

# TAKING AN HFT APPROACH TO TREND

**FIRM:**  
Alpha Terra

**AUM:**  
\$232 million

**Principal:**  
Grant Jaffarian

**Strategy:**  
Trend Following

**Location:**  
Los Angeles

**G**rant Jaffarian has had a great deal of experience trading and analyzing traders. Crabel Capital Management has been one of the premier designers of short-term trading programs in the futures space for multiple decades. Together they are providing a fresh perspective on the long-term trend-following space with the Alpha Terra Advanced Trend Program.

Alpha Terra President Jaffarian, who joined Crabel in 2014 and recently became portfolio manager for the Advanced Trend program, previously was chief investment officer for Efficient Capital Management, where he was responsible for allocations in the managed futures space.

The Advanced Trend program is a long-term trend-following strategy built by short-term traders, which gives it many advantages according to Jaffarian.

"Crabel is a very high-volume futures trader, [which] demands that we compete with a lot of the HFT crowd," he says.

"We are co-located in most places [and] have exchange memberships in most places," Jaffarian says. "A lot of trend-followers would say that doesn't matter, but latency and slippage matter. Just because you are doing very few turnovers per million you might think slippage is not a factor. We disagree. You are costing yourself 1% to 4% because you don't have the infrastructure necessary to compete with HFT."

The ability to trade fast—even with a long-term approach—can reduce risk as well as increase capacity. "If you are a trend-follower that isn't co-located and can't execute quickly, that [produces] bigger risk," Jaffarian says. "You want to do a 10-lot and you don't have any sophistication around whether you should move that 10-lot immediately or take your time. We can work that 10-lot. This allows us to expand our assets without [compromising] the composition of the product."

While most diversified trend-followers trade somewhere between 28 and 60 markets, the Alpha Terra program trades more than 200 futures and forex markets.

"We trade everything that we think is appropriate to trade from a CFTC perspective and a tax efficiency perspective," Jaffarian says. "They are all listed except for the forex markets. And we do trade some non-G7 currencies."

While this may seem hard to fathom, Jaffarian says it provides greater diversification and capacity.

"The trend opportunities are the same. If everyone

is plowing into the same markets, you are competing with yourselves for the same risk/return profile that we all know and love in trend," he says. "When you expand the scope, you find a lot more opportunity. The trick in expanding the scope is having a low-latency ability. To hit the market without influencing it demands co-location and quickness, which we have in spades as a function of what we built for our short-term trading."

Despite trading an inordinately large number of markets, Alpha Terra does not treat them all the same.

While typical trend followers tend to apply the same weighting on all time frames and markets, they do not. "Why would you do that? There is a clear statistical advantage when you think about these things [individually]."

While the average holding period on trades is roughly 35 days, the range is from 20 days to 400, and it is different on every market.

"We have a team of pure execution strategists and developers. That means we can be very swift and thoughtful when trading some of these less-active and lower-volume markets and

be cautious in a way that if you were plowing the market with a big order it would be disastrous," he says. "That allows us to access markets that are more difficult to access. There is a meaningful edge there," he says.

The strategy allocates risk equally across four sectors: Fixed income, forex, stock indexes and commodities. "If the volatility profile is identical across all sectors, each sector carries a 25% risk weighting; however, if we feel the opportunity is greater in one sector, we can shift it to 40% of our overall risk exposure," Jaffarian says.

The program earned 50.97% in the last nine months of 2014 and is up 7.29% through June 2015. Despite its short history, the program has amassed \$232 million in assets. Of course, Crabel has tested the program over many years and Jaffarian points out that it tested well, net positive, in the difficult years from 2009 through 2012.

All trading in the 100%-systematic strategy is automated. The strategy is all trend-following, but with HFT execution algorithms. "It is not as though we are trying to be overly clever. It is trend [but] a very thoughtful trend," Jaffarian adds. ▲

## GRANT JAFFARIAN



Courtesy of Grant Jaffarian

Daniel P. Collins