



The Questions We Ask. The Questions We Don't.

People assume managing money requires strong opinions about the world.

What's the Fed going to do? Is the dollar overvalued? Will oil find support at this level? Are equities overvalued? What does the jobs or inflation report mean for bonds? Are we on the verge of a commodity super-cycle?

We don't ask any of those questions.

Not because they're uninteresting, but because they're irrelevant to what we do. We focus on the present, not the future. We hold that neither we nor anyone else can know the future so we focus on what we can control and adapt to the present as best we can.

Formulating forecasts and opinions about market data can be enticing since it medicates our feelings of anxiety and fear, but we stay away from this. We embrace these feelings by observing objectively, adapting continuously and managing our risk.

The questions worth asking are the ones prices can actually answer. Here are some of those questions, as well as some of the ones we don't bother with.

What We Ask

Is this market trending up, down or not at all?

Not why it's trending. Not how long it might trend. Not whether the trend makes fundamental sense. Is it trending? Price data provides the answer. Our

system analyzes it to determine whether it is moving up or down or sideways (no trend). If it's trending up, we go long; if trending down, we go short. If there's no trend, we wait.

We can answer this question with black and white data and rules.

How volatile is this market?

Volatility determines position size. A market moving 3% per day gets treated differently than a market moving 0.5% per day. We don't play favorites, but adapt to what is.

We risk the same dollar amount on each trade, so a higher volatility naturally produces a lower position size. We don't sometimes risk more or less on a trade because we believe volatility will (future-based language) accelerate or decelerate. Believing volatility will decrease may motivate traders to increase their positions, often right before that punishing move hits them.

We respect the market and exercise safety first.

What will make us exit this position?

The only thing that makes us exit a position is if it hits our exit point; nothing else. Not our belief in the trade. Not our opinion on the markets or about an upcoming economic report, Fed meeting, etc.

Worrying about why a position might go bad is a trap. It pulls your focus into a future that doesn't exist and out of trends that are still working. Feelings-based decisions, rarely seem that way because of the accompanying storytelling and logical fallacies. We never exit because we're uncomfortable. Only when the trend ends.

How much risk do we hold in each position, sector and portfolio overall?

To the penny, we calculate how much money we have at risk at any given time. We always want to know how much we stand to lose if things go badly, not just for managing current risk but for deploying capital on future trades as well.

Because we prioritize trend, not stories or narratives or beliefs, we monitor risk constantly. If and when volatility spikes and positions move sharply against us like they did in the early days of COVID or early 2025 then we take necessary precautions.

We don't say, "We know what's happening here. We don't need to worry about these losses because we know where markets should and will be when the dust settles." If the markets hit our exit points, we exit no questions asked. We don't consider it suggestion or a test to our conviction. We minimize the damage by simply getting out.

Why do we trade this market?

We want to observe as many markets as possible. This allows us to reduce our dependency on a small number of markets dominating the portfolio's performance or worse, pre-selecting the wrong ones.

In 2024, cocoa prices took off to levels never seen before. Historically, it had been a trend-follower's nightmare due to its prolonged periods in narrow ranges and frequent whipsaws. Those who decided not to trade it at all because it showed no promise, missed out on one of the biggest trends of the last 15 years.

So why would we keep placing trades when it had such a poor history for producing trends? Well, because you never know when the big move will come along.

We've done extensive research on the risks of eliminating "bad" markets from consideration and only trading "good" markets. Bad markets turn good and vice versa. This happens all the time. We allow for the possibility of historically poor markets to contribute meaningfully in the future.

What We Don't Ask

Where is the market headed?

This common question reveals how most people misunderstand the way to make money over the long run. They think you must always be thinking one step ahead of others; that you must see the future. At times it can feel like people have a sixth sense, but this is an illusion. No one can know the future. There are simply too many variables.

Trend-followers like us stay in the now and don't look ahead. We focus on aligning with trends, riding winners however long we have to and managing the downside risks.

We embrace not knowing. Having a view about the future can actually limit the ability to ride strong trends because if you think you know what price the market should be, and heaven forbid it reaches it, you'll cut that winner and leave a lot of potential profit on the table.

Why is this market moving?

Asking why is a trap. It's a breeding ground for opinions. Opinions seek comfort. And this leads to holding losers too long, cutting winners too early, not getting back in, etc.

A manager who "knows" why oil has risen lately is more likely to make one of these mistakes. The narrative must confirm his current beliefs. That's bias. That's how you miss opportunity and hold on too long to ones that have passed.

More about the recent oil rally:

We generally find out the reasons why markets moved after the opportunity has passed, or has mostly passed. Oil has rallied 50% in the past five weeks because of supply concerns through the Strait of Hormuz. But could it rally further? Could there be other reasons associated with the rally? If the strait gets re-opened, does that mean oil will reverse its entire move? Maybe, but maybe there are other factors at play that we aren't aware of yet.

When you want a reason, you find one...often the one you want to find. When you base your trading decisions on this, you lose focus on viewing the market (and the opportunity) objectively. We stay objective. Again, trend only.

Is this a good entry point?

Similar to the previous two, it signals the asker wants a guarantee. They want to know if this trade will work out. We don't know. We make our small bet, give it room to run. If it runs, we keep it. If it sputters, we get rid of it.

Our process is based on thousands of trades, so placing more value on any particular trade doesn't make statistical sense. We have an edge over many, many trades, not necessarily on any single trade. Any single trade is a coin flip.

Through our research, we know we have an edge over time so it's our job to let that edge play out by placing all of the trades — not trying to overthink it and sit above our system trying to outguess it. This trade isn't special. We don't make it special by second-guessing or falling in love with it.

What is the macro environment going to look like in six months?

Unknowable. Not at all relevant to what we do.

The macro environment six months from now will be whatever it is. Some of those conditions will produce trends. Some won't. Even if you guess right, the trends that occur might not be what you thought they'd be. Maybe what you think will happen has already been priced in. Maybe the market is discounting something you haven't thought of yet.

Take COVID as a recent example — no one in 2019 foresaw the carnage that ensued in early 2020. Then no-one foresaw the inflation in basic necessities that kicked off later that year through the next couple. If you have to know what the future holds, you'll likely miss a lot of opportunities because you won't be able to take positions as trends develop when you have no idea why

they're happening. A big part of having success as an investor is to shoot now (with risk control), ask questions later.

And, because it bears repeating, by the time we understand what's going on, the move(s) have likely already passed.

Should we override the signal on this trade?

No. This question doesn't exist inside our walls. The moment you start asking whether to override the signal, you have already undermined the system. Our rules possess a long-term edge according to our research, but they must be adhered to all the time, not some of the time. That one time you go off-course derails your edge and can inflict serious damage to your performance when you guess wrong.

Investors in 2008 didn't think stocks could fall that much, so they held on too long. In 2000, they thought the dot-com stocks would only decline slightly before finding their footing. Wrong. In 2020-21, people didn't think inflation could increase as much as it did so they didn't bother capitalizing on the trends in basic necessities such as oil, wheat, tin, etc.

It's important to come up with a system and stick to it, especially when you don't feel like it. Those are usually the moments when you really need to stick to it because other people are likely feeling the hesitancy too and that collective feeling can signal big moves are ahead.

How does this position compare to what other managers are doing?

Other managers have nothing to do with our process. We do not share economics, so why would we share the same process? Our confidence comes from our process, our work, not theirs.

Why Knowing This Matters for Investors

The questions we care about have answers that can be derived from observable data and reside within our control. The questions we don't care

about have no reliable answers because they reside in the unknowable future. They're time-filling dopamine-seeking questions.

A manager with strong macro views may be right occasionally. They go on tv, dress well and talk confidently. It can be enticing to believe what they say. When they're right, they look brilliant. They look like the hero in the movie who you want to emulate. But when they're wrong, they get crushed.

Forget the feel-good charisma of some master-trader who knows everything for a second. The track record of this approach is simply disastrous. It's a one-and-done (if it works) and has no repeatability. We're comfortable admitting we don't know and cannot know, and prioritize survival over the long run. This allows us to be around for the opportunities that come along, especially the ones no one could foresee.

A manager with no macro views running a rules-based process does not look brilliant in any given year. They look mechanical, and perhaps boring. But over the long run, as markets ebb and flow from calm to chaotic to bullish to bearish, the mechanical outlasts the occasionally brilliant. We're good with that.