



May 2018

# HIGHLIGHTS FROM CFM'S NEW YORK SPRING SEMINAR

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## Introduction

On May 10, CFM was joined by nearly 70 clients and investors for our 2018 North America Spring Seminar in New York City. The afternoon seminar included illuminating discussions led by academics, market experts and the firm's senior leadership on a wide range of topics that spanned data ethics, crypto assets, the connection between market crises and political upheaval, and strategies for successful portfolio diversification.

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## The agenda for the day included:

- ▶ R. David Edelman, the former White House Technology Advisor to President Obama and Project Director at Massachusetts Institute of Technology, examined data exploitation and ethics in his thought-provoking presentation.
- ▶ Greenwich Associates' Richard Johnson and Quantigic Solutions' Zura Kakushadze led dynamic discussions on crypto assets.
- ▶ Professor Yaneer Bar-Yam from the New England Complex Systems Institute presented on the stability and instability of macro-economics and markets, informed by his research into anticipating economic market crises using measures of collective panic.
- ▶ CFM's Jean-Philippe Bouchaud, Chairman and Chief Scientist, spoke on A Universal Approach to Value Investing revisiting Fisher Black's statement on value and presenting findings and conclusions from a recently published academic paper.
- ▶ CFM Head of Alternative Beta, Philip Seager, added to the days discussions speaking on A Skewed View of Investing, the impact of risk premium investing and its applications in portfolio construction.

## Key takeaways from the day

Several important themes, findings, predictions and big-picture trends emerged from the presentations and discussions:

- ▶ **The challenge of our time is ensuring our use of data works for us not against us.** Data drives companies and markets, and its application in artificial intelligence holds great promise, yet it is as fundamentally fallible as we are as humans. Data is being exploited for profit and disruption, and does not always deserve our trust. Beyond investing, data is changing the landscape of cybersecurity, it is triggering geopolitical threats, and its use in AI enables great possibility while, at the same time, creating opportunities to weaponize data, for example, to undermine global political systems. --- *Views of R. David Edelman, Former White House Technology Advisor to President Obama.*
- ▶ **Mixing trend and value strategies significantly improves a portfolio's profitability.** CFM's research proves that Fischer Black was right: prices are, on average, 50% away from value. Because prices are

most often quite far from value on the medium term, using value strategies can improve a trend following portfolio's profitability. Agent-Based models describing the interactions between trend following and value agents model financial data well and, once calibrated, get close to Black's factor of 2. --- *Views of Jean-Philippe Bouchaud, Chairman & Chief Scientist at CFM.*

For more information, please refer to our academic paper 'Black was right – Price is within a factor 2 of value' <https://www.cfm.fr/insights/black-was-right-price-is-within-a-factor-2-of-value/>

- ▶ **Crypto currencies are an asset class that is here to stay, and 2018 will be characterized by the imminent institutionalization of crypto assets.** There is growing mainstream adoption of crypto currencies, evidenced by leading market makers and financial institutions that have entered the space: CME and the CBOE now trade bitcoin futures, Goldman Sachs intends to launch a bitcoin trading desk, and the US Securities and Exchange Commission is monitoring activity, demonstrated by enforcement actions against initial coin offerings or "ICOs." In fact, some view the SEC's toughened stance towards crypto assets as encouraging, as the agency aims to allow the underlying innovations to flourish while protecting fair and sound markets. --- *Views of Richard Johnson, Vice President Market Structure & Technology at Greenwich Associates.*
- ▶ **It pays to combine risk premia and non-risk premia.** Genuine risk premium strategies are those with positive Sharpe ratios and negative skewness. Investors should consider building diversified portfolios of risk premia, avoid being overly exposed to one strategy, and recognize that trend following is a good strategy that happens to be convex. Ultimately, investors should diversify and allocate across strategies, choosing strategies that are statistically significant and that have demonstrated robustly positive out-of-sample performance. --- *Views of Philip Seager, Head of Alternative Beta at CFM.*

For more information, please refer to our whitepaper 'Risk Premium Investing – A tale of two tails' <https://www.cfm.fr/insights/risk-premium-investing-a-tale-of-two-tails/>

- ▶ A new way for economists to measure national GDP. Research by Zura Kakushadze suggests more accurate and concise ways to measure economic data. Kakushadze developed the concept of the iCurrency, a universal numerator to measure iGDP, to solve for the limitations of existing ways of measuring national GDP.

It would not be issued by a government and would, therefore, be free from exchange rate manipulation. Its value would be based on supply and demand, it could easily be transferred across regions and be accepted globally as a payment method. What's more, the algorithm would not require human intervention. ---  
*Views of Zura Kakushadze, President and CEO, of Quantigic Solutions.*

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CFM has pioneered and applied an academic and scientific approach to financial markets, creating award winning strategies and a market leading investment management firm.



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