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Polar Futures Guarded Opportunity

September 2018

Monthly Performance = -2.20%
YTD = -10.55%
**net of fees*

As equities surged to new all time highs our short bias was the largest drag on return this month which was 2.20% drawdown. The trading program has been out of sync with market price action over the past few months which has warranted keeping risk lower to try and minimize further drawdowns. When market views are not lining up concisely with price action the goal is to try and stay smaller and more nimble until positons start working again. This risk reduction helped in minimizing the drawdown this month even though returns remained negative.

We have held a very small position in corn over the past several months as a more of a "long shot" that the corn market could turn and rally. Even though corn moved to new lows this month we saw a sharp reversal higher. If that upward momentum can contiue we could still see some value come back into this position. Given the risk/reward dynamics the position wasn't worth selling out of.

As US equity markets moved to new all time highs this month we had to exit our short position established at the end of last month. As markets moved back to new highs in the second half of the month we closed out our trade to maintain the capital that was still available. The thesis that higher interest rates along with continued emerging market volatility and vulneralbility would likely spook equity investors into a market sell off didn't come to fruition. Since May of this year the US equity markets had diverged greatly from the most other global equity markets and it was my view the US markets were out over a cliff. However strong domestic economic conditions seems to be enough to keep that divergence going. I still think this will be a trade to get back to, however when new highs are being made you can't afford to stay on the short side.

 CQG 19.6.8034

As US interest rates moved back above 3% in the middle of the month it was my view that US rates driving higher would again provide a positive tailwind for the US dollar. We bought the US dollar index towards the end of the month looking for the lows over the past few months to hold offering a great risk/reward entry point. The key driver of this trade idea has been based on US economic outperformance and the monetary policy divergence as a result of that. But I also see instability coming to the Euro region. I believe the European debt markets will get to be more and more volatile as the ECB pulls back on new bond purchases to 15B EUR a month starting in October and ends new

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purchases at the end of the year. If the US had taper tantrum I can easily picture a scenario where the sovereign and corporate bonds in Europe go hysterical. Given that the Fed never went into corporate bonds or into negative rates! There will need to be some serious adjustments. I also think we could see some political issues push bond volatility higher as Brexit/ Italian issues work towards getting resolved.

We added to our short CAD position that had been established at the end of August as I saw multiple issues facing the Canadian economy and in my view the market was nowhere near pricing in the risk of a “no NAFTA” deal. We added to this trade after the run up at the end of the month thinking that anywhere near 78 cents CAD was overvalued. In my view the market has only been focusing on the possibility of a trade deal getting done, which is keeping a bid in the currency, but other drivers of CAD such as interest rate differentials and oil price discounts are telling a more bearish story. The risk is in a trade deal getting done, but after that I think there are more bearish influences that will come into focus. My view of a stronger USD would also work to soften CAD.

While several of the indicators I use to time the entry and risk parameters of trades have been out of sync with market price action, I believe we are getting close to a major shift. So while the trades have been out of sync, I still think it is a case of being early rather than having the wrong focus. As mentioned at the start of this letter, in this scenario the risk taken will stay lower, but similar opportunities will sought out and I will work to try and time trade entries better. When looking for market shifts, being early is hugely advantageous, however being too early can allow a position to get away from you. Going forward we are more likely to get out of trades sooner when they aren’t giving us the signal we are heading the right direction rather quickly. This may up the turnover, but the aim will be to lower the drawdown of each specific idea. Changing markets will always require an adaptable strategy, so that will always be my goal.

Until next month,

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