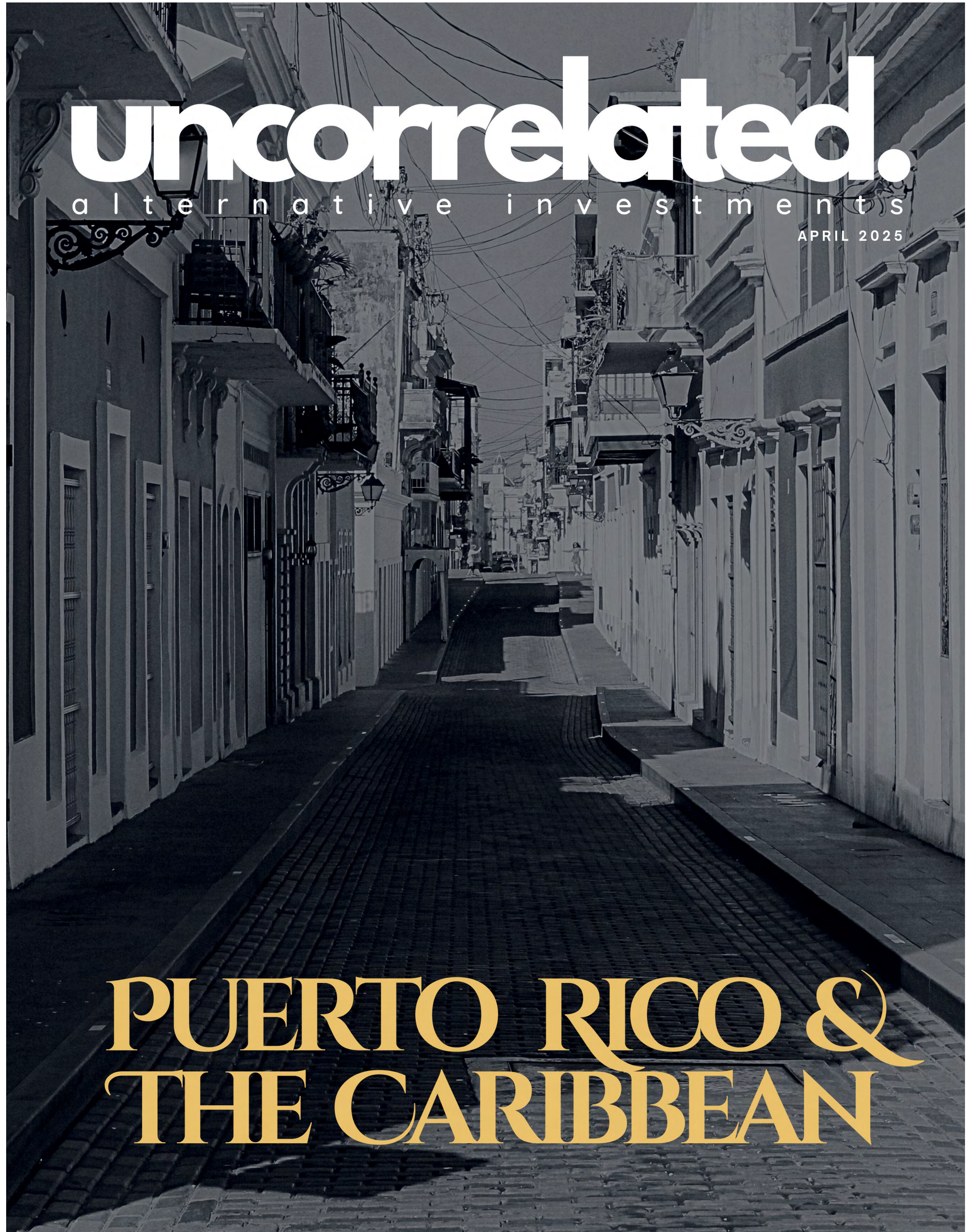
uncorrelated.

alternative investments

APRIL 2025



PUERTO RICO & THE CARIBBEAN

HISTORY OF MANAGED FUTURES AS AN ASSET CLASS

MICHAEL STENDLER
O'Brien Investment Group

In 1983, Richard Dennis and Bill Eckhardt started the Turtle Experiment. Simply put, it was a rules-based trading system, and their experiment was to see if they could teach anyone to trade using their system (and if one is willing not to deviate from the rules especially during times of market stress). In essence:

- Use entry rules (like a 40-day moving average / trend breakout to establish a position) to catch a potential long-term trend.
- Every position has a loss limit (stops in the market).
- The strategy is long term trend following, so, no need to be glued to the minute-to-minute moves of the underlying market.
- Follow the rules 100% of the time

Financial and commodity futures were the nature instrument of choice given their cash efficiency, liquidity, and easy and low-cost direct access to the currency and commodity markets.

The other benefit of a managed futures strategy is market diversification. The O'Brien Investment Group Quantitative Global Macro Futures Program trades in 76 different markets. That includes the global stock indices, global bond markets and currencies. But it also trades in several dozen commodity markets that have their own unique supply and demand drivers. Cocoa and Coffee are examples over the last 12 months of that.

At the same time, the introduction of lower cost computers spawned a new breed of traders with an understanding of the markets and a strong foundation of coding quantitative rules-based models using strategies like Turtle Trading. The managed futures asset class managed by professional Commodity Trading Advisors (CTA) was born.

When October 1987 rolled around, managed futures was still a niche strategy unknown to 99.9% of investors. As the stock market crashed, there was chatter about managers making money on October 19, 1987. Over the next 15 years, CTAs like AHL and John Henry generated attractive long term returns and AUM growth. BUT, the downside of trend following is the lumpy returns stream which kept managed futures, as an asset class, visible but still a niche.

As the financial crisis hit in 2008, managed futures were not only positive, but in many cases, produced outsized returns. That coined the phrase "crisis alpha" when describing trend followers. Today, there are dozens and dozens of mutual funds and ETFs that are basic long-term trend following. I am confident that if we experience another 1987 or 2008, these funds will again generate crisis alpha. Financial Advisors as well as individual investors should have managed futures as a hedge in their toolbox that also include:

1. Long duration US Treasury Bonds
2. S&P 500 Puts or VIX calls
3. Collars on individual stock holdings
4. Diversification (Keeping in mind, during times of stress, correlation of many markets goes to 1)
5. Managed Futures

What hasn't changed over the last 40 years is that successful Commodity Trading Advisors still need a deep understanding of the financial and commodity futures markets and a research driven focus on quantitative models.

O'Brien Investments Group was founded in 2016. It is owned by the Chicago based O'Brien family, which has over 100 years of futures trading experience with their ownership of RJ O'Brien. John O'Brien, Jr. (CEO of O'Brien Investment Group) is the 4th generation of O'Briens continuing the family legacy. The family also bought a firm called Clarke Capital Management in 2007 which had people and quantitative trading systems in place that were successful going back to the early 1990's.

Even today, O'Brien Investment Group uses many of the time-tested short-term, medium term and long-term breakout models in our Flagship program. However, the goal was to be research focused. What that means is not only to continue to trade time-tested trend based systems, but add new research driven models to not only generate alpha but to also smooth our the return stream.

Five years ago, we embarked on adding multi-time, multi-class frame machine learning models to the over flagship Quantitative Global macro program. Deep Machine Learning / AI Models are now possible with the computing power to perform 100,000+ calculations of historical data for predicting the movement of a market for the next 1 week, 2 weeks, 4 weeks, 8 weeks etc.

What we have found is AI / machine models can generate alpha and equally important, returns that are non-correlated to legacy trend following and non-correlated to traditional stock and bond markets.

Michael Stendler
Managing Director, Investment Committee Member
O'Brien Investment Group