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.

Hypothetical performance results have many inherent limitations, some of which, but not all, are described herein. Hypothetical performance results are presented for illustrative purposes only.

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