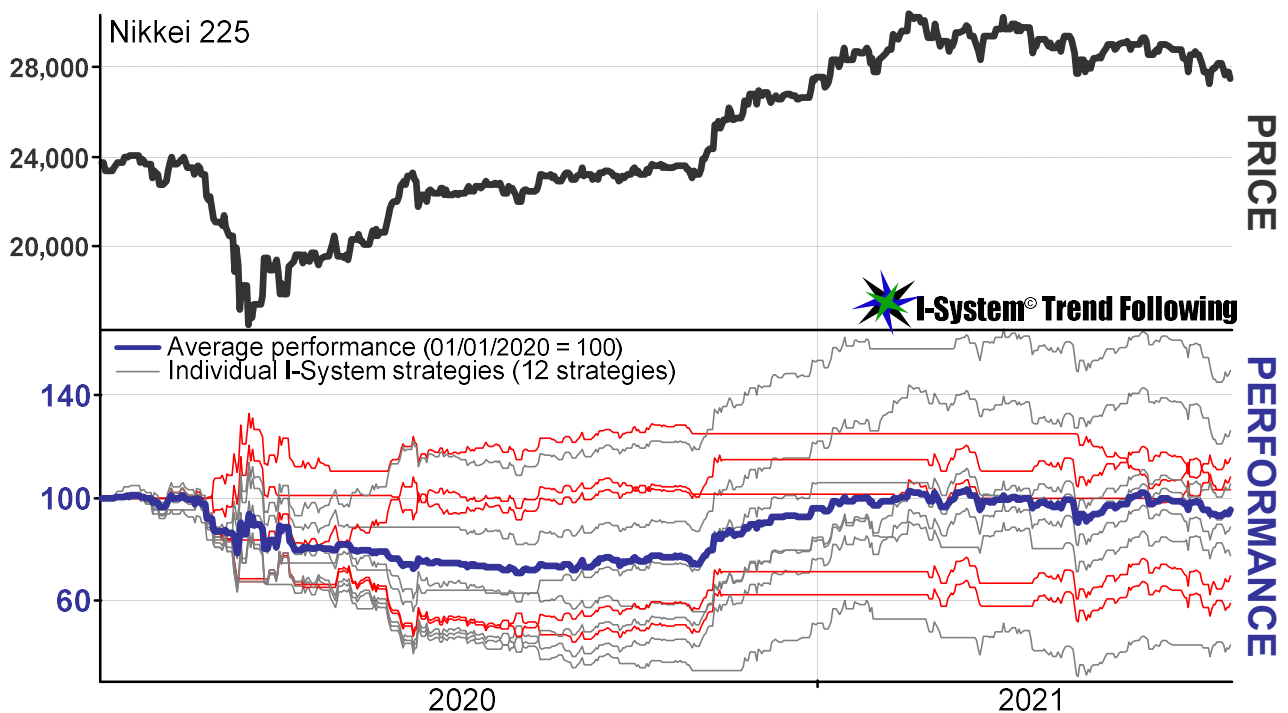
After the Feb-April 2020 crash, the S&P500 has been a long melt-up trend and the performance has been satisfactory except for the **performance curves** I colored in red (see the commentary toward the end of this performance review).



Here we have a clearly discernible trend after Q1 2020, but most strategies have not traded it well through 2020 and the reason is that they interpreted three events on the price chart as trend reversals. The results have been very positive since Q3 2020 but the last flat period + correction in 2021 led to a small drawdown.

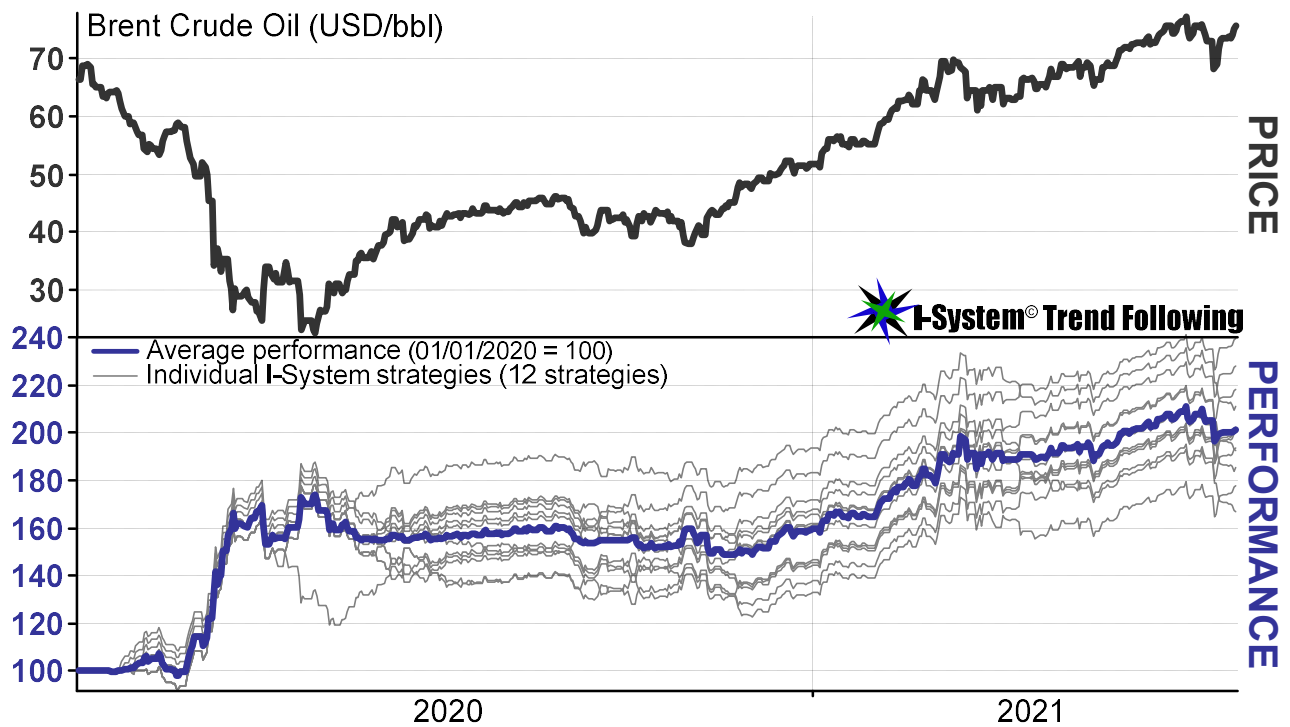


At first blush, FTSE price curve looks unfavorable to trend following and so it was. Over the past 20 months the performance has been slightly positive largely thanks to the fact that FTSE already began to look bearish going into Q1 2020 crash which allowed I-System strategies to switch to the short side early enough to capture a large part of that move. The rest has been a difficult terrain.

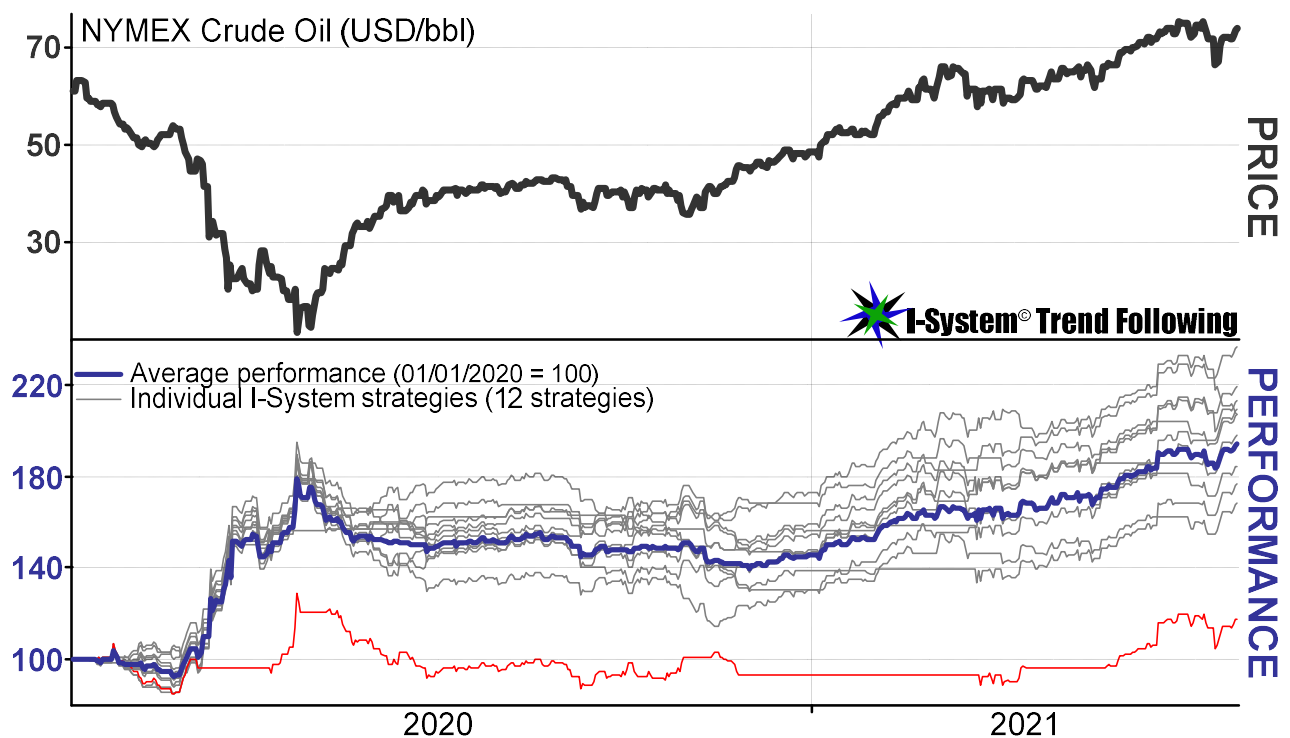


The Nikkei staged a substantial trend after the Q1 2020 crash and this has allowed I-System strategies to reverse the year's drawdowns. But the Nikkei has not been easy to trade. For a trend follower, getting thrown out of trades and sitting out long time intervals (**red curves**) is a concern.

PART 4: ENERGY

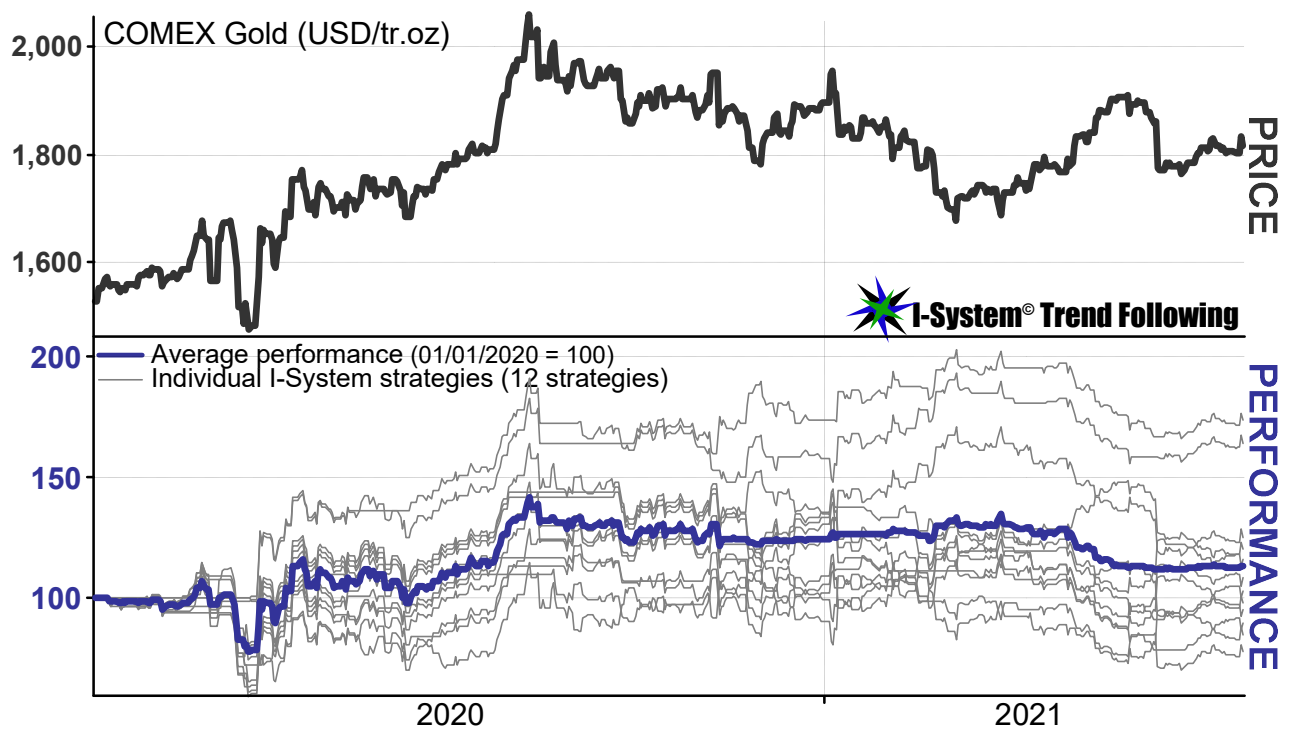


Last 20 months saw strong trends in energy markets, both down and up – a very favorable environment for trend following and superb performance was the result.

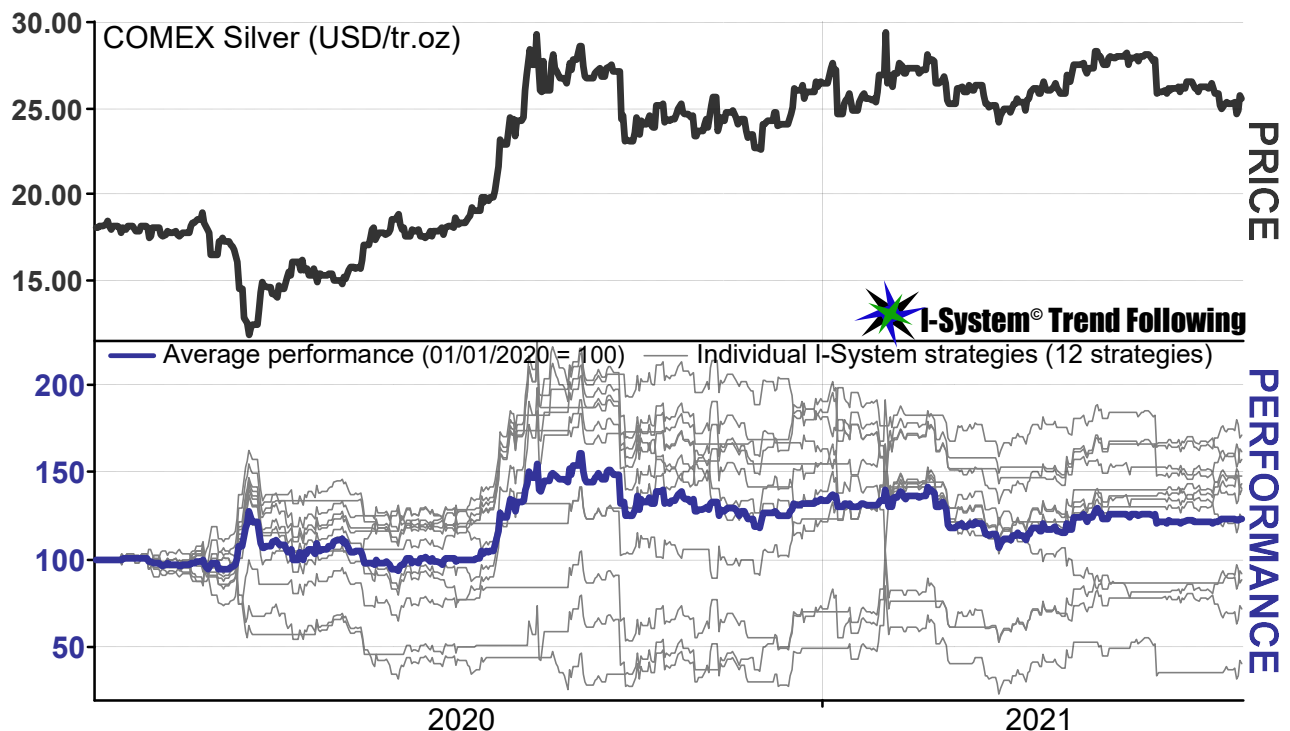


Like Brent, WTI strategies have done very well. The main difference between them is that some of the WTI strategies use more restrictive stop-loss and profit-taking signals. As a result, a few of them sat out some trending intervals resulting in lesser performance. Again, please note the performance curve colored in red.

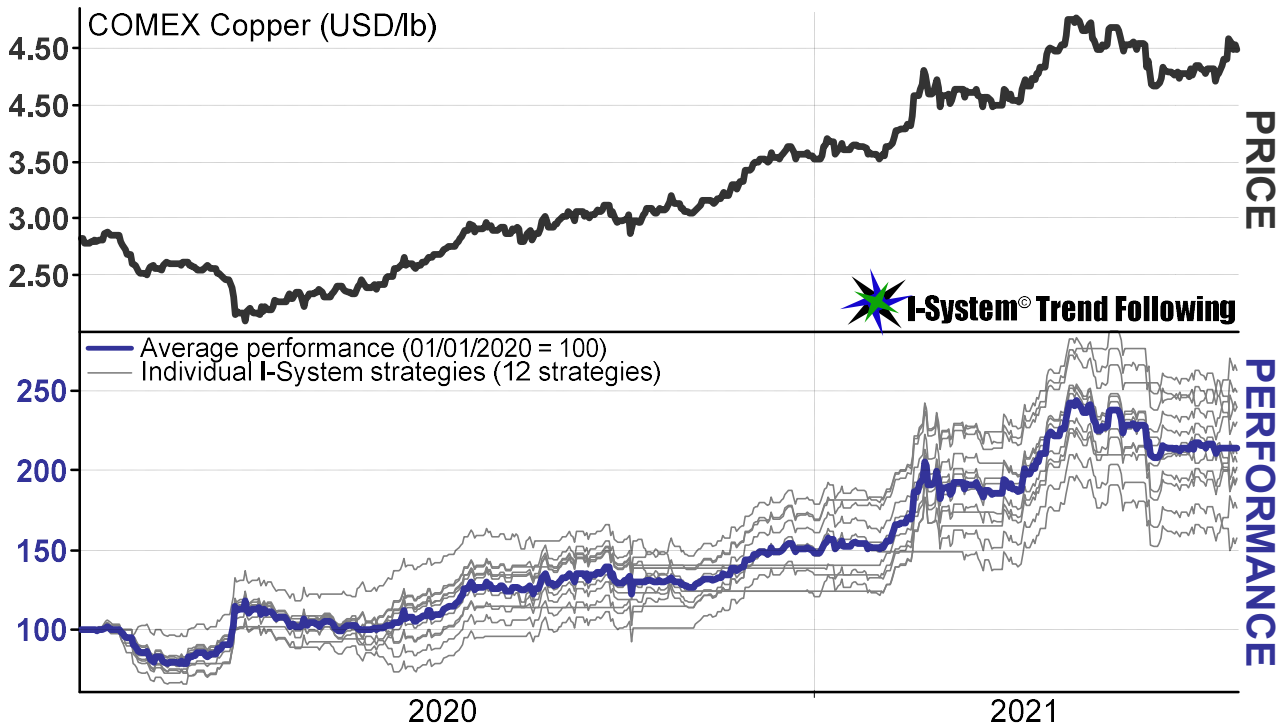
PART 5: METALS



I must say, the performance of our Gold strategies gives me great satisfaction. The terrain has been difficult, pock-marked by reversals and varying volatility and switching directions. The fact that we've had only a relatively small draw-down through 2021, but positive overall performance over the last 20 months is actually superb.



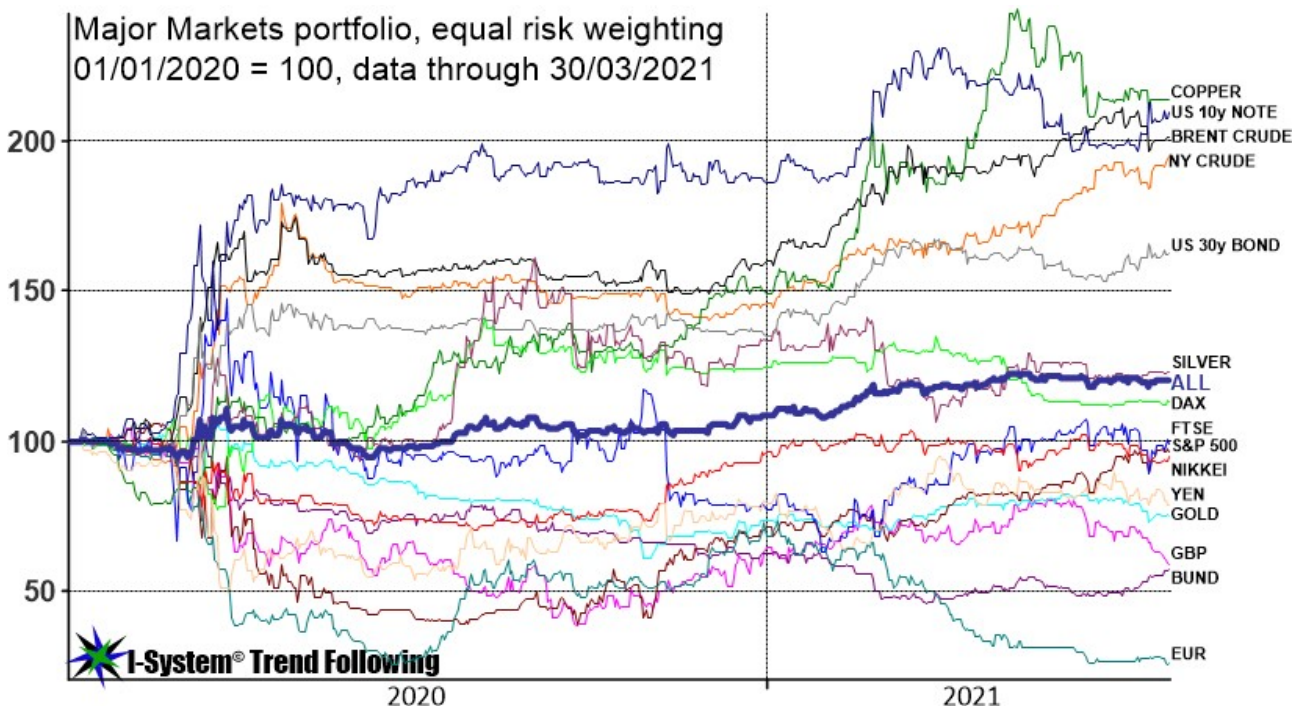
As with Gold, I-System performance on Silver has been satisfying and I believe that as the past 12 months' consolidation gives way to a new trending move, we'll see good performance here.



Since Q1 2020, Copper has been exceptionally favorable for trend following strategies. Over the last three months' correction and consolidation we've had a substantial drawdown, but this is part and parcel of the trend following process.

PART 6: THE WHOLE PORTFOLIO

Keeping approximately the same risk exposure in all of the above 15 markets would have generated the following performance (after all the commissions on trades and roll-overs paid):



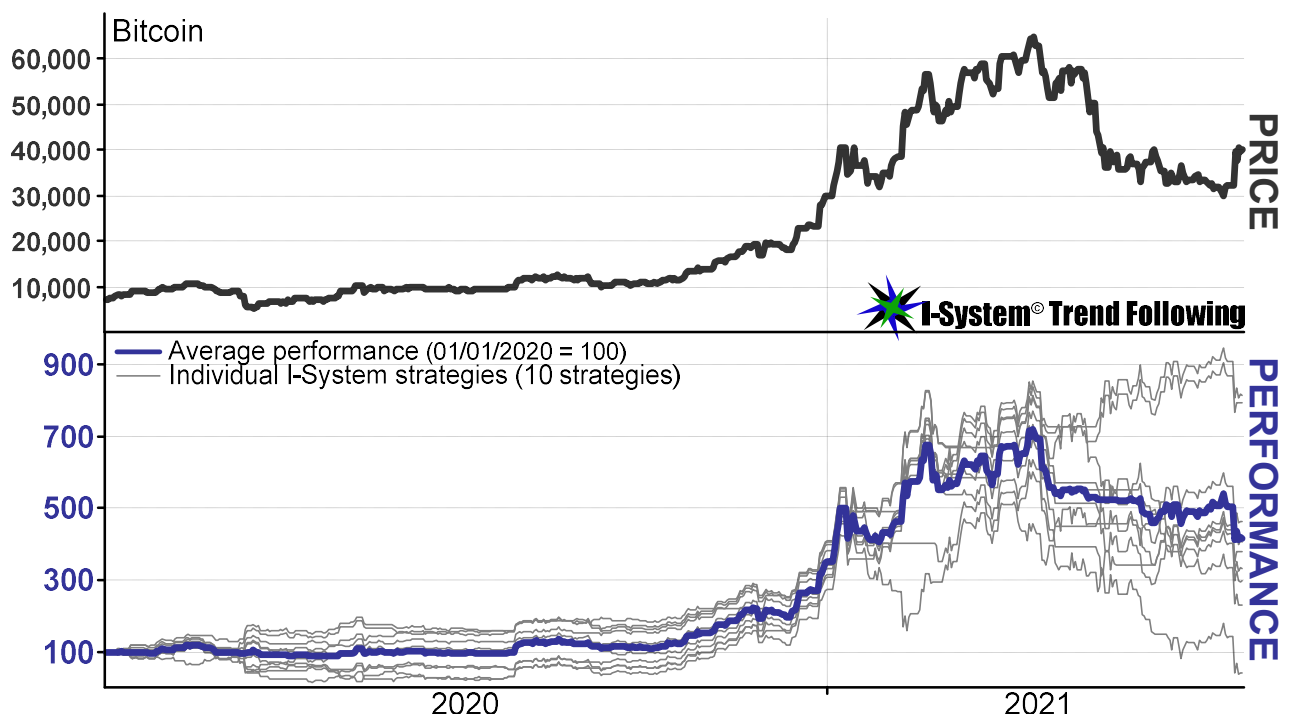
This chart shows the average performance for each market's set of 12 strategies and their cumulative performance on the equal risk-weighted basis.

On position sizing and its effect on performance in individual markets

Risk weighting is based on short-term price fluctuations: in more volatile markets we trade smaller position sizes and vice versa. For this reason, the U.S. 10-year T-Note (TY) turned out to be our best performer: since it is less volatile than the 30-year Bond, TY position was a bit larger. But as longer-term price changes were similar in both markets, TY generated greater profits. The issue is that we can easily measure the volatility of short-term price fluctuations, but we can't predict large-scale price events.

PART 7: BITCOIN

I've decided to report Bitcoin performance separately from the other markets due to the extreme volatility and price appreciation over the last 12 months. The chart below assumes taking an unleveraged position in Bitcoin (i.e. a risk budget of \$7,000 to purchase bitcoin at \$7,000) and even at that, the returns and draw-downs have been volatile in the extreme. When I added Bitcoin to the portfolio in May this year (due to pressures of popular demand), I wrote that, "The difficulty is that Bitcoin's history consists of a series of hockey-stick rallies and long periods of sideways consolidation in between. This makes it difficult to formulate high conviction strategies..." but using a set of trend following strategies would probably still prove better than discretionary trading along this roller-coaster. I am convinced that Bitcoin will prove to be a good market for trend followers but through this year's massive rally and the sharp reversal since May, the performance has been only marginally positive.



Bitcoin trends and volatility have been extreme over the last 12 months. For 2021, the performance has been only marginally positive.

PART 8: THE CONCLUDING REMARKS

In the above simulation, Major Markets portfolio was significantly less volatile than the S&P 500. More importantly, its biggest draw-down was 14.66% vs. 34.4% for the S&P500. It is precisely the March/April 2020 market jolt which best reflects the merit of a well-diversified set of trend following strategies. Rather than sustaining large losses during that time, we experienced only limited decline followed by a quick recovery. In a real bear market, trend following can – and likely will – generate strong positive performance! When I say “real bear market,” I mean the kind that followed the bursting of the 1980s Japanese or 1920s American stocks bubbles: declines of over 80% that took nearly three decades to recover (the Nikkei is still 30% below 1989 peaks).

Even with a moderate risk profile, a well-diversified portfolio of trend following strategies is an effective anti-dote to the risks associated with the present financial bubble. One thing we know about bubbles is that ultimately they all collapse, no exceptions.

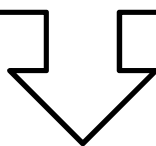
ABOUT THOSE “RED” PERFORMANCE CURVES

Formulating high quality trend following strategies entails striking the best balance between exposure to large trend moves and cutting losses when such moves fail to materialize or where they correct sharply. Experience and literally millions of performance simulations make it quite clear that strategies that aim for long-term trends, which keep market exposure during the bulk of their time tend to be the most reliable performers by virtue of not missing out on windfalls when the markets deliver them. But inevitably, some strategies will end up kicked out of positions and sitting out the trending periods.

As a trend follower, I am entirely at peace with the fact that trading tends to generate flat or negative performance in absence of trends. But when trends do materialize, the failure of some strategies to take positions is frustrating. Having analyzed the strategy sets for the S&P 500 and Nikkei indices, it is evident that the price fluctuations dynamics have changed somewhat over the recent years, giving way to a lower volatility *melt-up* which has generated fewer entry signals. This has resulted in a number of strategies spending long stretches of time without a position. As a result I will need to revise the strategy mix for Nikkei (and with another few months delay for the S&P500 as well) and will consider changing the strategy mix over the coming several weeks. I will alert TrendCompass subscribers about the changes in due course.

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Financial industry generates thousands of research reports each and every day, an overwhelming glut of information. Instead of adding to your reading pile, we analyze market trends and deliver the final product of our research: clear, **actionable decisions you can digest in seconds, not minutes per day.**

Real-time CTA intelligence

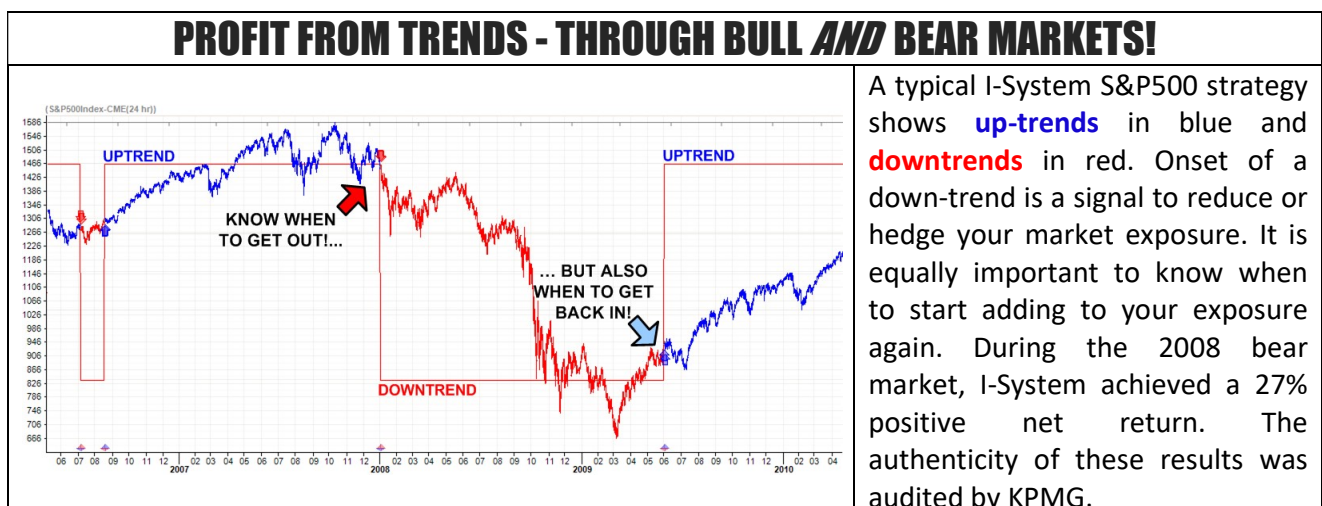
For decades, commodities trading advisors (CTAs) have used systematic trend following as one of the best strategies in active investment trading. Institutions like Nomura, JPMorgan and Rabobank pay close attention to CTAs as and that **understanding CTA strategies “can provide a strong edge in today’s highly systematized markets.”** TrendCompass delivers this edge – effectively, reliably and in real time!

I-System: probably the best trend following model ever built!

We generated our reports with the I-System. The product of more than 20 years of passionate and uncompromising obsession with quality, **I-System’s track record** in hedge fund management from 2007 to 2019 delivered consistent benchmark outperformance, including against an index of world’s leading, blue-chip CTAs (audited).

Delivering quality decision support every trading day.

A reliable and effective trends auto-pilot provides invaluable decision-support. Even only as a ‘reality check’ or a source of ‘second opinion,’ TrendCompass gives you **the guidance to navigate the markets profitably, with confidence and peace of mind.**



What our clients say:

TrendCompass is among the few reports I look at every day. I find it is **an excellent proxy for what the CTAs are doing**. Having this information in real time has proven very helpful.

Lee Robinson, *Chief Investment Officer, Altana Wealth Ltd. (client since 2011)*

The daily Trend Compass analysis and commentary is **an exceptionally useful guide to understanding financial market trends**. These reports have been extremely useful to me in positioning client portfolios and has elevated my ability to advise my clients.

Emerson Fersch, CFP, Capital Investment Advisers, Long Beach, CA

With TrendCompass, I found my 'lighthouse' which has been extremely valuable as **a timely indicator of big market waves**. It's very helpful in my swing-trading strategy as it helps me keep positive focus through my daily trades.

Irina Litvak – private investor,
Cayman Islands

After a few months of receiving the TrendCompass reports **I caught over \$40 per barrel with its signals** when oil price collapsed this year [2020]!! That was very impressive and thank you. Really a good trend compass!

Mark Shternberg – futures trader,
Moscow

In my experience, TrendCompass is a **powerful tool designed to profit from major intermediate term trend breakouts** and breakdowns. It complements fundamentally-based trading as a tactical positioning guide as well as a risk-management tool.

Dr. Damir Tokic – Commodity Trading Advisor and Professor of Finance, IUM,
Monaco

TrendCompass delivers as promised: reducing complexity to simplicity is **very valuable for an investor**. With time and results I have learned to trust the guidance from TrendCompass.

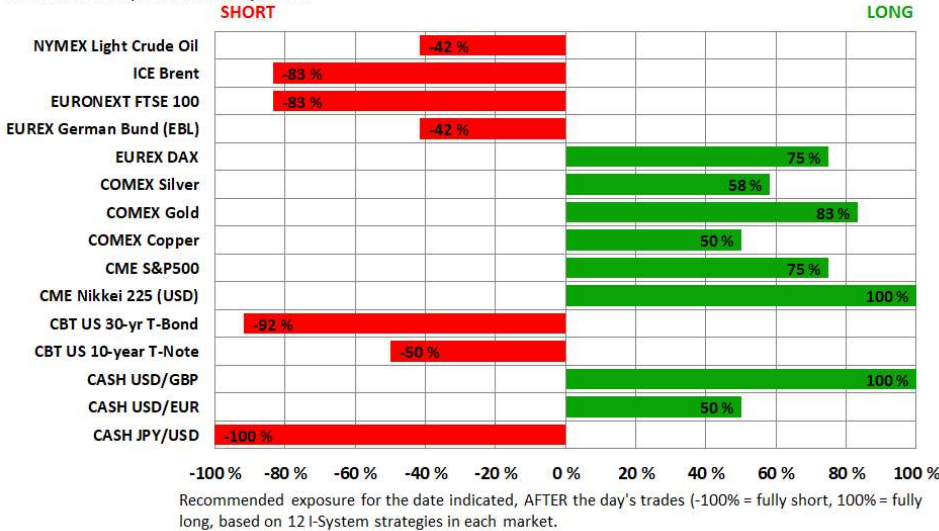
Jürgen Hess – private investor,
Monaco

What you get:

1. Daily e-mail summary

Major Markets, 27 Oct. 2020

Recommended exposure after today's trades



Your daily e-mail summarizes the changes in directional exposure based on previous trading session. An intuitive bar chart shows the recommended exposure so that you can grasp it at a glance.

2. Report summary page

TrendCompass report for

MAJOR MARKETS

Report generated on 27 Oct. 2020



Instrument	Signals for last trading day		Strategies used	Current exposure		Today's change	New exposure	
	Date	Price		Strategies	% of total		Strategies	% of total
CASH JPY/USD	26 Oct. 2020	JPY 104.84	12	-12	-100 %		-12	-100 %
CASH USD/EUR	26 Oct. 2020	\$ 1.1807	12	6	50 %		6	50 %
CASH USD/GBP	26 Oct. 2020	\$ 1.3022	12	12	100 %		12	100 %
CBT US 10-year T-Note	26 Oct. 2020	\$ 138.6406	12	-4	-33 %	-2	-6	-50 %
CBT US 30-yr T-Bond	26 Oct. 2020	\$ 173.5938	12	-11	-92 %		-11	-92 %
CME Nikkei 225 (USD)	26 Oct. 2020	\$ 23.425	12	12	100 %		12	100 %
CME S&P500	26 Oct. 2020	\$ 3393.5	12	11	92 %	-2	9	75 %
COMEX Copper	26 Oct. 2020	\$ 308.95	12	6	50 %		6	50 %
COMEX Gold	26 Oct. 2020	\$ 1902.7	12	10	83 %		10	83 %
COMEX Silver	26 Oct. 2020	\$ 2442.0	12	9	75 %	-2	7	58 %
EUREX DAX	26 Oct. 2020	€ 12170.5	12	11	92 %	-2	9	75 %
EUREX German Bund (EBL)	26 Oct. 2020	€ 175.3	12	-5	-42 %		-5	-42 %
EURONEXT FTSE 100	26 Oct. 2020	£ 5766.0	12	-10	-83 %		-10	-83 %
ICE Brent	26 Oct. 2020	\$ 40.81	12	-8	-67 %	-2	-10	-83 %
NYMEX Light Crude Oil	26 Oct. 2020	\$ 38.56	12	3	25 %	-8	-5	-42 %

Color indicates:

long exposure
no exposure
short exposure

1

INSTRUMENT: lists market instruments covered in the report. In the above example the portfolio consists of major energy markets including crude oil and oil derivatives contracts traded on ICE and NYMEX exchanges.

2

SIGNALS FOR LAST TRADING DAY: shows last trading day and the closing price on that day.

3

STRATEGIES USED: for every market covered in the report, we select a set of trading strategies. This column shows how many individual strategies are used to generate your trading signals.

4

CURRENT EXPOSURE: shows net long or net short exposure in terms of the number of strategies that are long or short and in terms of percentage of the total. For instance, if your maximum trading position limit in RBOB Gasoline were 10 contracts and your suggested exposure was -70%, you'd be short 7 contracts.

5

TODAY'S CHANGE: shows the change in net exposure to be executed during the course of the current trading day.

6

NEW EXPOSURE : shows what your net exposure should be after you've executed today's trades, again in terms of the number of strategies and in percentage terms.

3. Detailed breakdown by market and strategy

TrendCompass report for
MAJOR MARKETS
Report generated on 27 Oct. 2020

ICE Brent		CURRENT EXPOSURE		TODAY'S CHANGES		NEW EXPOSURE	
Price(\$) 40.81 (COB, 26.10.2020)		67% SHORT		ADD SHORT EXPOSURE		83% SHORT	
STRATEGIES		SIGNALS		CHANGE			
158	LCO L43.T	-1	SHORT	-	-	-1	SHORT
159	LCO M+14.T	-1	SHORT	-	-	-1	SHORT
159	LCO M11.T	+1	LONG	SELL (exit long, enter short)	-2	-1	SHORT
160	LCO M12.T	-1	SHORT	-	-	-1	SHORT
161	LCO M13.T	-1	SHORT	-	-	-1	SHORT
162	LCO M28.T	-1	SHORT	-	-	-1	SHORT
163	LCO M32.T	-1	SHORT	-	-	-1	SHORT
164	LCO ML25.T	-1	SHORT	-	-	-1	SHORT
165	LCO ML27.T	-1	SHORT	-	-	-1	SHORT
166	LCO ML42.T	+1	LONG	-	-	+1	LONG
167	LCO SM01.T	-1	SHORT	-	-	-1	SHORT
168	LCO SM05.T	-1	SHORT	-	-	-1	SHORT
12 STRATEGIES		-8		-2		-10	

1

TOP LINE summarizes trading signals generated by I-System trading strategies. Market exposure is expressed as percentage of full position limit. For example, if your maximum position limit in COMEX Gold was 100 contracts, your 27th September 2018 signals suggest that you add 13 contracts to your 47 contracts long position. Your new exposure in COMEX Gold would then be 60 contracts.

2

STRATEGIES lists all the trading strategies attributed to client's report. Each strategy has an arbitrary name and performs its function autonomously. Strategies differ from one another in terms of length of the trend cycle (long, short, or medium term trends) and in terms of proportion of time in the market (some are always in the market, *long* or *short*, while others trade selectively, pass more time waiting for trade triggering signals).

3

CURRENT EXPOSURE: every strategy determines a single exposure unit which may be *long*, *short*, or *neutral* (no exposure). *Long* exposure is denoted as 1, *short* as -1, and *neutral* as zero (-). Positions are color-coded with red for short, white for neutral, and blue for long exposure.

4

SIGNALS: with previous day's closing prices, strategies generate BUY or SELL signals. BUY could mean, **exit short**, **enter long**, or both if the strategy registers a trend reversal (**exit short**, **enter long**). Conversely, SELL could mean **exit long**, **enter short**, or both when trend reverses from up-trend to downtrend. Simple BUY or SELL signals are denoted as +1 or -1. Trend reversals entail double position changes, thus +2 or -2, respectively. Signals are color-coded with red for all **SELL** signals and blue for all **BUY** signals.

5

NEW EXPOSURE: shows strategy exposure after today's trading signals

6

BOTTOM LINE totals exposure of the full set of strategies in the above fields. Thus in the above example, client follows a set of 15 trading strategies. Prior to 27th September 2018, seven of them suggested holding short exposure. On that day, one of the strategies registered a trend reversal from *long* to *short*, adding 2 more exposure units to client's total market position.

Covering over 200 main financial and commodity markets, TrendCompass offers a variety of standard or customized market reports:

Standard reports

Report*	Contents	Subscription (€)	
		Monthly	Annual
Major Markets	16 key global markets, 12 strategies per market: S&P500, Nikkei, DAX, FTSE, US 30-yr Bond, US 10-yr Note, German Bund, USD/EUR, USD/GBP, USD/YEN, Brent Crude, NY Light Crude Oil, Copper, Gold, Silver and Bitcoin.	1,000	10,000
Global Stock Indices	7 key global markets, 12 strategies each: Dow Jones Industrial Average, Nasdaq 100, S&P 500, FTSE 100, Nikkei 225, Russell 2000, DAX.	600	6,000
Energy	6 key energy markets, 12 strategies each: Brent Crude, Gas Oil, NY Light Crude Oil, Heating Oil, RBOB Gasoline, USD index (included due to its strong correlation with the oil price)	800	8,000
Metals	5 metals, 12 strategies each: Gold, Silver, Copper, Platinum, Palladium	800	8,000
Grains	5 key grains markets, 12 strategies each: Corn, CBT Wheat, Oats, Soybeans, MATIF Wheat	800	8,000
Soft Commodities	5 soft commodity markets, 12 strategies each: Coffee, Cocoa, Cotton, Sugar, Frozen Orange Juice	800	8,000
FX: Major Currencies	7 FX pairs, 8 strategies per pair: USD against the EUR, YEN, GBP, CAD, BRZ, ZAR, MEX. We'll add Bitcoin soon.	200	2,000
FX: Commodity Currencies	8 FX pairs, 8 strategies per pair: USD against the currencies of Australia, Brazil, Canada, Mexico, UK Norway, Russia, South Africa and the UK	200	2,000
NEW: USA	6 U.S. markets, 10 strategies each: S&P500, Russell 2000, Dow Jones Industrial Average, Nasdaq 100, 30-year T-Bond, 10-year T-Note	200	2,000
USA PLUS!	6 U.S. markets, 10 strategies each: S&P500, Russell 2000, Dow Jones Industrial Average, Nasdaq 100, 30-year T-Bond, 10-year T-Note + Gold, Silver and Bitcoin	250	2,500

* Report contents and rates in Euros are current as of January 2021, exclusive of any discounts, promotional offers or discretionary discounts.

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