

Do CTAs Suffer from Crowdedness?

Stockholm (HedgeNordic - Teaser) - Trend following CTAs have an enviable track record. In addition to superior absolute returns, their ability to show positive returns during large drawdowns in the financial markets, their crisis alpha, make them an ideal component in a traditional portfolio and in a portfolio of hedge funds. No wonder that the category has seen AuM rise significantly. An obvious concern is that the sheer size would exhaust the alpha associated with trend following. These concerns were voiced loudly during 2009-2012 when the industry in aggregate showed flat returns, but less so after great returns during 2014 and the start of 2015.

The futures markets are extremely deep and liquid. Equities, fixed income and currencies all have underlying cash markets which provide additional depth and liquidity, should it be necessary. For commodities the futures markets are the prime markets for both benchmark pricing and risk transfer.

While they are closely tied to the commodity cash markets through possible physical delivery, there is less depth and liquidity to be tapped from their cash markets than for the other asset classes. Hence, any issue with size for CTAs would most likely first appear in the commodity markets. In the following we will study the composition of the commodity futures markets and look for any indication of crowdedness.

You can read the full article on pages 40-43 in the Special Report on CTA & Macro Strategies 2016

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