

CTA 201: Finding Your Scottie Pippen

You are a CTA 101 graduate. You already know that trend has a long track record, you buy into the positive skew, you appreciate the diversification and you are impressed with how trend manages its risk. In fact, you probably have your first draft pick "Michael Jordan" CTA: a liquid CTA in your portfolio that looks very much like Société Générale's SG Trend Index.

What next?

You want to allocate more to trend: your consultants (and Claude!) agree you should allocate 20% to CTAs. But trend is not easy to hold: it goes through tough times, and your investment committee (IC) may lose patience after three years of drawdowns. It may be the only strategy in town that *pays* rather than *charges* for positive skew, but your IC may not appreciate that. You decide you don't want to put all your eggs in one basket, so you choose a second CTA to enhance your portfolio.

What are the candidates you may want to consider[1]?

- A **Fast trend** CTA is a viable candidate. For this analysis I am going to use SG STTI (Short Term Traders Index) as a proxy. There is more dispersion among fast CTAs (which is why the overall volatility of STTI is quite low),so I am going to scale STTI up to a "standard" 15% fund.
- An **Alt trend**s CTA is also a valid candidate. There isn't (yet) an SG Alt CTA index so I am using actual Alt CTAs. As these are real funds, I won't be scaling their volatility.

[1] I have excluded specialist CTAs such as spread CTAs because I have no data for them.

Opinion Piece. Please see important disclosures in the endnotes.

- **Sector trend** CTAs are also available: commodities, bonds and equities.

Before you choose your second CTA, you should articulate what you want to achieve. You may want just higher stand-alone performance: It is difficult to justify an allocation to a Sharpe 0.6 fund, and you are likely to cash out precisely before trend has another good year (see Paid for Presence). A higher Sharpe makes holding the basket easier. Alternatively, you may be worried about your equity allocation and want more equity crisis alpha[2], though you are not sure how to "quantify" this.

Equity convexity

In Anatomy of Equity Crises, we define convexity by looking at equity returns and checking how much more a CTA is likely to earn if equities go up x% or down x%:

CTA returns = alpha + **convexity** * |equity_returns|

We can compare equity convexity for a range of available candidates:

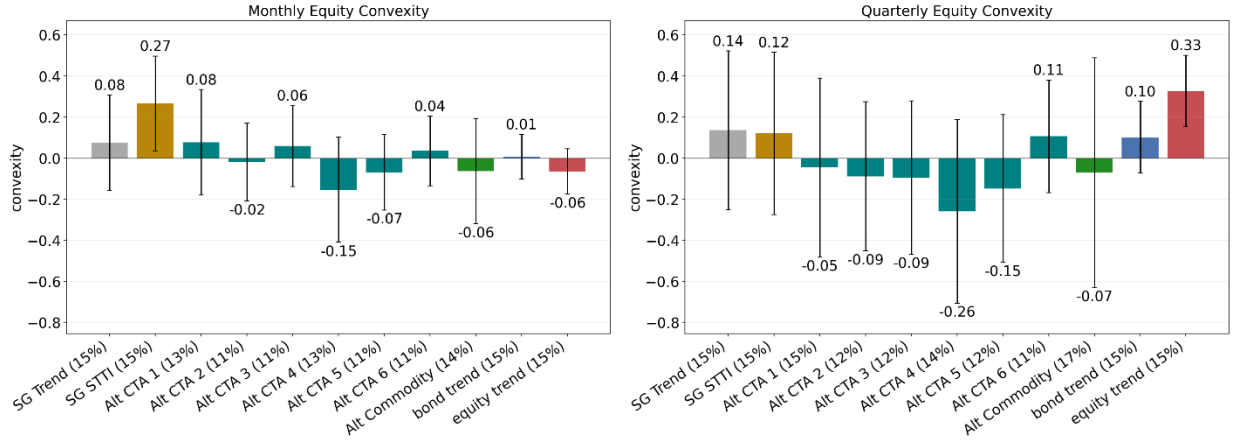

Figure 1: Monthly and quarterly equity convexity for different possible additions to your portfolio. SG indices run from 2010. Alt CTAs depend on the specific CTA's inception. Alt Commodity from 2017 and Equity/Bond simulated from 1962.

Alt CTAs and commodity trend will contribute next to no equity convexity. This is unsurprising as these are designed to provide you with *alternative* risk factors, so you cannot really ask them to help you during an equity crisis.

[2] You may also be one of the few managers who are worried about their bond portfolio. If that's the case, I have a fixed income CTA just for you.

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Fast trend is interesting: at a monthly horizon it looks like it is contributing a lot of convexity[3], but at quarterly horizons its convexity drops sharply. Why is that? In Convexity You Can Afford (Fig 4) I explained that trend, because of its active risk management, is not 100% committed to the underlying asset. The faster the trend, the less commitment, and the lower the final beta you get. The data above confirms this: even at quarterly — let alone yearly — horizons, SG STTI's convexity drops to SG Trend's convexity.

Conversely, sector-specific equity trend adds *negative* convexity in the short term (a drawdown usually starts after a rally!) but then, once we look at quarterly returns, it provides meaningful additive convexity.

A combination of fast trend and equity-specific trend is likely to work nicely. It will lower your overall Sharpe but will give you steady convexity at multiple horizons and can complement/replace the much more expensive put-buying tail protection program you are also considering.

The bad news is the overall scale: CTAs don't provide that much equity convexity whatever you do. The "Fast+Equity" combination will give you a convexity of approximately 0.2: if equities drop 10%, it is likely to make only an additional 2%. As I explained in my previous blog post, this is not an artifact of the data; it is structural to the way CTAs manage risk.

Standalone performance

To try and choose a higher performance CTA mixture[4], we need to understand their correlations to your existing portfolio.

[3] If you have any marketing material for any fast CTA, I will bet you my bottom dollar that it lists the worst weekly or monthly S&P shocks rather than any quarterly or yearly shocks.
[4] I excluded bond-trend and equity-trend from this analysis as their constituents are likely to overlap the main allocation of your liquid CTA and thus are likely to make your portfolio less diversified rather than more so.

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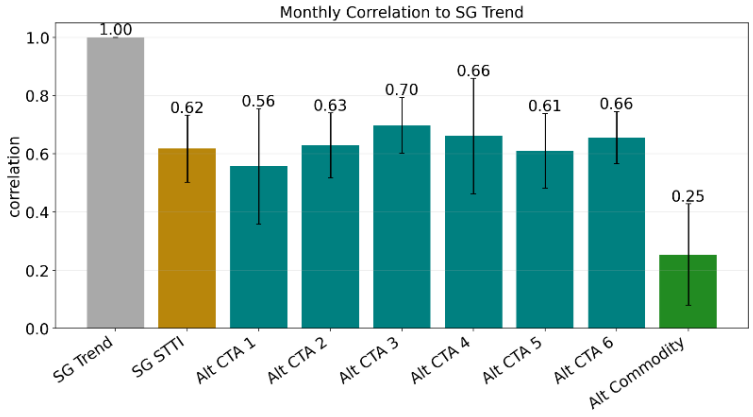

Figure 2: Correlation to SG Trend Index of monthly returns. As of November 2026

If you insist on keeping liquid trend, then that's all the correlations you need for your second CTA. If you want a new mix of CTAs, you need the full correlation matrix:

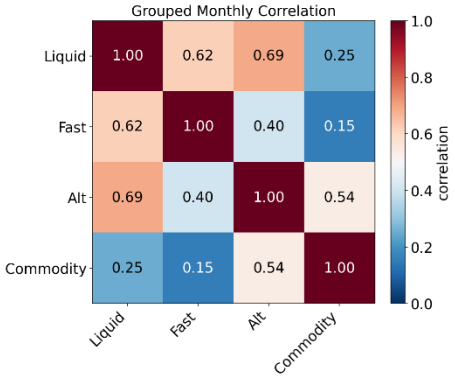

Figure 3: Grouped monthly correlations. As of November 2026

Your allocation then depends on your estimates for Sharpe going forward. Historically, fast trend has underperformed liquid trend, which has underperformed commodity & alt trends but allocation is about future expectations, which you will have to decide for yourself[5].

- If you trust historical Sharpes going forward, you want just the best two performing: **Alt + Commodities**
- If you don't believe historical Sharpe at all, you probably want the two most divergent strategies with only 15% correlation between them: **Fast + Commodities**

[5] Inflation is the most dominant macro factor that affects trend performance and you can read a little more here and here. If you want to time your allocation, your views on inflation are the ones that matter most.

- If, like me, you think alt/commodities/liquid are broadly similar, but also that fast trend is a little weaker, you want **Liquid + Commodities**.

In all three scenarios, the optimal allocation[6] to any remaining CTAs is immaterial and the impact of adding a third is negligible. For example, assuming Alt/Liquid/Commodity have similar Sharpes means adding **Alts** to **Liquid + Commodities** adds literally nothing.

Moreover, if we constrain the 1st fund to be your existing liquid allocation, then under all three assumptions, the optimal allocation is **Liquid + Commodities**.

What should I do?

Personally, I think both crisis alpha and long-term alpha are worthy goals, but I would separate the two. I would include fast trend + equity trend + put protection in an insurance bucket, where you are explicit to your IC about your willingness to pay a yearly premium as insurance[7].

For the CTA stand-alone portfolio, I would aim to select at least two CTAs that you believe can combine to a Sharpe of 0.8 or above. That is historically viable and will allow you to withstand CTA drawdowns better. I am not sure what your first "Michael Jordan" CTA is, but it is pretty clear what your second "Scottie Pippen" CTA should be.

Good luck!

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[6] This analysis was done using simple optimization, maximizing returns while keeping a constant variance. I assumed all CTAs have roughly the same volatility.
[7] STTI + equity trend historic Sharpes are slightly positive, but their true cost is in the capital they are diverting away from your mainstay allocation. Put buying tail protection is just an outright negative carry strategy.

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