Technology

A Volatility Quant Nets $540 Million as Momentum Trades Boom

by Justina Lee
April 28, 2021

► ABR funds trading VIX and S&P 500 futures have outperformed

► Inflows show demand for stock funds that also play defense

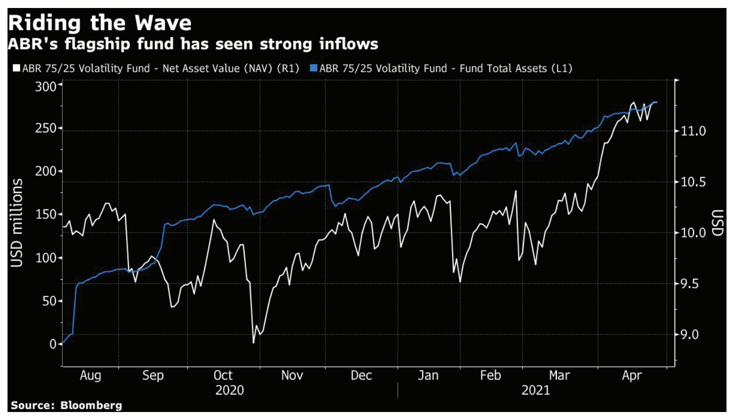
The Covid roller coaster may have lashed complex volatility trades beloved by the smart money, but a New York-based mutual fund has emerged as a $540 million winner with a back-to-basics strategy.

After a 36% gain last year for its flagship investing style, ABR Dynamic Funds LLC is in fighting form thanks to the strength of retail demand for stock strategies that cushion market corrections. Over the past year, assets under management have increased from $100 million to $640 million thanks to inflows and market returns.

Trading just a handful of securities tied to the S&P 500 and Cboe Volatility indexes alongside Treasuries, the firm rides asset trends using quantitative methods. For Taylor Lukof, who founded the money manager in 2010, the relatively simple approach paid off last year when markets whipsawed between panic and jubilation.

"Investor behavior is irrational and that can create opportunities in volatility trends at the extremes," said Lukof, who previously co-managed equity derivative strategies at Toro Trading. "There's a lot going into the model, but the output is very, very simple."

After expanding headcount in recent months, ABR is moving into a new 5,000-square foot office in downtown Manhattan even as the broader asset management industry reduces its real-estate footprint.While the pandemic crash shuttered a number of complex volatility strategies, inflows into exchange-traded products tied to market swings are rising, and new funds are launching including the likes of Simplify Asset Management and a team backed by Bitcoin billionaire Mike Novogratz. Defensive stock strategies that use derivatives are also in demand, with ETFs that offer protection in drawdowns amassing billions over the past year.



ABR's trend-following model dials up equity exposure and dials down bets on volatility when benchmarks are rallying and swings in stock prices are falling. It does the opposite in downturns.

In August, the firm launched its flagship 75/25 volatility fund by combining two existing strategies to surf both bullish and bearish regimes. Some 75% is allocated to the S&P 500 and long VIX exposure that tend to outperform in equity selloffs. The remaining 25% is short vol with Treasuries as a hedge.

The approach seems to be working. The ABR 50/50 Volatility Fund has posted some of the best gains among systematic strategies trading managed futures over the past three years, data compiled by Bloomberg show.

Still, as with any momentum strategy, market regime shifts can be a money loser. The ABR funds post larger swings than their peers and in a week at the start of the Covid selloff, the 50/50 fund dropped 15%.

"You have to accept that you're going to make a sacrifice in a correction and that's what's uncomfortable for most investors, particularly in volatility strategies," Lukof said.