

Review 2020

Leo Willert, Head of Trading

Trend following was also successful in 2020 and spared investors' nerves.

ARTS Asset Management, which specializes in the management of quantitative total return strategies, closed 2020 with a clearly positive performance in its flagship products. We spoke to founder and managing director Leo Willert about his view of the financial markets in the pandemic year and the challenges facing trend-following trading strategies.

Mr. Willert, your house is known for its rule-based managed, trend-following funds of funds. How did these get through the year 2020?

The first year of the Corona pandemic with all its effects on society, the economy and individual lives was also extremely challenging for asset managers and investors. Our systematic approach once again proved to be very robust in this. The ARTS trading models adapted to the four different market phases of the year and identified profitable trends.

You talk about four phases. Can you explain that in detail?

In the first phase, from the beginning of the year until mid-February, the MSCI World and other leading stock indices were still up a bit. Then, as it became increasingly clear that we were dealing with a pandemic, there was a sell-off on the stock markets. In this second phase, which lasted until March 23, the world stock index lost about a third of its value in euro currency and no regional market was spared from the rapid downward movement. On the most extreme day of this phase, the Dow Jones Index fell by almost 13 percent, making March 12 one of the ten worst days for the Dow Jones in its more than hundred-year history. In addition, fleeing into comparatively safe government bonds typical of such stress markets did not take place this time. On the contrary: these markets also came under downward pressure and the prices for German Bunds or US Treasuries fell. So the proverbial „safe havens“ did not offer any refuge this time.

How did the funds managed by ARTS perform in this turbulence?

Let's take a look at the C-QUADRAT ARTS Total Return Global AMI and the C-QUADRAT ARTS Total Return Balanced: Following the upward trend, both funds used their maximum equity quota until mid-February. They thus got caught up in the downturn fully invested and therefore also recorded initial losses in the 2nd phase. However, the ARTS trading system reacted as expected and quickly reduced the equity quotas. Both funds were therefore hit much less severely than the overall market.

What happened next?

The third phase began at the beginning of April. In the highly developed economies, the central banks opened the money floodgates, parliaments and governments decided on huge aid programmes for companies and private households. The stock markets reacted to this with a very fast and very strong, V-shaped recovery. The strongest performers were the US technology giants such as Amazon, Facebook, Google and Apple, the winners in a period characterised by lock-downs. On Wall Street, the S&P 500 (EUR) virtually exploded between April 2 and April 30, gaining almost 18 percent. Since our equity exposure was still close to zero at the beginning of the jump in the third phase, we were not able to follow the price gains. That is the price of the trend-following strategy: it takes a while to react to market developments. But I think most investors will gladly pay this price, because for them it is more important that we were able to significantly reduce losses in stress markets. For this reason, we also had to recover significantly fewer losses. Our investors therefore came through the phase of extreme fluctuations on the world markets with a significantly lower maximum loss in value and more relaxed. Emotionless trading also has a calming effect on the price trend.

So you were then no longer invested in equity funds. Where did the positive performance come from in the end?

After phase two and during phase three, we were actually out of the market and not invested in equity funds. After that, the systematic trend-following approach helped us to find a gradual and thus relatively safe entry again. After the jump, the market was characterised by another moderately volatile upward movement from May until the end of the year, which was, however, interrupted a few times by above-average losing days. Despite these fluctuations, the ARTS system was able to identify trends and exploit them profitably. The C-QUADRAT ARTS Total Return Global AMI achieved a considerable plus of 19.0 percent during this phase, while the more defensive C-QUADRAT ARTS Total Return Balanced gained 14.9 percent. For the year as a whole, a total return of 5.2 percent remained in the Total Return Global AMI and 4.5 percent in the Total Return Balanced. Compared to the DAX, for example, which gained 3.6 per cent, or the EuroStoxx50, which even lost 5.1 per cent, both funds can boast a stronger performance with significantly lower risk - a good, nerve-saving ratio on balance.

The performance of the C-QUADRAT ARTS Total Return Global AMI over the 5-year period was 10.86% (2.08% p.a.) and of the C-QUADRAT ARTS Total Return Balanced was 8.39% (1.62% p.a.).

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