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CTA Interview with Ravinia Investment Mgt

SEEKING LONG VOLATILITY EXPOSURE WITHOUT THE NEGATIVE CARRY COSTS OF TAIL RISK HEDGING

An institutional asset allocator designs a multi-strategy, systematic program geared to provide absolute return while also providing long volatility exposure.

Kyle, please provide us with some background on your investment experience and how you got interested in managed futures.

I am originally from Chicago but now live in California. I got a BBA in Finance from the University of Iowa. After graduation I worked in the investment industry managing assets for different pension funds, endowments, and foundations. Although I focused on traditional manager research, due diligence, and portfolio construction I always had an interest in alternative strategies.

I got the opportunity to join one of the world's largest insurance companies, Jackson National Life Insurance Company which manages over $200 billion in assets. This was an interesting time because it was when liquid alternatives were beginning to become popular providing exposure to alternative investment strategies.

The first search I ran was on managed futures and I found that there were only three managed futures mutual funds. Today there are a large assortment of managed futures mutual funds available. Jackson was at the forefront of the liquid alternative space. They were making allocations as large as $500 million. Unfortunately, our manager selection was constrained. We could only allocate to very large managers such as AQR Capital Mgt. and Brevan Howard Asset Mgt.

I was always very interested in PerTrac's research. *PerTrac offers analytical software and is now part of eVestment*. PerTrac's research showed that smaller managers can outperform larger traders. That many of the smaller CTAs were nimbler, smaller, and very good traders fascinated me. I took that experience and went back to business school and earned an MBA in Investment Management from the UCLA Anderson School of Business. That is what brought me to Los Angeles.

Kyle Schultz is the developer and principal trader of Ravinia Investment Management's Multi-Strategy Program.

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In business school I learned programming and started developing systematic strategies for what would eventually become Ravinia. I was focused on developing different quantitative and systematic strategies and subsequently created a portfolio of these diversified quantitative strategies. That led to the founding of Ravinia and the creation of Ravinia's Volatility Alpha Program. The Volatility Alpha Program was a relative value strategy focused on trading volatility. *The Volatility Alpha Program has been replaced by the Algorithmic Multi-Strategy Program.*

I started to research long volatility strategies and was trying to add more long volatility exposure into the portfolio. After conducting a lot of research, I found the best way to trade long volatility was through intraday momentum strategies in equity index futures rather than in straight volatility strategies. These intraday momentum strategies can outperform significantly during periods of volatility without paying the negative carry associated with tail risk hedging type strategies.

As I started researching those strategies, I decided to create a different portfolio away from the traditional volatility strategies but still trying to get long volatility exposure. I subsequentially created the Algorithmic Multi-Strategy ("AMS"), a 100% algorithmic program which started trading in April 2019. So AMS was essentially borne out of my research from the Volatility Alpha Program ("VAP"). I also decided to eliminate option spreads which were included in the original Volatility Alpha Program because they were very difficult to automate.

The Algorithmic Multi-Strategy Program consists of long/short systematic trades in equity index futures, treasury futures, and currency futures in an effort to capture momentum and mean reversion over different time periods. Everything is 100% algorithmically traded so there is no manual trading. It is a highly diversified portfolio. We think about diversification from a lot of different perspectives. Diversification not only in trading style like momentum and mean reversion but we also use time-period and trade structure to create a diversified portfolio. The whole idea is to generate more consistent performance. Some strategies perform better in bull markets, some strategies perform better in high volatility markets, and others perform better in sideways markets. Trading a diversified portfolio creates more consistency. The system includes both intraday and mid-frequency strategies. Intraday trades range from a few minutes to hours and mid-frequency trades last from days to weeks.

Are your holding periods based on price action?

We utilize a fixed portfolio of 18 different strategies. All of our signals are based on price action. No fundamental or other data sources. Specifically, just price action.

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Experience in the institutional investing area has provided Kyle with a better understanding of how Ravinia can fit into an institutional portfolio.

"I think the main thing to emphasize is that I come from an institutional asset manager where I researched the entire hedge fund space."

"I took all the research interviewing portfolio managers and strategies and used that knowledge to develop the trading program I have today."

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If you have a mid-frequency trade position, is it possible to intraday trades at the same time?

Yes, I think of the portfolio and the correlation of all of the strategies and how they interact with each other, but the trades are independent of each of the other strategies. So, a mid-frequency strategy can trade while intraday strategies are going on. There can be multiple positions on a time. Some can be intraday. Some can be mid-frequency. There is no possibility of holding an intraday position overnight.

All trades are very structured. All strategies use *take profits* and *stop losses*. For example, the intraday strategies will have an automatic sell at the end of the day if there was no *take profit* or *stop loss*. The client will usually see the buy and the sell at the end of the day for the intraday strategies. They will know that anything that is open is a mid-frequency strategy.

How do you determine the number of contracts per trade?

I have a mid-frequency strategy that trades between Micro E-Mini S&P Futures and 5 Year Treasury Futures. Think of this as a rotation strategy. It is either long Micro E-Minis or long the Treasuries. For the Micro E-Minis, depending on the market environment, the initial position will be between two and six contracts. And then it will pare back the contracts at certain gain levels. Say we are in a bull market. It might start with six positions and then get pared back to two positions by the time the position fully exists. So, it is taking profit over time and reducing the contracts and exposure. So that is one example where it locks in gains and reduces position sizing before potential market corrections. There are other mean reversion strategies that are just purely trading one contract and buying and selling based on *take profit* and *stop loss*, so it is not dynamic in that sense.

Is there a maximum dollar or % risk per position?

Each strategy has a different take profit and stop loss. I believe the maximum loss for an intraday trade is $1,200 which is 1.2% of the $100,000 trading level. But each is different. Some have a *stop loss* ranging from $400 to $600 or 0.4% to 0.6%. On the intraday strategy perspective 1.2% would be the max loss on a trade. The mid-frequency trades tend to have wider *take profit* and *stop loss* ranges than intraday strategies. There is no guarantee that a trade will be executed at the *stop loss* price.

What markets are you currently trading?

Algorithmic Multi-Strategy Program's long volatility strategies trade equity index futures and treasury futures strategies. These include E-Mini S&P 500 Futures, E-Mini Nasdaq 100 Futures, E-Mini Russell 2000 Futures, E-Mini Dow Futures, Micro E-Mini S&P 500 Futures, 5 Year Treasury Futures, and 10 Year Treasury Futures, Euro Currency Futures, Australian Dollar Futures and Japanese Yen Futures.

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PROGRAM INFORMATION

Current CFTC Registration	Apr 2020
Current NFA Membership	Apr 2020
NFA Membership No.	#0500489
Minimum Investment	$100,000
Notional Funding	Yes
Average Margin	5%
Maximum Margin	20%
Round Turns Per Million	~10,000

Momentum trading looks to take advantage of short-term price momentum.

Mean Reversion is the theory that prices and returns eventually move back towards the mean or average.

Have you added or taken out any contracts?

Yes. I recently added an intraday momentum strategy in currency futures. The market is very good short-term momentum trend- following strategies. I am always continuing to do additional research. There are tweaks and changes on the margin, but the portfolio, as constructed, is 95% complete. It is more tweaking, adding and doing additional research on the margin.

What is your average margin?

Our overnight average margin is 5% with a maximum of 20%, assuming that there are no margin increases on existing positions put in place by the exchanges.

Are you trading your own money?

Yes, $400,000 in proprietary funds which is my capital and a family member's capital. The rest is client money. What I list in the Autumn Gold database is client assets. We trade a fixed level account.

Is there anything else we would know about your risk parameters?

From a risk management perspective there are three pillars

1. Diversification of trades. We have a portfolio of 18 different uncorrelated strategies. We believe that diversification of uncorrelated strategies creates more consistent performance with lower drawdown.
2. Everything is traded systematically with *take profits* and *stop losses*. We are creating very structured trades from that perspective. That helps remove emotional biases and trading bias that discretionary traders have to manage.
3. We have a low margin to equity ratio with an average margin of 5%.

How correlated are the stock market equities that you are trading?

I ran a correlation table that is in my investor presentation. Request Ravinia's Investor Presentation. Some of the intraday momentum strategies are correlated between 0.20 and 0.40 which is relatively low overall. Those are my most correlated strategies. If you take into account, the mean reversion and intraday trades against mid-frequency trades - those sometimes have negative correlation. Historically the portfolio is relatively uncorrelated. There is no guarantee that the portfolio's correlation will remain at these levels.

Why would a High Net Worth or Institutional Investor add Ravinia to their existing portfolio?

Two reasons. I have a portfolio construction background from my investment consulting and manager research days. The main reason that the portfolio is constructed to provide positive convexity and crisis alpha.

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Everything is traded systematically with take profits and stop losses. We are creating very structured trades from that perspective. That helps remove emotional biases and trading bias that discretionary traders have to manage.

We maintain a low margin to equity ratio with an average margin of 5%.

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When you think about different managers or stock and bond portfolios - and we saw this in March and April 2020. In March 2020 the S&P Price Index was down over 12% and the Algorithmic Multi-Strategy was up 12%. That is an example of positive convexity and the ability to perform in bear markets. When you think of combining all those strategies together it is hard to get that long volatility exposure without paying carry costs. When you look at tail risk, hedging strategies, and other types of strategies that are meant to hedge and outperform – often they don't perform well in other types of market environments. But because I have created a diversified portfolio, I have historically been able provide absolute returns while also providing long volatility exposure. There are no guarantees of future performance.

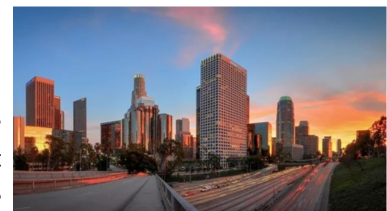
To recap, a multi-CTA investor would benefit because we have provided, on a historical basis, positive absolute annual returns with the ability to outperform consistently. And long volatility exposure during periods of market crisis.

And you don't feel that most Managers are doing that?

When you look – a lot of CTAs might say that they do that or think that they do that, but when you look at their performance it tends to be more correlated than we think. There are some great CTAs that do provide that negative correlation during periods of market crisis, but historically the asset class hasn't. And secondly if they do, they might not have performed well during other market environments. So, if they do provide that negative correlation for example in 2020, they may not have good performance in a year like 2017 where volatility is low, and the S&P is up 20%. Or in 2013 when the S&P 500 was up 30%. I haven't seen a lot of managers that have both consistent performance and long volatility exposure.

If the stock market were to fall 30%, how would you expect you would do?

The stock market fell 35% during February and March 2020, I was down in February and then outperformed significantly in March and April 2020. The market started turning around and rallying in mid-April. So even at that inflection point my program performed well. I will say that the faster and more violent the sell-off the better I tend to do because those tend to be the very strong intraday momentum days where the strategies have historically performed well.



When we gap down and continue down throughout the day, those are the days that this portfolio has really done well. A small correction, 5 to 10% correction, I might not outperform significantly. If there is a more violent and deep correction, I will tend to perform well from the intraday momentum strategies. This is based on my ongoing research and trading history. There is no guarantee that the program will continue to perform in such a manner.

Ravinia Investment Management is located in Topanga, CA

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Trading futures involves a substantial risk of loss and is not suitable for all investors.
There are no guarantees of profit.

Getting the most out of the Autumn Gold database

Autumn Gold has been tracking CTAs since 1994.

CTA Information is updated daily.

QEP and Accredited Investors can sign up for our Platinum Service to get extended CTA listings, Statistical Reports, and access to Autumn Gold's Portfolio Builder. Our Portfolio Builder allows for notional funding.

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