Ngone: Applying institutional knowledge

BY DANIEL P. COLLINS

Rodney Ngone spent more than a decade working at various institutional trading desks in Florida, New York and London before breaking out on his own to launch a short-term systematic trading program.

While at first it may seem odd that Ngone would go from a long-term discretionary fundamental trader to a short-term systematic momentum trader, he says the transition has not been that difficult.

“The information flow was obviously a lot greater but the process is basically the same; instead of analyzing fundamental data, economic data, monetary policy data, etc. you are now analyzing price data,” Ngone says. “It is not really that different. What I do miss is being completely up to date all of the time on the ins and outs of central bank policy. The whole point of what we are doing is we are anticipating price, and fundamental research is historical so that has been a change.”

RODNEY NGONE

Ngone worked at a Relative Value Fixed Income fund in Florida before moving on to Fortress Investment Group in New York and then to Bank of New York Mellon in London where he was a proprietary trader. It is those lessons learned that he is applying to his emerging short-term CTA Sagat Capital.

“When I was a discretionary trader we had basically a systemized process in place for long-term trading based on fundamental analysis but we didn’t have anything in place for short-term trading,” he says. “So I decided to start building out a trading process that was systemized to help me trade in the short-term and I wanted it to be blended based because I believe that is the best way of extracting risk premium from the marketplace. So I basically applied it to FX when I was working and realized it worked very well.”

London-based Sagat recently launched but has built up a solid conservative proprietary track record. Since leaving BONY in 2011, Ngone has produced a 7.4% annualized average return with a 4% margin-to-equity ratio over three years.

Ngone did not wake up one morning and decide to leave the safety of an institutional trading desk to form an emerging manger; he worked on his strategy throughout his career.

“I started tinkering around with these algorithms when I was 21, as soon as I joined financial the markets,” he says. “I just had strong ideas on how you could extract risk premiums from the markets. One of the things that I realized at the time is that market-makers in general were very focused on exactly what was happening at that particular point in time. They were trying to extract little bits of cash just at that particular point in time and they were very good at it. So when I [entered the markets I thought] surely there has to be a statistical distribution to all of this and there must be characteristics you can take advantage of.”

So Ngone went about developing a short-term momentum strategy. “We prefer to call it momentum because we don’t distinguish between trend-following and mean reversion; we basically want to anticipate price strength,” he says. “We want our system to be making money in a 2008 scenario—where we would replicate a trend-following portfolio—and then in a 2012 scenario where trend-following is getting killed.”

This seems to have worked as Ngone managed solid, if unspectacular, returns in a difficult environment. He trades a diversified group of 10 futures and forex markets with an even distribution between financial and commodity markets. His plan is to scale the program out to a universe of 70 markets.

“We designed this program with institutional accounts [in mind], so we wanted to keep the volatility low, but this will be investor driven so if an investor wants this at 2 times or 3 times [leverage] we can do that,” he says.

Trades average 1.5 to 5 days in length and it is a true reversal program, always in the market. “Everything is completely rules-based,” he says. “The only discretionary part of the program is which markets we operate in within the universe of potential markets.”

Ngone is just starting out but has a strong institutional trading background and has navigated a difficult environment over the last three years. “The major selling point is that in an investment portfolio we are engaging ourselves to be an absolute return vehicle so in horrendous environments like now where no one is making any cash we are not going to bleed away an investor’s portfolio, we are going to extract some form of alpha,” he says. “Then in a 2008 scenario when you got stock plummeting, we are going to be the guys, along with everyone one else, doing quite well because everything we are doing is based on momentum. That is what we are trying to demonstrate.”

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