



## ETF Trend Following and Managed Futures

By David Kreinces, ETF PM (1/08/14 Updated)

Many leading consumer advocates in finance recommend [strategic index investing](#) to protect and grow your liquid investment assets long-term. However, when equity markets crashed in 2008, growth index portfolios fell between 15% and 42%. So, what's the best way to enhance diversification beyond strategic indexing?

### Trend Following

Over the past 27 years, [trend-following](#) strategies, tracked via the [Systematic Index](#), have returned roughly 8% annually. This investment process has a proven ability to broaden diversification and to deliver gains when equity markets crash. For example, when the equity markets crashed in 2002 and 2008, the trend following index gained 12% and 18%, respectively.

Instead of trying to predict the future, these managers employ proprietary rule-sets that react to existing trends in the price and volatility of securities. In fact, trend following is now one of the largest strategies in the hedge fund marketplace.

Many investors have been unaware of trend following because it was only offered in complex investment products called "[managed futures](#)." However, this past decade, the growth in exchange-traded funds (ETFs) has enabled innovative firms to provide [ETF trend following](#).

See the sample trend following portfolios below from [Altegris](#), [Cambria](#), [AQR](#), and [ETF PM](#):

Trend Following							As of 12/31/13		
Performance									
Portfolio	Symbol	Type	3 Year Annualized	3 Year Total	Worst Year	2013	Annual Yield	Expense Ratio	
Altegris	MFTAX	MF	-4.8%	-13.8%	-6.7%	-3.8%	na	2.42%	
Systematic Index	SI	MF	-2.8%	-8.2%	-3.8%	-1.6%	na	na	
Cambria	GTAA	ETF	-0.9%	-2.6%	-7.3%	-1.1%	na	1.41%	
AQR	AQMNX	MF	1.5%	4.7%	-6.4%	9.1%	na	1.50%	
ETF PM	GG	ETF	4.7%	13.6%	-9.9%	17.9%	na	2.25%	

Note: MF managed futures. Worst Year is worst full calendar year since 2011. All data as of 12/31/13. na - not available or applicable. Past performance is not an indication of future results. See full disclosures online at [www.etfpm.com](http://www.etfpm.com).

### **Altegris (MFTAX) – Managed Futures Mutual Fund**

The Altegris Managed Futures Strategy ([MFTAX](#)) is a mutual fund with over \$350 million invested in a group of leading managed futures portfolio managers. This managed futures fund of funds has a trailing three-year annualized return of -4.8%.

### **Systematic Index (SI) – Managed Futures Index**

The Systematic Index ([SI](#)) tracks the performance of 466 systematic programs with aggregate investment assets well over \$250 billion. This trend following index has a trailing three-year annualized return of -2.8%.

### **Cambria (GTAA) – ETF of ETFs**

The Cambria Global Tactical ETF ([GTAA](#)) is a trend following fund with \$43 million in assets. This ETF of ETFs has a trailing three-year annualized return of -0.9%. The fund recently held more than seven ETFs including [EWP](#), [EIRL](#) and [WDTI](#).

### **AQR (AQMNX) – Managed Futures Mutual Fund**

The AQR Managed Futures Strategy ([AQMNX](#)) is a mutual fund with over \$5.5 billion in assets. AQR is one of the world's largest managed futures portfolio managers and this fund has a trailing three-year annualized return of 1.5%.

### **ETF PM (GG) – Separate Account of ETFs**

The ETF PM Global Growth ([GG](#)) strategy is an ETF trend following portfolio that rotates exposure between leading equity asset classes and cash. The current holdings are [IJR](#) and [IWO](#), and the trailing three-year annualized return is 4.7%.

### **The Bottom Line**

While trend following has underperformed passive indexing since 2009, experienced investors know that trend following typically underperforms between brief periods of extraordinary outperformance. At ETF PM, we advise clients to employ a combination of [ETF trend following and strategic indexing](#) in order to maximize long-term performance.

While nobody can consistently predict which of these trend following strategies will perform best, they all present a good starting point for investors to enhance their diversification beyond strategic indexing.

*David S. Kreinces is the Founder of ETF Portfolio Management (ETF PM), a revolutionary financial advisory firm that specializes in rules-based investing and risk control. He has over 20 years of professional investment experience in multiple asset classes and investment processes. He is an expert in trend following and successfully delivered gains in the crash of 2008. See [www.etfpm.com](http://www.etfpm.com) and [www.InvestableBenchmarks.com](http://www.InvestableBenchmarks.com).*