

Mjeltevik Invest - capturing trends in Nordic equities

Stockholm (HedgeNordic) - Using a systematic long term trend following approach to trade Norwegian and Danish equities, Håvar Mjeltevik (pictured) the portfolio manager and system designer behind Norwegian asset manager Mjeltevik Invest, has built an impressive track record. In an interview with HedgeNordic, Håvar explains the characteristics of his system and what he believes makes it stand out.

HedgeNordic: Give us a bit of background about yourself and how you decided to set up a systematic trend following program.

Håvar Mjeltevik: I have always been good with computers and systems and started when I was 11 on an old IBM computer my dad had. I learned to code and to automate different tasks on the computer.

Back in 2000 I read the book "Reminiscences of a stock operator" and got hooked like many others and I needed to find out that I could do the same thing; trade stocks profitably. When I was studying for my degree in computer engineering I tried to systematize and test different strategies. Back then I think I've tested thousands of combinations and found some good strategies. The problem was that I was not trained psychologically for the markets so I needed to train and get experience in order to being a profitable trader/fund manager. I think many have good systems, but very few have the guts to follow them. So the most important part is the psychology. Successful investing/trading goes against normal human behavior.

HedgeNordic: Have you been the only developer of the program or is it a team effort?

Håvar Mjeltevik: Yes, I am the only developer and I have used over 10 years of research day and night with a lot of mathematics and statistics analysis. I can tribute a lot of my success to the market wizard and the legendary trader Ed Seykota and also guidelines from Richard Donchian.

HedgeNordic: The program is said to be a systematic, long term trend following program, what makes the program stand out?

Håvar Mjeltevik: That's a good question. In order to find very good systems you have to spend so much time on research that your family members think you are crazy. But I do not feel that is hard work for me and the reason for that is that I love the markets. It is very hard to compete with people that have their jobs in their hearts. Most of the systematic trend following programs out there uses only technical analysis. We use technical analysis and fundamental analysis combined and I think that is the reason for our good edge in the market.

HedgeNordic: Is the program only trading Norwegian and Danish cash equities or is it trading stock indices through futures as well.

Håvar Mjeltevik: We have the Nordic as our base, but specializing in Norwegian and Danish equities. We are not trading stock indices futures.

HedgeNordic: Why did you choose to only trade Norway and Denmark?

Håvar Mjeltevik: By now we have our biggest edge in these markets. Our strategy works well in many other countries as well, but in order to give our clients the best returns, we trade in Norway and Denmark.

HedgeNordic: What makes the program enter and exit trades, is it scaling in and out of trades?

Håvar Mjeltevik: It is a combination of what's the market climate right now, it's the stock indices in a uptrend, downtrend, what about the volume it is increasing/decreasing, how many stocks with positive earnings estimates, it's the stock itself in a uptrend, what about liquidity? We do not scale in and out of trades because it's a lot better risk/reward to enter and exit with the full amount.

HedgeNordic: What is the average holding period? What is the average turnover of trades?

Håvar Mjeltevik: Our average holding period is 79 days on all trades. The average turnover of trades is 36 trades in a year.

HedgeNordic: Is there a long bias in the system?

Håvar Mjeltevik: Yes, there is.

HedgeNordic: What fundamental inputs are used?

Håvar Mjeltevik: Earnings estimates, level of debt in the companies etc. Often the good stocks in a uptrend tend to also have good earnings reports and growth in sales. Often we buy the best stocks in the market, and often technical and fundamentals are positive at the same time. As with everything we do, the fundamental inputs are applied systematically.

HedgeNordic: Is the track record you have provided net of fees and live?

Håvar Mjeltevik: It is not net of fees, but it is live since 2010. Our track record is from 2010 and the period 2010-2013 was my private track record.

HedgeNordic: What was the reason the program had such a strong performance in 2012 and 2013, a period that was more or less flat looking at the global benchmark indices out there (SG CTA Index and SG Trend Index for example)?

Håvar Mjeltevik: Both stock indices in Oslo and Copenhagen had strong performance in 2012 and 2013 and the program did also fine. The reason is that there will be some correlation from the indices when you trade stocks from the same index.

HedgeNordic: How do you manage risk? Is there a use of leverage in the portfolio, target volatility, how is risk measured and how are tail risks managed?

Håvar Mjeltevik: Managing risk is a very important part of our program. We think of our downside before our potential upside. A strong defense is important in order to deliver strong risk-adjusted returns to our clients. We do not use leverage at all and we risk just 0.5-1 % of total capital per trade as a function of volatility. Traditional portfolio strategies follow that idea that the market returns follow a normal distribution. In my opinion that is nonsense. The markets do not follow a normal distribution and therefore you have to defend your system from extreme events. If you use common statistical tests, it is very unlikely that an event like the stock market crash in 1929, 1987, 2000 and 2008 can happen in theory, but we know that the markets are not normally distributed and in practice there is more probability for an extreme event to happen.

HedgeNordic: How is the fund currently distributed, what are the assets under management?

Håvar Mjeltevik: We have not done a lot of marketing and the fund has just started. Our AUM is now 3.5 million NOK. I think our AUM will increase a lot in the coming years because of strong performance and also that more people hear about us. We just got started formally with our fund in 2014.

HedgeNordic: Is there a size constraint in the strategy given the contracts traded?

Håvar Mjeltevik: Since we trade only equities and not futures we do not have a size constraint as we speak. We buy only stocks with good liquidity so we can be quite large before it is an issue.

HedgeNordic: How is the portfolio currently positioned and why?

Håvar Mjeltevik: Right now, we are positioned 96.10% long. Our positions are: AF gruppen (NOK), Ambu (DKK), Det norske oljeselskap (NOK), Marine Harvest (NOK), NNIT A/S (DKK), Novozymes B (DKK), Ocean Yield (NOK), Subsea 7 (NOK) and TGS-Nopec (NOK). Many of these companies have delivered strong earnings and are in an uptrend, but some have come up a lot after a lot of investors have sold their positions. Stocks tend to get overvalued at the top and undervalued at the bottom, mainly because of human psychology. Our systems told us later this year that is a good probability for that we are in a final stage of a bull market. We have not reached euphoria

or super optimism in the market yet, but I think we will. Whatever happens in the market, our systems will take care of it. They are designed for that.

HedgeNordic: Can you give us your best piece of market wisdom?

Håvar Mjeltevik: There is a good quote from the trader Paul Tudor Jones which I think reflect the most crucial part in asset management.

“I’m always thinking about losing money as opposed to making money. Don’t focus on making money, focus on protecting what you have”