Review of Nick Baltas paper:

Trend-Following, Risk-Parity and the Influence of Correlations

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CAPITAL MANAGEMENT

Paper Highlights

❑ Trend Following Models:

- Benefiting from some form of serial correlation of returns
- Typical Risk Allocation scheme: Volatility Parity

❑ Evolution of Market correlations

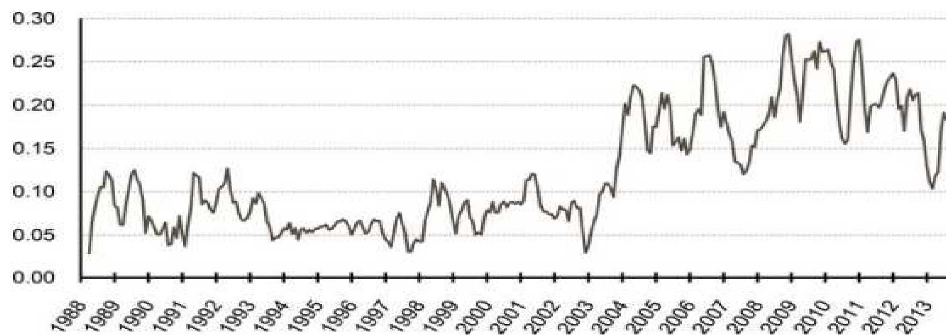

Figure 3.4. *Rolling average pairwise correlation across all assets. Monthly average pairwise correlation across all contracts using a 90-day rolling estimation window. The sample period is from April 1988 to December 2013*

❑ Volatility Parity vs Risk Parity (MCR)

- Difficulty arising from sign defined by the trading model (vs long only)
- Improvement especially post crisis when correlations high

Comments

- Very good paper with a good description of trend following and some of the allocation issues faced by CTAs.
- Correlation has indeed increased especially inter-assets therefore the issue of allocation becomes very important.
- Comments/Questions:
  - Portfolio with a commodity bias (16 markets while 6 for other sectors) => exacerbate issue of vol parity
  - Rebalancing commissions & slippage impact?
  - Interesting analysis of improvements vs correlation regime: any predictability/sustainability of these regimes?
  - Parameters stability? We are using ex-ante measures while correlations can be quite jumpy. This is slightly less of an issue for volatility.