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Managed Futures - CTA Spotlight

By Clay Peck, *RJO Futures Director of Managed Futures*

I hope everyone had a nice holiday and that 2013 brings you good health, much happiness and prosperity. As part of our ongoing series, we are pleased to introduce Silicon Valley Quantitative Advisors (SV Quant) in this issue's CTA Spotlight. SV Quant is located in San Jose CA. They currently offer one systematic strategy: the US Quantitative Portfolio (UQP) which has recently been split into two programs – UQP Small and UQP Large.

RJO: We would like to thank SV Quant for joining us today. Please share with us a little background on the firm.

SVQ: Dr. Marc E Levitt is the sole proprietor of SVQuant and formed his CTA in 1999 after shutting down his software startup High Frequency Finance which provided technology to some leading quantitative hedge funds. Marc has held senior technical and management positions at numerous Silicon Valley companies and helped form three technology startups. He holds a Master's and Doctorate in Electrical Engineering from the University of Illinois Urbana-Champaign and a BS in Computer Engineering from Lehigh University. He developed and published the first FX Carry Index in 1998 and holds 14 US patents.

RJO: Please provide some insight as to the two trading programs, the UQP Small and UQP Large.

SVQ: UQP is a fully systematic strategy based on quantitative analysis of price or derivatives of price, such as volatility. We have a strong component of medium-term trend following in the strategy but are not a pure trend follower. We analyze market state and will be selective in our trades, but once a trend develops we latch onto it and will participate in an aggressive manner. Finally, our risk management and trade sizing algorithm treats each and every account individually based on its entire history with SVQuant. We do not trade in "unit sizes" as some CTAs do – thus a $400K account will not have 2x the positions of a $200K account at all times.

As a medium term trader our average trade is in the 2-3 month range and our selectivity can be seen in that our RT/M is in the 400-500 range. UQP started trading in November 1999; UQP Large performance history started in January 2009.

RJO: What makes your approach different from other CTAs?

SVQ: SVQuant's UQP differs from other CTAs in a few areas. While looking to many prospective clients as a medium-term trend follower; our unique entry, exit, and market filters allow us often to diverge from the trend following pack. One example of this would be in 2011 where we posited a positive (although volatile) year. Within 2011, March, the month of the Japanese tsunami, was very tough for systematic CTAs (down 1-2%), we had a positive return.

The other differentiator is our non-linear per account trade sizing and risk management algorithm which helps tune the portfolio and positions to each and every client account.

RJO: What is your minimum capital requirement for your programs? Do you accept notional funding?

SVQ: UQP Small minimum trading level is $200K and the UQP Large trading level is $500K. We do accept notional funding on both programs.

RJO: What markets do your programs focus on?

SVQ: As its name implies the US Quantitative Portfolio trades only US based and Dollar dominated contracts. Additionally by portfolio construction and design we do not trade any stock index products since we are looking to maximize a client's diversification and many have a significant equity allocation already. Within the portfolio we are evenly allocated between financials (interest rates and currencies) and commodities (metals, softs, energy, etc) in terms of 20-30 markets we examine for trade opportunities.

RJO: Would you say your trading programs are better suited to be a stand-alone or part of a multi-CTA portfolio?

SVQ: Clients have us as their sole CTA and in multi-CTA portfolios - we can add value to a client's overall financial portfolio either way. As previously mentioned there are key times we diverge from the trend following pack making UQP a valuable addition to portfolios with multiple trend following CTAs. As a stand-alone CTA we offer a trend oriented strategy with a low minimum for a separately managed diversified strategy that has a long track record.

RJO: In regards to selecting a CTA or composing a portfolio of multiple CTAs, what piece of advice would you offer to a client?

SVQ: Ask questions, be qualitative and not just quantitative. Understand your risk tolerance and have an honest discussion with the manager to make sure there are no unreasonable expectations on either side. Don't chase short-term performance.

When composing a portfolio of multiple CTAs, while it is good to add managers that have negative or low correlation together, one should not shy away from adding as many managers as possible within the confines of a style allocation. For example, if a client wanted to allocate $2 million to "trend following CTAs" there are many times it would be better to allocate to 8 managers at $250K each versus 4 managers $500K or 2 at $1M. Yes, it does depend on which 8, 4, or 2 managers one is considering and costs involved but my key point is many times people only look for the free lunch of simple diversification and stop there when another free meal or at least desert awaits them.

RJO: We'd like to thank Silicon Valley Quantitative Advisors for taking part in today's CTA Spotlight.

In the upcoming issues, we will spotlight each CTA to feature their particular area of expertise and the concepts behind their program(s). Anyone interested in more information regarding Managed Futures may feel free to contact me at CPeck@rjofutures.com or (312) 373-5338. As always, we encourage everyone to check out the website:http://www.rjofutures.com/managed-futures/

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