

Managed Futures and REITs

July 24th, 2007 by [Mebane Faber](#)

First, a fantastic [review of hedge fund replication](#) from Conquest Capital. Here is an [interview with Marc H. Malek](#), Managing Partner at Conquest Capital. From the interview:

In our study, we found that most CTAs exhibit a very high correlation (70-90%) to one or more simple breakout strategies consisting of trading a diversified group of markets by buying at the nth day high and selling at the nth day low. We chose 33 different breakout lengths, ranging from 1 to 200 days. Each of these breakout lengths was run as an “nth day” simple breakout strategy on Conquest MFS’ 55 markets.

The result is a historical track record for each of the breakout lengths. Our study plots the correlation between a CTA’s monthly return stream and the return stream of each of the breakout lengths. We have found that most of the CTAs we tested have a very high correlation to breakout lengths between 30 and 60 days.

This means that what most CTAs are delivering is in part a beta; an exotic beta, but not alpha. Further studies showed that CTAs were not generally delivering alpha in excess of the exotic beta. In other words, CTAs as a group were not outperforming the exotic beta they delivered. For an investor, therefore, investing in the exotic beta directly would generally be a better strategy than investing in a portfolio of CTAs that would purport to deliver alpha.

Second, REITs (IYR below) are in a 20% drawdown from their peak five months ago, and this sure is a nasty chart. . .