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The future of investing

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By CHRISTIAN BAHA

I AM often asked both by the media and investors, 'When will the markets recover?' and 'whether this will be like the 1929 stock market crash'. We are all fascinated with what the future holds and getting a glimpse of tomorrow, from astrology to market predictions, that it has become an obsession, culminating the society into herd mentality.

The truth is, it does not matter what my answer is or what any fund manager's view is because I and many others, through using a basic trading technique called trend following have experienced consistent positive performance over the past decades.

It was pioneered in 1948 by Richard Donchian, an American commodities and futures trader, who successfully used these simple techniques to trade until his 90s.

'What should I buy, and when?', 'How much of it should I buy?', and 'When should I sell it?'. These are simple questions traders and investors face before an investment decision is made but rarely thought out. So how does it work?

Trend following aims to take advantage of the ups and downs of current market prices. The general direction of the market can be determined using other technical indicators like moving averages and breakouts.

Once a general trend is identified, a trade is executed with a small position and pre-determined stop loss. This trading method requires very strong self-discipline. Having pre-calculated entry and stop loss price levels eliminate human emotions when a trade goes for or against you. The losing trades are automatically stopped out and we let the winning trades run until the trend reverses. The goal is not to predict, but to take advantage of riding the wave until it ends. Trend followers adopt this strategy because no one can truly predict the future and no one can really know when a trend will end.

Some of you may already know that the biggest challenge is implementing these rules, that is why we, at Superfund, make it systematic - that is pre-programmed in a computer.

Taking the human emotions out of the decision making process limit risk exposure and makes the decision process faster and more efficient.

One of the main advantages of this trading technique is the possibility of implementing it across the board for any underlying market, from soya beans to crude oil, from bonds to currencies, as long as it has a price and the market offers sufficient liquidity to trade it.

In a portfolio, diversification is extremely important - the same principle applies when it comes to beating the market. By having small positions with pre-calculated risks and diversified trades, where the underlying assets have low correlation to one another, will give you a better chance of finding the winning trades.

At this point, you may wonder how you can relate to this when you cannot programme or watch the markets all the time. My advice to investors when it comes to investing for the future and retirement is the same when it comes to Superfund's trading strategy.

Diversify among asset classes that are uncorrelated to one another. For example, if you hold mostly stocks and bonds in your investment portfolio, their performance is generally linked to each other so during a market downturn such as the recent financial crisis, you are likely to experience greater losses in your portfolio.

Instead of keeping cash in fixed deposit or fixed maturity plan offering low interest rates, look for an asset class that is liquid, regulated, and uncorrelated to stocks and performs in both bull and bear market. For example, investors should reduce their stock portfolio, allocate part of their portfolio to asset classes that are not correlated to stocks and bonds (such as gold and managed futures), they are able to lower their overall risk exposure and protect their investments in a market downturn.

Managed futures is an asset class that is largely undiscovered and often misunderstood, it has a low correlation to stocks, bonds and even hedge funds, and has the ability to perform in both bull and bear markets. For example, let's take a look at some numbers:

Since 1980, CISDM CTA Index (one of the renowned indices of managed futures) has an average return of +15 per cent per annum versus MSCI World +7.5 per cent per annum.

In the past five years, CISDM CTA Index is up 53 per cent, MSCI World is down 15 per cent. Last year, CISDM CTA index is up 22 per cent, MSCI World is down 42 per cent.

See the full article at: http://business.asiaone.com/

The writer is the founder and owner of Superfund. Superfund was founded in 1995 and has a proven 12 year track record. Collectively, the Superfund group of investment companies have total assets of approximately US$1.65 billion under management and over 50,000 investors worldwide (as at Dec 31, 2008)

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