PRICEVALUEPARTNERS

The best funds in the world ?

"What causes #poverty ? Nothing. It's the original state, the default and starting point. The real question is, What causes #prosperity ?"

- Tweet by @PerBylund

"Imagine if the economy as we know it was built on a myth. Imagine if that myth was the foundation stone on which the mainstream financial systems that control the global economy have been erected – the great bazaars of stock markets, bond markets, fiendishly complex financial instruments, credit default swaps, futures and options on which the fortunes of billions rest. Imagine if the myth was the key cause of the global crash in 2008 – and if its perpetuation today threatened another catastrophic crash in the future. We don't have to imagine. The myth is Efficient Market Theory."

- David Harding, 'Efficient Market Theory: when will it die ?', Winton Capital Management, February 2016.

A few years ago, a friend crunched some numbers to try and establish the best performing funds in history. His criteria were challenging. Firstly, he wanted to see audited figures going back at least 20 years. Secondly, he wanted to see average annualised returns of at least 20 percent. Eleven funds made the final cut.

Berkshire Hathaway (not being a fund) was somewhat generously allowed onto the list, but it only just squeaked in. More interestingly, though, of those 11 funds, six of them were managed by trend-followers. You can see the entire list in the table below.

Fund	Class/ Share/ Programme	Manager	Inception	Compound annual growth rate (%)
Eckhardt	**Standard Programme**	**William Eckhardt**	**1987**	**24**
EMC	**The Classic Programme**	**Liz Cheval**	**1985**	**23**
Hawksbill Capital Management	**Global Diversified**	**Jerry Parker**	**1988**	**22**
Blenheim GL Markets LP		William Kooyker	1986	22
Tudor Investment Group	BVI Global Fund	Paul Tudor Jones	1986	22
MJ Walsh	**Standard Programme**	**Mark Walsh**	**1985**	**21**
JW Henry & Co	**Financials & Metals Programme**	**John Henry**	**1984**	**21**
Moore Capital	Global Inv Fund Ltd	Louis Bacon	1989	21
Abraham Trading Company	**Diversified Programme**	**Salem Abraham**	**1988**	**20**
Gamut Investments		Bruce Kovner	1986	20
Berkshire Hathaway	Per share book value	Warren Buffett	1965	20

Source: Lawrence Clarke Investment Management

It's not just about returns, though – it's also about risk. So how did trend-following funds fare in 2008, during the worst investment market in living memory ? Winton Futures, managed by the David Harding quoted above, made 21 percent in 2008. A smaller and more aggressive trend-following fund that we invest in returned 109 percent in 2008.

Which is not to say that trend-following funds aren't volatile. They are. But then so is the stock market. And investors cognisant of risk are likely to see plenty of it quite soon in bonds – the supposedly riskless asset that is now essentially uninvestible.

Investors interested in learning more about trend-following funds could do worse than consult what is likely to be regarded as the bible of the sector, namely Michael Covel's *Trend Following*, now in its fifth edition.

At a time when most stock markets and just about all bond markets look dangerously overvalued, we think there's merit in considering portfolio diversification. One of the more attractive characteristics of trend-following funds, in addition to their return profile, is their lack of correlation to traditional markets. The correlation of Winton Futures to the MSCI World Index, for example, stands at approximately 0.03%. This lack of correlation will likely stand investors in good stead come the next "correction".

If the Efficient Market Theory had any validity, the table reprinted above would be empty. As Michael Covel points out, David Harding does not have a Nobel Prize, but he does have a net worth of $1.4 billion.

As we wrote for The Spectator recently,

> For trend-following to remain relevant in financial markets, just one thing needs to happen: human nature needs to remain as is. For as long as investors are prone to cycles of greed and fear, markets and prices will form trends. Trend-followers don't attempt to predict those trends, merely to ride them for as long as they last. So the best trend-following-managers have no view about the market at all: they try to-maintain an open mind and are simply concerned about mechanistically conserving the capital they manage in order to live to fight another day.
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> Grotesquely expensive stock and bond markets. Zero or negative interest rates. Heightened concerns about bank risk, especially in the eurozone (again). Rather than sheltering meekly in cash or braving the squalls, how about putting some money to work in one of the most successful long-term trading strategies ever devised?

Trend Following (Fifth Edition) by Michael Covel is published by Wiley.

And highly recommended.

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Tim Price is co-manager of the VT Price Value Portfolio and author of 'Investing through the Looking Glass: a rational guide to irrational financial markets'. You can access a full archive of these weekly investment commentaries here.

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