

J8 GARS vs. carve-outs: a performance comparison

Abstract

We examine how the performance of carve-outs of J8 GARS compare to the full J8 GARS program. We want to find out if carve-outs promise better risk and return properties than the broadly diversified J8 GARS program. We find that the sum of parts is stronger than the single parts.

Methodology

J8 GARS consists of six sub-strategies:

- Government Bond Futures Trend Following
- Currency Futures Trend Following
- Currency Futures Carry
- Commodity Futures Trend Following
- Commodity Futures Term Structure Arbitrage (Carry)
- Commodity Futures Inventory Basis (Value)

Each sub-strategy can be included or excluded for modelling purposes. We examine asset class carve-outs and risk premia carve-outs. For each, we create small sub-strategy portfolios:

- Asset class carve-outs:
 - o Commodities (all 3 commodity sub-strategies)
 - o Currencies (both currency sub-strategies)
 - o Government Bonds (single sub-strategy)
- Risk premia carve-outs
 - o Trend Following (all 3 trend followers)
 - o Carry (the currency carry and commodity term structure arbitrage sub-strategies)
 - o Value (single sub-strategies on commodity inventory basis)

We keep the portfolio construction and risk management method and all parameters for J8 GARS and for each carve-out the same. This will allow for a fair ceteris paribus comparison of each group.

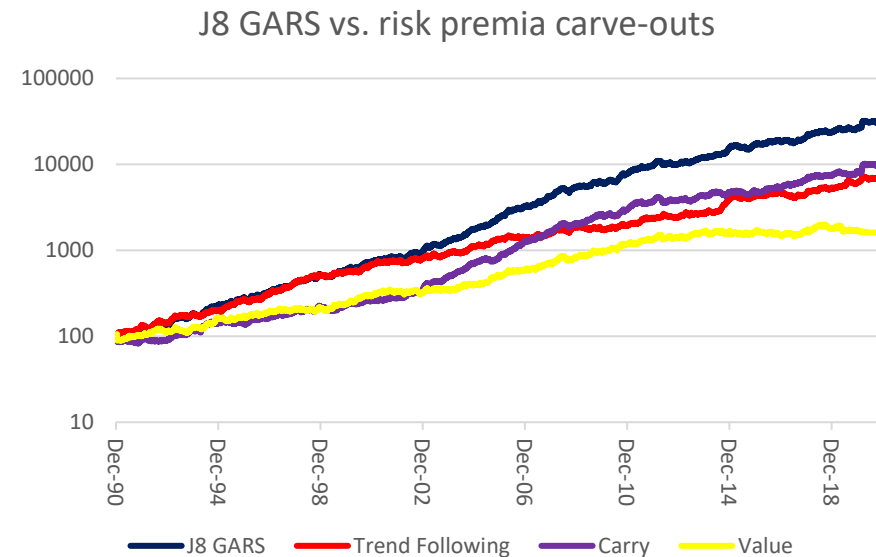
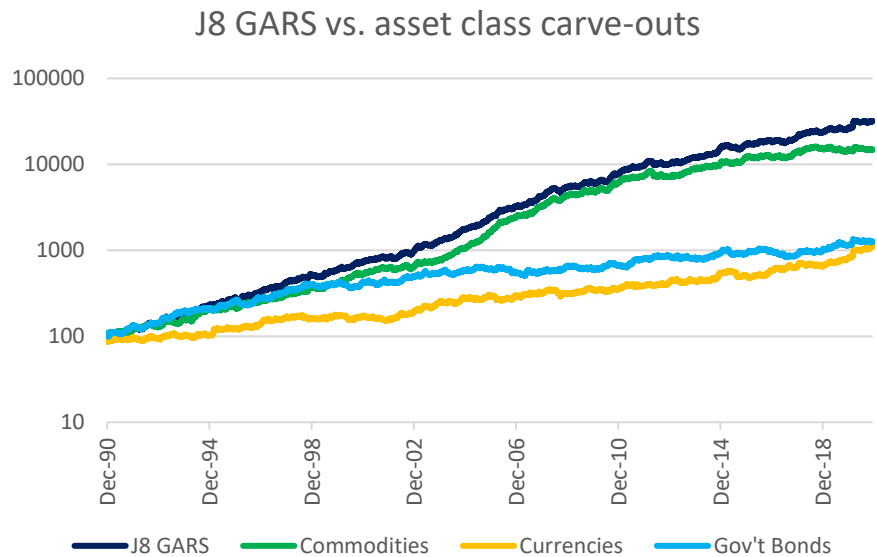
Statistics

	J8 GARS		Asset class carve-outs						Risk premia carve-outs					
			Commodities		Currencies		Gov't Bonds		Trend Following		Carry		Value	
	Since 1991	since 2011	Since 1991	since 2011	Since 1991	since 2011	Since 1991	since 2011	Since 1991	since 2011	Since 1991	since 2011	Since 1991	since 2011
Performance (ER)														
Annualized Return	21.02%	15.90%	17.98%	10.20%	8.59%	11.75%	8.76%	7.33%	15.22%	14.32%	16.59%	13.59%	9.77%	3.28%
Annualized Volatility	10.15%	10.25%	10.27%	10.08%	10.77%	11.05%	10.51%	10.33%	10.43%	10.49%	10.13%	10.41%	10.72%	9.80%
Annualized Downside Volatility	6.70%	6.52%	6.72%	6.71%	7.70%	7.30%	7.30%	7.10%	7.10%	6.88%	6.68%	6.58%	7.52%	6.67%
Sharpe Ratio	2.07	1.55	1.75	1.01	0.80	1.06	0.83	0.71	1.46	1.36	1.64	1.31	0.91	0.33
Sortino Ratio	3.14	2.44	2.67	1.52	1.12	1.61	1.20	1.03	2.14	2.08	2.48	2.06	1.30	0.49
Calmar Ratio	1.84	1.42	1.22	0.69	0.48	0.68	0.41	0.37	0.90	0.84	1.06	0.99	0.52	0.17
RRRR (Rtn / length adj av DD)	2.66	2.55	1.29	0.88	0.34	0.99	0.25	0.40	1.21	1.62	1.03	1.48	0.36	0.17
Maximum Drawdown	-11.39%	-11.23%	-14.72%	-14.72%	-17.79%	-17.21%	-21.48%	-19.82%	-16.96%	-16.96%	-15.70%	-13.79%	-18.81%	-18.81%
Average of 5 largest DD	-10.23%	-9.00%	-11.96%	-10.10%	-15.14%	-10.91%	-16.97%	-12.99%	-11.76%	-10.82%	-13.14%	-10.94%	-15.35%	-12.77%
Average length of 5 longest DD	282	253	427	417	615	396	767	509	391	298	449	306	639	561
Return / average 5 largest DD	2.05	1.77	1.50	1.01	0.57	1.08	0.52	0.56	1.29	1.32	1.26	1.24	0.64	0.26
Ann vol / max DD	0.89	0.91	0.70	0.69	0.61	0.64	0.49	0.52	0.61	0.62	0.65	0.75	0.57	0.52
Ann vol / average 5 largest DD	0.99	1.14	0.86	1.00	0.71	1.01	0.62	0.80	0.89	0.97	0.77	0.95	0.70	0.77
Drawdown homogeneity	0.99	0.99	0.99	0.96	0.97	0.97	0.96	0.94	0.98	0.97	0.99	0.99	0.98	0.87
Skew	0.19	0.94	-0.06	-0.01	0.67	1.58	-0.07	-0.16	-0.01	0.22	0.32	1.31	-0.63	-0.08
Kurtosis	6.09	15.37	1.67	1.42	17.87	29.94	4.00	2.03	3.80	4.79	9.06	20.91	20.11	1.38

Hypothetical performance of J8 GARS and its asset class and risk premia carve-outs. All performance is presented as excess returns, i.e. futures performance only, no accrued interest, no costs, and no fees included. Performance statistics stating in 1991 and 2011 respectively. Source: J8 Capital Management LLP.

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Logarithmic performance presentation of J8 GARS and its asset class and risk premia carve-outs. All performance is presented as excess returns, i.e. futures performance only, no accrued interest, no costs, and no fees included. Performance graphs starting in 1991 and 2011 respectively. Source: J8 Capital Management LLP.

Analysis

We analyze the time series of J8 GARS and the carve-outs. We start when data became available in 1991 and also analyze the shorter history from 2011 when the interest rate and central bank policies changed significantly. We are interested in returns and drawdowns. We are not interested in volatility because volatility is managed to the same target volatility for each analysis and therefore not differentiating factor.

In order to analyze the returns and drawdowns, we look at the Robust Risk Reward Ratio (RRRR)¹. The RRRR is calculated as the annualized return over the length adjusted drawdown, whereby the length adjusted drawdown is calculated as the average of the 5 largest drawdowns, normalized by the average length of the 5 longest drawdowns. Unlike other measures, the RRRR is not dependent on singular data point but addresses long-term stability.

Conclusion

The RRRR of J8 GARS is significantly higher than for any of the carve-out strategies, both for the 1991 and the 2011 time series. This demonstrates the power of diversification: a broadly diversified portfolio not only outperforms a concentrated portfolio in the long-term but also with less downside shocks and shorter recovery periods.

¹ Faith, C. "Way of the Turtle", Mc Graw Hill 2007, P188 following.

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