Polar Futures Guarded Opportunity

December 2018

Monthly Performance = 12.43 %
YTD = 10.94 %
**net of fees*

The program had a strong finish to the year trading up 12.9% in December bringing our performance for 2018 to 10.94%. Remember, for this program that is a net number, what clients have in their account at the end of the year after all fees and charges. Markets continue to move in a "risk off" fashion allowing our existing trades to be closed out for good gain or held as they finished the month after strong moves in our direction. We saw some extreme volatility during the thinner trading days of the holiday season; however it looks as though this higher volatility environment could be here to stay.

Gold had rallied roughly $50 from $1,200 in mid-November to near $1,250 into December as the US interest rates were moving lower and the USD was staying in a tight range. It is my view that real rates and the USD are the biggest inputs to golds price right now. Given I think that nominal interest rates have moved to a low enough level allowing them to stabilize or move higher again and that the USD could see a resumption of strength, gold was a strong candidate to weaken. A week into the month I initiated a short position in gold looking for a move back toward $1,200. Gold caught a firm bid as risk fears rose into the end of the month, but our modest position could now see a strong reversal.

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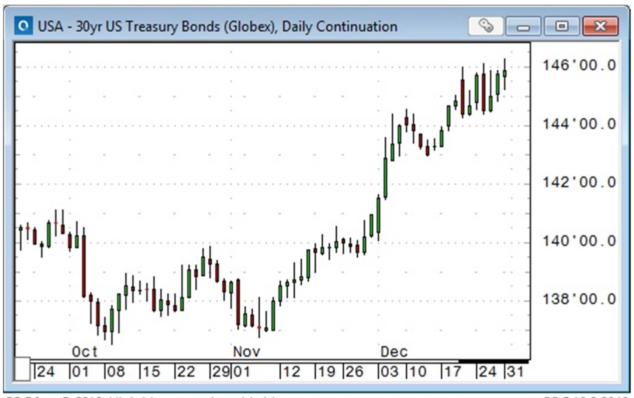

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The US long bond rallied consistently from the time we put the position on in mid-November until we saw a spike higher at the end of the first week in December. After it rallied back near the spike high levels at the start of the second week I thought it might be running out of steam and was close to my target level of 145' so we closed the position for a strong gain. Given the size of the gain over such a short timeframe I also liked to close out the position before the Fed was meeting on the 19th to raise rates. Bonds did trade higher at month end due to the severe sell off in the equity market, but bonds didn't go anywhere near as far as they could have given the equity market move. This may be setting up for a good opportunity to get back short the bond market in the New Year.

We had gotten long the Yen in the middle of last month looking for it to outperform if we saw any further risk off sentiment in the market. It was also trading near the lowest levels it had been over the last year and seemed to be holding above those levels well, giving us an attractive risk reward opportunity. The Yen did see several small rallies when stocks sold off, however by mid-December the Yen was back at its lows despite the equity market trading down to its recent lows. Because the currency wasn't performing like I thought it should we traded out of the position at a small gain. I thought it was also possible the Yen could break down through that support level when the Fed was set to raise rates the next week. Unfortunate timing in that starting almost the next day the Yen rallied strongly up over 3 cents into the end of month as equity markets

CQG Inc. © 2019 All rights reserved worldwide CQG 19.9.8040 sold off. We didn't catch the move that we had been anticipating, however it didn't go against us either, can't catch them all.

We continued to hold a short position in CAD that we have held over the last several months looking for a breakdown. After holding in rather well given the oil price decline in November we finally saw CAD break down through 75 cents like I had been waiting for. The move was from the Bank of Canada announcing that they would hold interest rates steady, but sounded much more worried about future growth potential and even reintroduced the term "oil price shock" into their statement. Oil and equity market decreases also worked against CAD which closed out the year at its lows and I think it is very possible we will see CAD trading at or below 73 cents as we head into the New Year. I continue to think that stronger economic data will keep the Fed on a faster path of tightening monetary policy than CAD, especially given the added pressure of lower oil prices and the fact that Alberta will be curtailing 350k barrels a day of oil production.

We had been short of the New Zealand dollar from November looking for a stronger USD and "risk off" sentiment to turn the currency lower after its strong run higher over the previous months. However at the start of the month when Presidents Trump and Xi agreed to a trade truce, even temporary, the risk on trade jumped higher and so did the NZD. We were stopped out of our initial position, but given the surge higher in NZD and the inability to maintain any of the gains we re-established the short at higher level looking for the euphoria of the truce to wear off, as it hadn't actually accomplished much of anything. It was fortunate that we got the position back on as the NZD traded lower right into the end of the year as investor sentiment soured and risk off came back in force. I think that NZD could easily retest the recent lows given renewed worries about the Chinese growth story and the possibility of a continued risk off sentiment for investors. If that is the case, there is still significant downside to NZD if it were to test the recent lows.

I am pleased with the yearly performance up to double digit returns in a year that was difficult to make money. While the program went back and forth through the start of the year, the underperformance through the end of the summer was a result of being early in looking for the moves that came over the last several months. However, I again believe this proves out the trading strategy of limiting risk while looking for outsized gains and allowing higher risk/return trading setups to run that will result in some months with very strong performance. We had two trading months this year with double digit returns and no single month down over 5%. This is the guarded opportunity strategy working as it should, guard against downside losses while allowing for larger upside opportunities.

Until next month,

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