



## Alternative Investing

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### A Century of Evidence on Trend-Following Investing

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As an investment style, trend following has existed for a very long time. Some 200 years ago, the classical economist David Ricardo's imperative to "cut short your losses" and "let your profits run on" suggests an attention to trends. Early in the last century, the legendary trader Jesse Livermore stated explicitly that the "big money was not in the individual fluctuations but in ... sizing up the entire market and its trend."

The most basic trend-following strategy is time series momentum — going long markets with recent positive returns and shorting those with recent negative returns. Time series momentum has been profitable on average since 1985 for nearly all equity index futures, fixed income futures, commodity futures and currency forwards (Moskowitz, Ooi and Pedersen (2012)). The strategy explains the strong performance of managed futures funds from the late 1980s, when fund returns and index data first becomes available.

This paper seeks to establish whether the strong performance of trend following is a statistical fluke of the last few decades or a more robust phenomenon that exists over a wide range of economic conditions. Using historical data from a number of sources, we construct a time series momentum strategy back to 1880 and find that the strategy was consistently profitable over the next 110 years.

The data also provide context for evaluating a more recent period for the strategy. We consider the effect of increased assets in the strategy as well as the increased correlations across markets since the credit crisis. We also review a number of developments that are potentially favorable for the strategy going forward.

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