

Intervju med Michael Covel - Trend Followings Ambassador (engl.)

Stockholm (HedgeFonder.nu) - As long as Michael Covel is around, trend following as an approach to trading has an outspoken and passionate voice and ambassador. My first contact with Mike was when I joined a CTA in 2004 and on my first day in the office, along with my laptop, business cards and office keys was handed a copy of his book "Trend Following". HedgeFonder.nu is pleased to have had the chance to ask Michael some questions, and here is what he had to say:

(For the first time, hedgenordic.com has chosen to leave the interview in English language and publish it in its original. A Swedish translation will follow.)

HedgeFonder.nu: People seem quite confident when computer systems fly the plane they travel on, diagnose their health or the weather that will guide them on their yacht trip across open seas but turn highly sceptical when asset managers use algorithms to support investment decisions. Why is that do you think?

Michael Covel (pictured): Trading for exceptional returns may not appear realistic in the schizophrenic cacophony:

"What is the right approach for investors faced with an unusually uncertain economic outlook and volatile markets?"

"Big concerns over job insecurity, consumer and corporate spending, and housing prices."

"Should you buy gold?" "Where are markets headed?" "Oil shock, dollar drop, Japanese earthquake, elections!"

That's white noise.

Yes, sure, of course, you may have more options, but an explosion of naiveté has muddied the waters. Ignorance and confusion reign supreme. The idiot box is no longer just the bedroom flat screen. It is every PC, Mac, iPhone, and iPad. People absorb TMZ and Drudge via an intravenous drip. We are in a voyeuristic world where living vicariously through someone or something is accepted without hesitation and, in fact, encouraged.

With brain synapses bombarded nonstop, it is no surprise that this has brought attention spans down to just a few seconds-about the same as a goldfish. However, an incessant barrage of information across every known connected device will not punch your ticket to financial freedom.

Bottom line, people have been brainwashed by Wall Street, the media and government to think that there is some expert who predict the future. In the face of that, it is very hard to convince people of new ways of doing things.

HedgeFonder.nu: What is a trading system to you? When is someone systematic and when is he discretionary?

Michael Covel: A trading system answers 5 questions with rigid rules:

1. What markets will you trade.

2. When do you enter.
3. How much do you bet each trade.
4. When do you exit with a win.
5. When do you exit with a loss.

Systematic traders answer those questions with rules that don't require human intervention. If you override those rules—that's discretion.

This is the only trading strategy that can be traded on a desert island. As long as price data is available, all else is inconsequential. Media, fundamentals, broker opinions, talking heads, and so on are simply not necessary to profit.

Yes, initial discretionary decisions must be made as a trend follower, such as choosing a trend following system, selecting a portfolio, and determining an appropriate amount to risk. However, after the basics have been set in motion, you can systematize trend trading rules and automate your daily trading life. This is not day trading, where you are glued to the screen all day in some Red Bull" induced hyperactivity bender.

HedgeFonder.nu: You are not shy to tell us about the advantages of being unemotional and unbiased when taking investment decisions, and are very passionate about it. Is that a conflict?

Michael Covel: No. Can you explain the conflict to me?

HedgeFonder.nu: More and more money managers turn to some form of "system", in their asset management decisions. Do you think our age can still develop exceptional skill and gut based, sweat and knowledge based fund managers like Soros, Jim Rogers or Buffet?

Michael Covel: There will always be a few exceptions, but systematic trend following trading gives the average person the best chance to win.

As someone who grew up in the Washington D.C. area, I watched politicians use and/or abuse the system to their own economic advantage on such a regular basis that it was no longer considered unethical. In the fall of 2008, Buffet received political favors and influenced government in ways that no trend following trader ever could. It was wrong. Buying into the Buffet legend is not

part of my ethos. Now it's BAC. Does the average person really get these kinds of deals? Come on.

HedgeFonder.nu: What will qualify the great traders of the next generation?

Michael Covel: The definition of "great" can mean many different things to different people! Great could be managing the most money or making the highest return. One trader could consider making 15% a year great, and another could consider 22% great.

Greatest returns is probably the best place to look for great, but it can be tricky when you start to consider risk adjusted, etc.

Not an easy question.

HedgeFonder.nu Can unemotional, systematic managers have strong fundamental personal beliefs and still be true and objective managers for their investors?

Michael Covel: Sure, Bill Dunn and Richard Dennis are trustees at The Reason Foundation. See: http://reason.org/trustees_and_officers/.

Bruce Kovner? Also: <http://www.ias.edu/news/press-releases/2010/11/11/kovner-board>.

Of course, Soros too—who clearly has some very systematic trading approaches in his arsenal.

HedgeFonder.nu: Some of the great traders seem to be very unique characters, and I think to have spotted some common features in the personalities of those I was lucky enough to meet. What do they have in their DNA, something the other 98% of traders just don't have and never will?

I don't think it is a DNA issue.

It is a "practice" issue. Sustained practice and continuous effort to a goal is the so-called 'secret'.

DNA is not the secret.

HedgeFonder.nu: If I put you in front of a hundred managers with 50 MUSD under management, are you confident you can spot the guys that will make it to a billion? What characterizes them?

Michael Covel: Consider the Turtles.

In my book *The Complete TurtleTrader* I state the Maginot line, between those Turtles who achieved huge trading success after working for Dennis and those who failed at trading, came down to an understanding and application of entrepreneurial skills. The Turtles had to have trading rules, but without entrepreneurial savvy they were doomed. Nancy Upton and Don Sexton, professors at Baylor University who have long studied entrepreneurs, pinpointed traits possessed by Parker and other entrepreneurs:

1. Nonconformists-lower need to conform indicating self-reliance.
2. Emotionally aloof-not necessarily cold to others, but can be oblivious.
3. Sky divers-lower concern for physical harm, but does change with age.
4. Risk takers-more comfortable taking it.
5. Socially adroit-more persuasive.
6. Autonomous-higher need for independence.
7. Change seekers-like novel approaches. This is different than 99% of all other people.
8. Energetic-higher need and / or ability to work longer.
9. Self-sufficient-don't need as much sympathy or reassurance, but they still need to form networks so self-sufficiency need not be taken to extremes.

We shouldn't underestimate those nine factors. Dennis turned on the lights and supplied the brokers, the money, and the system. With Dennis out of the picture, the Turtles had to answer for themselves as to whether or not they had the ability and the desire to succeed on their own. Their dilemma, whether they knew it or not at the time, could be solved by how well they applied only those nine traits.

Can they be spotted exactly? Never. Look at some of the Turtles who failed. Yes, some Turtles were big winners, but some were not. What is the difference? Those 9 points.

HedgeFonder.nu: I have 5 million dollars in an equity long only / fixed income portfolio with some real estate and good fund of hedge funds and a million dollars in cash. What do I do?

Michael Covel: The issue is not to ask me what you should do. The question I would ask: what do you want to do?

Michael W. Covel is the author of *Trend Commandments* (FT Press; Jul, 11) and *The Little Book of Trading* (Wiley; Aug, 11). Mr. Covel's past bestsellers include *Trend Following* (FT Press; 09, 07, 05, 04) & *The Complete TurtleTrader* (HarperCollins; 09, 07). His trend following books have been translated into 10+ languages. Mr. Covel also directed the documentary film *Broke: The New American Dream* (Nature Nurture Productions LLC; 09). He has presented live to audiences in Chicago, Dallas, Hong Kong, Las Vegas, Macau, Miami, Paris, São Paulo, Tokyo and Vienna. Mr. Covel's research firm (www.trendfollowing.com) has been training trend following traders since 1996 across 70+ countries. His original website was TurtleTrader®, which has drawn millions of visitors.

Mr. Covel holds a B.A. in politics and government from George Mason University and an MBA from The Florida State University.