

THE NEXT TOP MODEL

FIRM:
ROW Asset Management

AUM:
\$414 million

Principals:
Ryan O'Grady
Jeffrey Weiser

Strategy:
**Trend following/
mean reversion**

Location:
Newport Beach, Calif.

Ryan O'Grady knew what he wanted to do from a very early age. "My dad was a bond trader. The first [trading] book I had, still have today, is 'The Dow Jones-Irwin Guide to Trading Systems,'" O'Grady says.

It was full of moving averages and technical analysis and it planted a seed with O'Grady in the world of technical trading.

While earning a degree in Economics from Johns Hopkins University, he had an internship with fixed income shop Neuberger Berman. "I built a model that was a five- vs. 30-period moving average crossover," O'Grady says. "At the time it was not something anyone had seen. I was invited back the next summer. That is how I got on FX Concepts' radar."

Still in school, he was hired by currency manager FX Concepts — where he would work for more than 15 years, starting out in the back office and ending up as head of research.

"I went from the back office to the trading desk where I was an assistant trader," he says. "My interest was in building models, but my first job was at the trading desk. After a year or two the head trader was noticing that rather than doing [discretionary] trades, I was writing models."

The head trader moved him to the system development side where O'Grady built successful models.

By 2008, O'Grady and the team he built up were itching to get out on their own. "In 2008-09 it seemed

RYAN O'GRADY

like the right time," he says. "We had all been together for a long time. There was no big fight, we reached a certain age and we wanted to try it on our own."

In 2010 O'Grady and fellow FX Concepts alum Jeffrey Weiser launched the ROW Asset Management (Ryan O'Grady, Jeff Weiser) currency program. A year

later they followed up with a diversified program.

ROW includes an eclectic mix of strategies that don't normally go together: Trend following, carry, pattern recognition, time decay, fair value, sentiment and mean reversion. ROW breaks it down to 50% trend following and 25% to carry and mean reversion/relative value.

"The basis for the way the strategies are mixed is on game theory," O'Grady says. "It occurred to us that instead of trying to figure out the best possible portfolio mix, lets figure out the portfolio that minimizes your maximum regret. You are thinking about periods were one model struggles; and what other models might perform well and blend them in ways that [reduce risk]."

The recent movement in energy exemplifies this. "If you looked at our portfolio two month ago, we were short energy, short long-dated energy because we were playing carry as a contango play [and] we were long energy on the [mean reversion] model," O'Grady says. "Different signals get combined so our aggregate signal is a combination of the underlying."

The mean reversion element tends to soften the sharp edges of trend following. While ROW made nearly all of its strong 2014 returns in trend following—27.11% according multiple tracking services—all models contribute to ROW's success.

"In a year like 2014, trend should contribute a lot, mean reversion/relative value should lose money," O'Grady says. "The trend models did their job; there were trends and they caught them. The mean reversion/relative value models did a very good job because they should have lost money and they basically broke even. The carry model did an OK job because carry was not that great a play [in 2014] and it made a little bit."

"The best way to look at it is that we are multi-strategy," O'Grady says. "Instead of someone allocating to a trend manager, a mean reversion manager and a carry manager, we are doing that internally. The benefit is that we also have portfolio level risk management, so after all strategies are combined there are multiple layers of risk management to get them to balance properly."

ROW had positive returns in the more difficult trending environments of 2012 and 2013 so the system appears to be working. While the approach may seem counterintuitive, the multiple models have all of ROW's oars going in the same positive direction. ▲

Daniel P. Collins



Courtesy of Ryan O'Grady

