Trend Following

Which Trend Is Your Friend?

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The academic literature and real-world investors have put forth a whole host of strategies that on the surface appear unique, but which are all related to trend-following at a high level. The authors seek to unify many of these seemingly disparate strategies in a simple, robust and intuitive framework. They show that trends can be filtered out from prices or returns using a variety of methods, including time series momentum, moving-average crossovers, and other popular filters.

In doing this, the authors contend they prove that generalized forms of many trend-based investment strategies are equivalent, and provide intuition for how different approaches to trend-following vary from strategy to strategy.

The results thus further demystify trend-following investing and put these strategies in a useful perspective for investors. The results suggest that investors and managers focus on the robustness and quality of implementation — including optimally managing transaction costs, dynamic trading, diversification, position sizing, portfolio construction and risk management — rather than looking exclusively at which specific filter to start from.

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