

Paleo: The Hunter and Gatherer

Stockholm (HedgeNordic) – Some hedge funds managers rely on technical analysis to refine timing or price targets around fundamentals-based investments. With Karl Oscar Strøm launching **Paleo Fund**, the Nordic hedge fund industry now houses a fund that primarily relies on technical analysis for its trading.

“All positions are based on technical and quantitative analysis, with fundamental analysis serving as an additional input to the decision-making process,” explains Strøm, who has a broad background in finance as a broker, trader and business developer. “I need to have some knowledge about the narrative surrounding stocks and their sectors, but my specific positions are based on technical behavior,” Strøm tells HedgeNordic. “Knowing a little about the fundamentals helps me with position sizing.”

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Karl Oscar Strøm, who set out to explain his investing approach in a book titled “Paleo Trading: How to trade like a Hunter-Gatherer,” uses a flexible, opportunistic approach to enter into various types of relatively short-term trades. While some traditional fund managers do not like holding cash or cannot stay in cash, Paleo Fund’s “fallback position is cash,” according to Strøm. “The mandate is very flexible and I can stay fully in cash until attractive entry opportunities appear,” he continues. “And then I can be net long 200 percent or net short 200 percent very quickly,” with Paleo Fund mainly investing in index futures, liquid stocks in Europe, the Nordics and the U.S., and some commodity futures. “Just like a hunter and gatherer, I will seize opportunities when I discover them.”

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Different Types of Strategies

Paleo Fund relies on various strategies, ranging from short-term intra-day setups to medium-term swing trading and larger and more rare asymmetric opportunities. With Paleo Fund still in its early days, Strøm mostly engages in trend strategies and trend- or mean-reversal strategies. “One type of strategy can be compared to being a hunter and that mainly represents trend-based investing,” explains Strøm. “If I want to join the S&P 500 on an uptrend, I can as an example enter into a trade that stays on as long as the S&P trades above its seven-hour moving average. I can be as short term as that or even shorter, because it costs nearly nothing to enter and exit such as position.”

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“Another type of strategy involves waiting and looking for technical setups, which may be a trend-

reversal or a mean-reversal,” continues Strøm. “If a stock gets a sudden price-drop to a technical level support level in an uptrend, for instance, I may buy the first time it hits that level.” Strøm has mostly been engaged in shorter-term trading in the initial phase of the fund, but the plan is to have both short-term and longer-term trades. “The plan after the summer vacation is to have longer-term positions with slightly wider stop-losses as base positions,” says Strøm. The longer-oriented positions can involve trades in index futures that stay on as long as index levels stay above certain moving averages.

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With Paleo Fund able to use two-to-one leverage, position sizing depends on instrument liquidity. “Within single stocks, the size of a position depends on liquidity as I want to have fairly tight stops,” explains Strøm. “But as index futures are very liquid, I can go in and out with large positions while having very tight risk control,” says the fund manager of Paleo Fund, which currently oversees about NOK 75 million in assets under management.

Risk-Taker and Risk-Controller at the Same Time

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“Because Paleo Capital is a one-man shop at the moment, I have to be a risk-taker and risk controller at the same time,” says Strøm. “That is one of the challenges as you have to have the mindset to initiate positions and take risk, while also being careful about protecting your capital,” he continues. For that reason, Paleo Fund’s strategy involves “waiting if I don’t see any clear opportunities and then being more aggressive when I see them, but using tight stop-losses,” according to Strøm. “In liquid markets, I can always enter again if the move turns out to be a fake, but nobody gives you back your capital if you take a substantial hit.”

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“It is tough when you are in shaky markets, as your stops are always triggered and then you see it bounce right back. That is the price to pay for not having large drawdowns,” explains Strøm. “In volatile markets, it is tiresome to see your stops triggered all the time. You get these so-called call paper cuts, small losses. But that is the name of the game,” continues the former broker. “As a trader, I want to have a series of many small losses and small gains, then some large gains, but no large losses.”

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Strøm is pursuing two main objectives with Paleo Fund. “One is, of course, to generate a high absolute return,” says Strøm. “I only get performance fees upon reaching a watermark of 10 percent, I don’t get any success fee before reaching that milestone,” continues the fund manager. “But at the same time, this will not be a fund that will be swinging in the same rhythm as the rest of

the market, so decorrelation too is an emphasis,” according to Strøm. “Few setups are as flexible as this one, and the plan is to grow the organization to a substantial size over the coming years.”