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A Change of Pronoun

Not too long ago a reader said to me, "You're always interviewing guys!" It was true. Opalesque Futures Q&As have been with men, for the simple reason that there are very few women commodity trading advisors and hedge fund managers.

So I was delighted to interview Terri Becks, president and chief executive of Campbell & Co., one of the oldest and best-known managed futures firms in the world. She has an insightful perspective on the firm and the industry. As icing on the cake, she is a pleasure to chat with. By the way, in her honor we've changed the name of our first section from "Founding Father" to Founders.

We were also extremely lucky to have Jodie Gunzberg of AlphaMetrix give us an Insider Talk about new developments on the managed account front. Coming from the pension consultancy world, she uses a sophisticated portfolio construction approach to argue for mixing managed futures with long/short equity hedge fund investments.

One of her colleagues, David Fisher, is a former agent of the US Secret Service who now heads investigations at AlphaMetrix. In Futures Lab he provides a close look at background checks, a topic that has become increasingly important in the wake of scandals.

Elsewhere in this issue, you will find insights regarding recent performance in Index Tracker and trend analysis in Alan Rohrbach's Practitioner Viewpoint. And our Top Ten CTA programs are a sight to behold. Some of them started this year, others have been around for decades. They all achieved amazing returns in the first three quarters of this year despite difficult market conditions for managed futures.

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Our author is Alan Rohrbach, president and chief analyst of capital markets consultants Rohr International Inc. Long a proponent of an approach that recognizes broad cyclical trends, he puts forth the reasons trend analysis is more important than ever for understanding markets in what he has christened the "super-cycle correction".

Mr. Rohrbach started his career on the Chicago Mercantile Exchange and taught the exchange's technical analysis course. He has worked with portfolio managers and dealers as well as corporate financial managers for over 25 years. Incorporating fundamental analysis and technical projections into a broad macro focus, he analyses trends in major financial markets along with energy and gold.

This completes his trilogy of Opalesque Futures Intelligence articles on informed trend assessment.

Super-Cycle: New Quarter, Major Challenges

Market activity in the two months since my "Super-Cycle Next Stage" article (OFI issue #12, August 11, 2009) has reinforced the very different trend tendencies managers need to master in this new era. And the most challenging phase is about to begin.

Post-crash markets have exhibited stop-start volatility and, once trends gain momentum, extreme moves. This is, in essence, a return from the 1990s Great Moderation to trends in the style of the late-1970s through the 1980s.

That perspective raises significant questions about how managers who recently outperformed broad equity indices will react to any incipient top now that markets have reached more formidable resistance levels. Many mainstream managers will have reason to simply protect gains. This points to the potential advantages of the more nimble approach of managed futures and hedge funds.

A brief word on complexity and risks is in order. Even the finest combined fundamental and technical macro analysis will not definitively predict market direction. It only provides indications of what the market is supposed to be doing. It is up to the experience and skill of the portfolio manager to know whether the market is confirming or aborting the predicted tendencies. And that includes adopting a suitable risk management regime.

While I will avoid detailed technical analysis, some review of the trend is helpful to establish the benefits for a broad cyclical view and well-rounded trend analysis. We're talking as much about understanding the nature of the market environment in general as any specific directional trend projection.

Recovery and Resistance

As noted in my previous article, complaints of, "How could we have known what was coming in 2008" were misguided. There were straightforward developments then, as now, that remain very useful. Managers should also be well-attuned by now to sustained aggressive trends.

The updated DJIA trend in (weekly range) Chart 1 shows an impressive recovery from the March low. Above the previously noted 9,100-9,200 major Channel C resistance DJIA has now reached more formidable historic 9,700-low 10,000 resistance. That is the further aggressive 10% price adjustment anticipated in my July (D) assessment.

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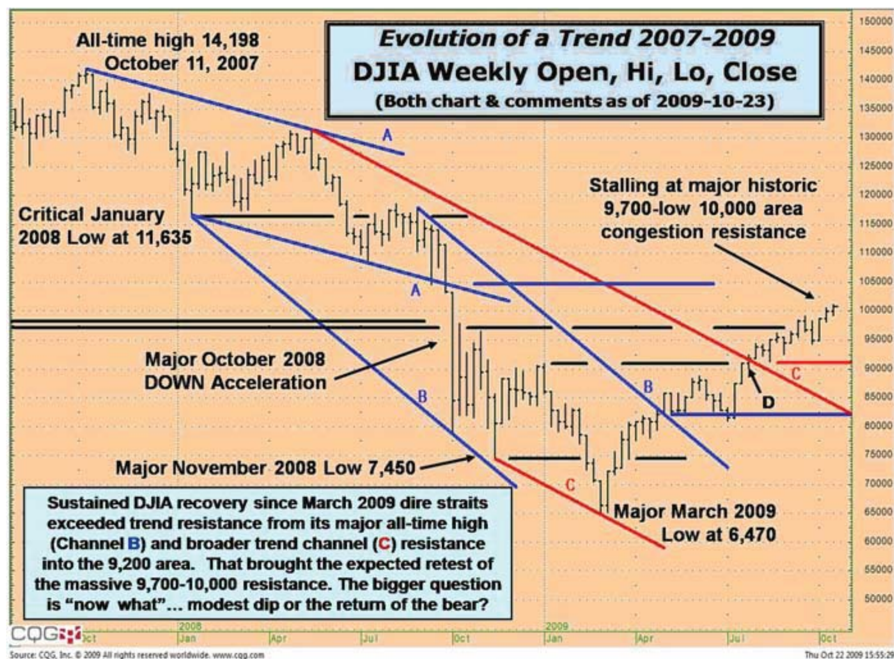
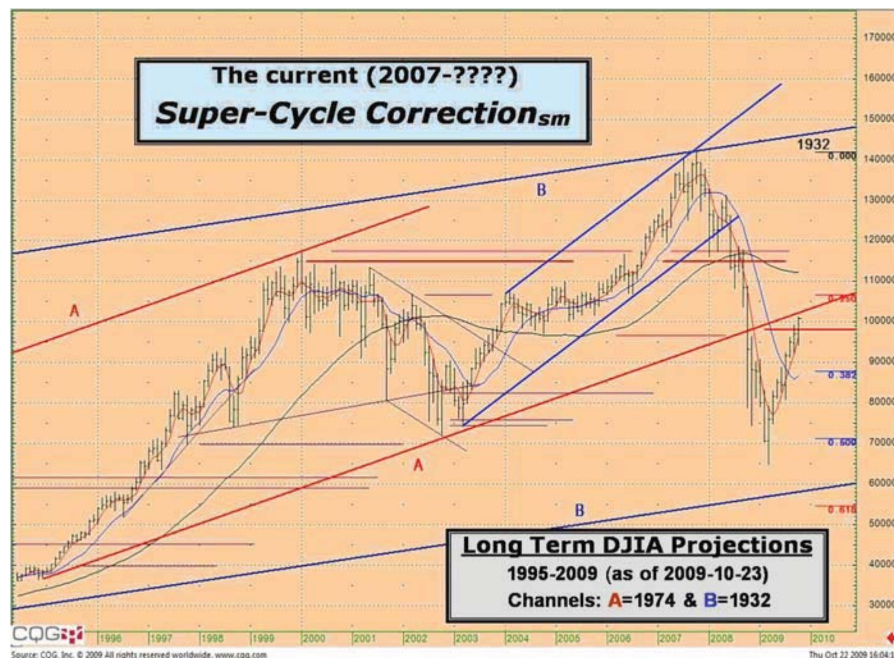
CHART 1



While the major nature of the 10,000 area might be less than obvious from Chart 1, a quick glance at Chart 2 below is instructive. A whole series of trend decisions have occurred from that area. Whether that is in part psychological (the 'big penny' effect) or purely technical, it is relevant to the next major phase of the equities trend.

CHART 2



The most important implication for fund managers is the amplitude of price swings. The recovery from the March lows has created very positive sentiment. There is a sense that a 10% correction would be a very attractive opportunity for investors who have failed to fully participate in the rally. Of course, that scenario would mean a retest of support around the last strong signal (C on Chart 1) back in the 9,100 area.

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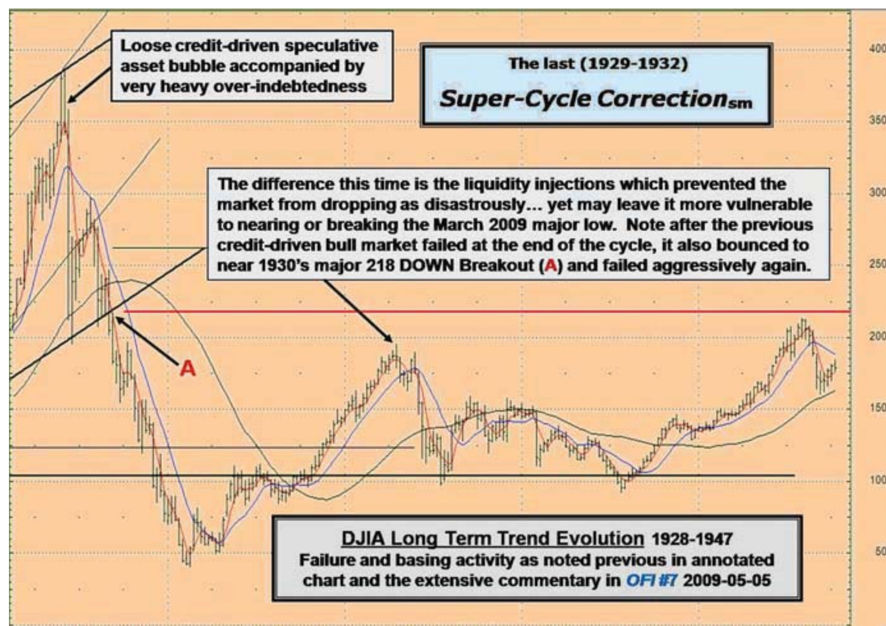
Yet, any assumption that is all we can expect is fraught with risk. The fundamental aspect of any cogent macro trend analysis gives reason for pause. Strong economic rebounds followed all of the intermediate-term cycle troughs. Yet if this is indeed the Super-Cycle Correction, the recovery will take far longer to develop, and exhibit additional periods of extensive weakness along the way.

That is reinforced by very strong Q2 corporate earnings reports fomenting only modest holding activity in equities. Recent weak economic data and cautionary words from central banks add to background concerns. The bottom line is this is the first global credit deleveraging since the 1930's, and further economic weakness is possible.

Comparison

Putting aside concerns about credit remaining tight and continued weakness in US housing, the comparison with the major previous case is daunting. While global stimulus and other programs may well prevent the worst aspects occurring, Chart 3 below is a stark reminder of how hard it is for markets to recover into major higher ranges after a debilitating shockwave.

CHART 3



Note that after both the initial aggressive recovery in 1930 and even the sustained bull trend of 1932-1937, there were extensive failures. Allowing that the 1930-1932 slide was due to factors not relevant in modern markets, the 1937-1938 selloff certainly was.

A scenario with a similar percentage decline from recent highs would point to a retest or even modest slippage below the 8,200 area Channel B UP Break shown on Chart 1. That would be more so a 20 percent loss of value.

There is also the more radical scenario for the nexus of weaker US home prices and still abysmal employment to bring about another bout of failed consumer confidence. In fact, one of the key aspects of any renewed economic weakness is how much faster than expected US Consumer Credit has been contracting.

It is important to generally note the broad nature of basing activity both in the 1930's and even after the far less pernicious 1970's oil price shocks. Rather than calm expectation of a comfortable 10 percent correction, managers might benefit from ongoing review of which scenario seems to be occurring.

They must also be ready to adapt to further directional trend activity. If we are indeed at a trend psychology inflection point, another 10 percent move is likely. The bottom line is that sanguine attitudes in the wake of the extended equities rally do not justify neglecting aggressive trend assessment.

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