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# new managers

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## IN THIS ISSUE

<b>EDITORIAL</b> .....	02
<b>LAUNCHES</b> .....	03
<b>BULLETIN</b> .....	05
<b>EUREKAHEDGE</b> .....	06
• 10 best performing emerging hedge funds	
• Key trends in North American hedge funds	
<b>PROFILES</b> .....	08
• 3SD Capital	
• Cognitive Trading	
• Nnaisense	
<b>SEEDERS &amp; PLATFORMS</b> .....	13
Bonhote Fund Solutions	
<b>PERSPECTIVES</b> .....	15
• Hedge funds pivot on equity strategies	
• Cayman sees fewer fund launches, but more from Asia	
• Nature of hedge fund management start-up industry is changing	
• Funds of hedge funds continue their consolidation	
<b>MARKETING CHALLENGE</b> .....	19
Commit to quit	

## Pure countertrend CTA to open to investors

Investment manager Peter Moon has recently launched a CTA program called 3SD Countertrend, that is run through managed accounts out of Connecticut-based 3SD Capital. The futures trading program is expected to open to investors this month (March).



Peter Moon

Moon started in the mid-70s, when he was trading his personal account, until he moved to the fund management industry.

“My history of countertrend futures goes back to my first CTA in 1987, Royston Investments in Chicago, which I launched after working for Peter Steidlmayer, floor trader and inventor of Market Profile,” he tells Opalesque.

“That was a discretionary program that ran until 2008 when I decided to systematise the strategy, having reached a point where I felt I no longer had the necessary fortitude and risk tolerance to be a counter-trend trader stepping in against roaring markets.

When that process was completed, I ran the system for AHL (part of Man Group) on a \$50m trial account, but when they bought GLG they had their negative

correlation with size and no longer wanted any ‘de-trend’ component in the AHL trend product. Then I ran the system for Tudor Investment from California and after a few years was relocated to their Greenwich head office. When I left Tudor in 2016, the system’s AuM was \$200m.”

That’s when he realised he needed to be independent again, he continues. Especially since his program was unusual, requiring him to run the research exactly the way he intended. He also wanted out of the vagaries of the fund industry. While setting up 3SD, he found the current business model favoured running single managed accounts. He also found that clients approved of managers’ use of third party providers - whereas, he says, in the past, not running everything in-house was seen as a weakness.

### Defining countertrend

There are two big differentiations of his program, he says. One is that it is extremely negatively correlated, and the other is the strategy is pure countertrend. “So, for example, we are about -0.5 correlation to CTA Index, -0.3 to global macro and -0.2 to the S&P. That gives us a significant head-start advantage to portfolio construction especially if it has any momentum in it. Of the approximately 1,000 CTAs in the Barclay database, there are less than 20 that have negative correlation with over \$50m in AuM.”

**“Having negative correlation means you are doing something different.”**

The correlation of returns from different hedge funds styles has risen from around 0.3 in 1993 to 0.8 in 2009 (The Economist, May 2010) - a reflection of recent comments about too many managers following similar strategies.

“Having negative correlation means you are doing something different,” he says, “and it is underpriced in the industry because it is so rare. And you won’t see many marketing pitches demonstrating what a benefit negative correlation can give you.”

**“True countertrend is rare.”**

Countertrend is difficult to define. Most CTAs will say at some point they employ mean regression and counter-trend techniques, which typically entails reducing their trend positions in extended markets, he explains. But true countertrend is rare. Out of 4,500 hedge funds and CTAs in the Barclays database, only one program title includes the word ‘counter-trend’, and three ‘contrarian.’

“We run a pure counter-trend system designed to capture market turning points of medium to long term trends where mean regression has high probability,” he says. “So what we do that’s different is not use price or market data. The catalyst for our signals is based on a 100% behavioural heuristic algorithm using proprietary database of behaviours and characteristics that have been observed at market turning points.”

His database is a long-haul working project. He has built it over his more than 30-year career of monitoring behavioural biases and collecting observations at every turning point. “Not using price patterns for signals was the main reason that it took a long time to develop the system,” he adds.

The name 3SD Capital reflects the third standard deviation above and below value where the system seeks opportunity. The boutique includes two people for now, with another person coming on board soon from a leading hedge fund as COO and partner.

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