

## What we do to manage the program

We use a quantitative approach to behavioural finance. The videos on our [website](#) explain the methods by which we:

- Measure shifts in crowd mood, so providing precise indications and signals that tell when an existing move is running out of steam or that a new move is likely to start - this is coincident analysis that reveals the state of the market now.
- Extract the main cycles that may be operating in the market then re-combine them to see when new cycle peaks and troughs should occur. This is a predictive method.

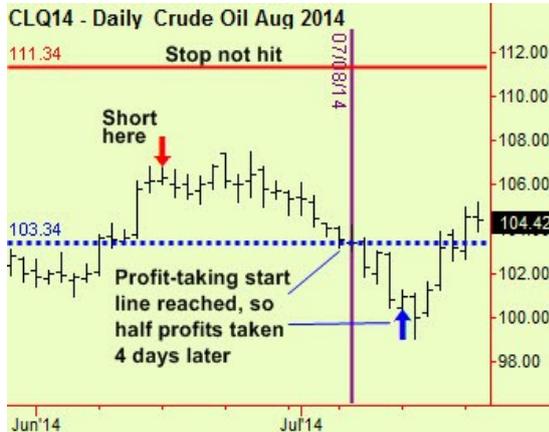
By combining these predictive and coincident methods with portfolio and risk management rules we achieve a stable trading program that produces good absolute returns with small draw-downs. There are two versions; an original that generates trades in S&P futures and a newer one for 'all markets'. They have similar results but the 'all markets' provides diversification.

The trade management rules we use are mainly derived from the typical volatility of the market concerned. Each trade is 'boxed' with a set of exit conditions. Risk is set at 1% of the portfolio on each trade and the recent volatility then determines:

- The size of each trade – more volatile markets warrant smaller positions and vice-versa
- The placing of the stop-loss, calculated at a constant 1% risk of the total portfolio for each trade. Less volatile markets have closer stops, more volatile have more distant ones. Stops are shown by the red lines in the charts below.
- The time and price at which profit-taking may start. We take half profits 4 days after a position has moved into profit by 2 days-worth of its recent volatility. The start point is shown by the blue dashed lines in the charts below.

Two additional rules are independent of volatility. Any fresh signal showing that a trade should be taken that is opposite to one already in the portfolio prompts an immediate exit. There are also 'time-outs' after a fixed period, as shown by purple lines.

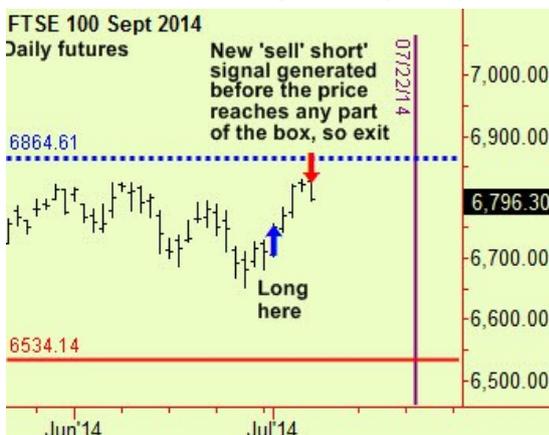
Example of a trade where a profit was 'run':



.....and of a 'timed-out' profitable trade:



.....a trade when a new signal took priority:



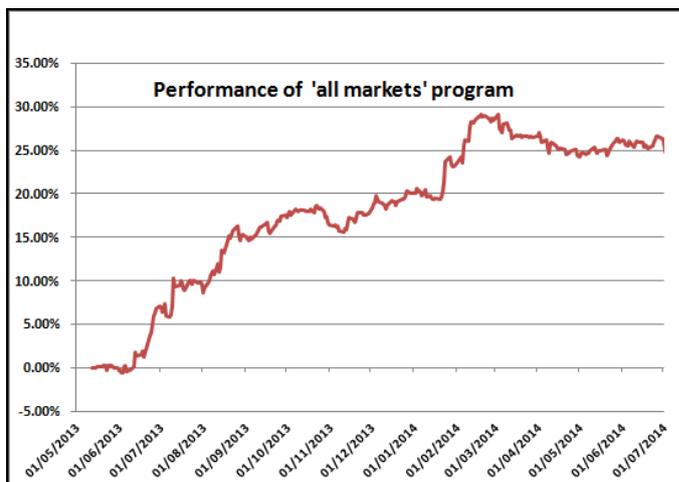
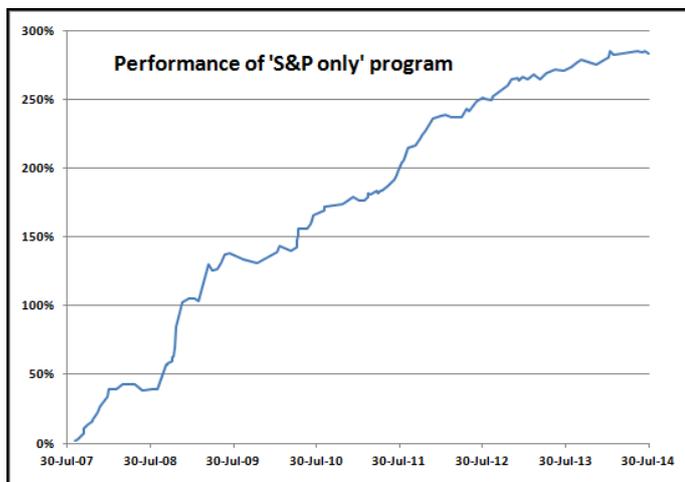
.....and a trade that was 'stopped out':



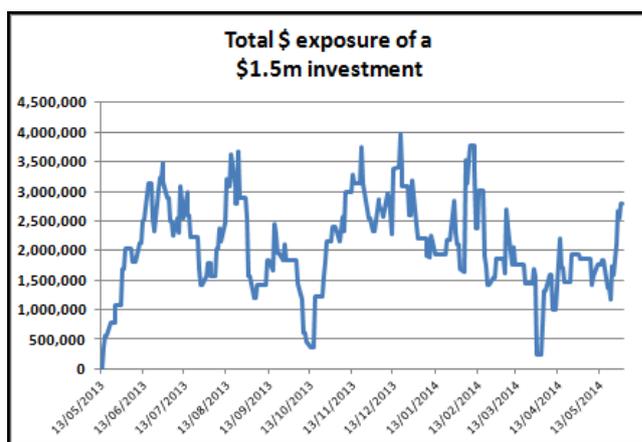
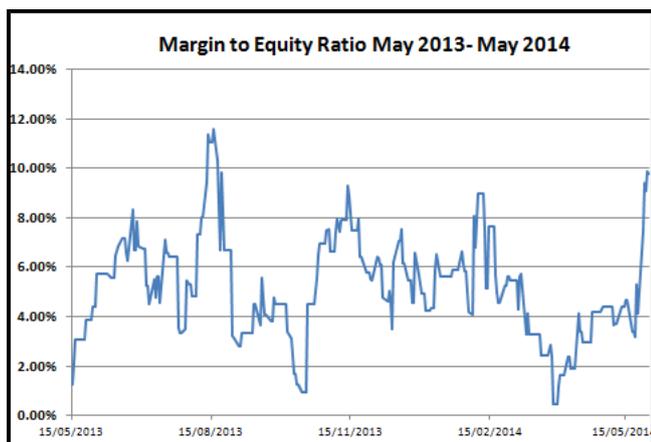
The return profiles of both versions of the HED program are similar. The S&P-only version has run for 7 years, navigating well through the volatility of recent years, making 20%+ annually. The all-markets version has similar characteristics:

**The results of seven years of trades generated from the US equity futures version of the program:**

**The results of 15 months of trades from the broader 'all markets' version in equity, bond, commodity and currency futures - this version uses the trading and risk rules.**



Risks are controlled by the trading rules but also by the use of only limited leverage. In a futures program this is conventionally measured by the amount of margin usage or the Margin:Equity ratio. The ratio in the 'all markets' program averages 5.7% with peaks above 9% which coincide with the clusters of trades mentioned earlier. An alternative but similar measure is of the total \$ exposure taken for a given investment sum and this averages about \$1.5 per \$1m invested with peaks just above \$2m. Here are the charts for both measures, assuming a single investment unit of \$1.5m in the 'all markets' program:



The program we are offering is the newer 'all markets' version. It has made 105 trades in 15 months, with 56 profits, 39 losses and 10 'scratched' which we define as a profit or loss of less than 0.2%. The average holding period has been 15 days and here is a table of results through July, without deduction of any fees. The end result of those 15 months is a gross profit of 25.6%.

Month	Beginning Equity	Additions	Withdrawals	Gross Realized Profits [Loss]	Brokerage Commissions & Misc. Expenses	Net Realized Profits [Loss]	Inc. Unrealized Profits [Loss]	Interest Income	Trading Advisor's Fees	Net Performance	Ending Equity	Monthly Rate of Return	Index Value of 1,000 Unit
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
<b>2013</b>													
MAY	1,500,000	0	0	0		0	-1221.5	0		(1,222)	1,498,779	-0.08%	999
JUN	1,498,779	0	0	29419.25		29,419	73500.52085	0		102,920	1,601,698	6.87%	1,068
JUL	1,601,698	0	0	17360.12065		17,360	25057.83692	0		42,418	1,644,116	2.65%	1,096
AUG	1,644,116	0	0	75099.42431		75,099	10518.6972	0		85,618	1,729,734	5.21%	1,153
SEP	1,729,734	0	0	13391.7		13,392	20812.48601	0		34,204	1,763,939	1.98%	1,176
OCT	1,763,939	0	0	-1464.34621		(1,464)	-11642.51162	0		(13,107)	1,750,832	-0.74%	1,167
NOV	1,750,832	0	0	1821.75		1,822	12985.49798	0		14,807	1,765,639	0.85%	1,177
DEC	1,765,639	0	0	28944.95945		28,945	5484.4454	0		34,429	1,800,068	1.95%	1,200
<b>2014</b>													
JAN	1,800,068	0	0	20919.6882		20,920	27383.21846	0		48,303	1,848,371	2.68%	1,232
FEB	1,848,371	0	0	69398.69503		69,399	8887.86464	0		78,287	1,926,658	4.24%	1,284
MAR	1,926,658	0	0	-27482.5		(27,483)	-560	0		(28,043)	1,898,615	-1.46%	1,266
APR	1,898,615	0	0	-19127.2		(19,127)	-13420.4	0		(32,548)	1,866,068	-1.71%	1,244
MAY	1,866,068	0	0	10966.9		10,967	12220.45	0		23,187	1,889,255	1.24%	1,260
JUNE	1,889,255	0	0	-15379.52		(15,380)	20819.4	0		5,440	1,894,695	0.29%	1,263
JULY	1,894,695	0	0	-19981.87		(19,982)	9615.71	0		(10,366)	1,884,329	-0.55%	1,256

