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## PREMIUM

**Jason Teed has beaten 99% of his investor peers this year. He breaks down how his Morningstar gold-rated fund did it with a trend-following strategy, and shares his advice for navigating the stock market in 2021.**

Vicky Ge Huang

- Jason Teed is a portfolio manager on the \$106.9 million Quantified STF Fund, which has returned 76% year-to-date and beaten 99% of its category peers according to [Morningstar data](#).
- The Quantified STF Fund employs a trend-following strategy that seeks to outperform the Nasdaq 100 Index with less downside risk by responding to the market instead of timing the market.
- In an interview with Business Insider, Teed broke down how the strategy works in four different market scenarios and shared how investors can navigate an uncertain market in 2021.

As a quantitative portfolio manager, Jason Teed's investment philosophy is rooted in humanities. "I enjoy the challenge of figuring things out," said Teed who majored in philosophy in college and went on to get his master's in finance and a chartered financial analyst designation.

In a year such as 2020, Teed's philosophy and mathematics acumen have paid off handsomely.

While parsing out the complexities of navigating a pandemic, he and co-portfolio managers Jerry Wagner and Timothy Hanna have generated a 75.98% return this year for the \$106.9 million [Quantified STF](#) fund, which has beaten 99% of its category peers this year, according to [Morningstar data](#).

The entirely quantitative strategy is not at the beck and call of an investment committee and therefore not influenced by human emotions at all, according to Teed. Instead, the fund employs a trend-following strategy that seeks to outperform the Nasdaq 100 index with less downside risk.

"We are responsive to the market, we're not necessarily predicting what's going to happen," he said. "You



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Jason Teed is a portfolio manager on the Quantified STF fund.

can have a pretty good idea that something will happen in the future but timing as to when exactly it's going to happen is quite difficult, so we let the market just tell us when we need to change our position."

### How trend-following works

Teed explains that the strategy responds to the market by monitoring price trends of the Nasdaq 100 index.

"We look to see whether or not the Nasdaq is moving up in price or if it's moving down in price. And that gives us a basis of where we're going to be invested," he said. "So are we going to be long, are we going to be neutral or are we going to be short? It just depends on how fast the market is moving in a direction and how much it has recently."

Once it has identified market trends, the strategy can take one of four positions: (1) near-zero exposure to the stock market when there is no trend; (2) full exposure to the Nasdaq 100 in a good, trend market; (3) a 200% exposure to the Nasdaq 100 in a strong, uptrending market; (4) an inverse or short 100% exposure to the Nasdaq 100 in a poor, down-trending market.

“The more the market is moving up, the more aggressively we’re going to be positioned. So when the market is completely on a tear up, we can be all the way up to double-leveraged,” he explained. “But then if the market is actually going down, we can go up to 100% inverse as well, so we can profit from the markets moving up and down.”

The fund achieves its long and short exposure to the [Nasdaq](#) through investments in ETFs and leveraged ETFs or their inverse counterparts, exchange-traded notes, futures, and swaps, but it also holds fixed income securities to fund the futures.

On top of that, the fund has a volatility overlay built in to control risks and ensure the safety of the assets.

“We don’t want to be double-leveraged all the time even when the market is moving up, so we also have a volatility overlay to make sure that the volatility of the fund never gets too high,” he said. “So there can be periods of time we’ve got a targeted volatility level that we like to achieve or not exceed with that fund and that’s proprietary at the actual level.”

### **Responding to the market in 2020**

But if the market exceeds that [volatility](#) level, Teed and his co-PMs will start to decrease their exposure back down.

For example, when the coronavirus-induced [volatility](#) started to weigh on the markets, they reduced the fund’s market exposure to the Nasdaq to 80% on February 26 from 200% two days prior.

“And then the fund continually decreased exposure until March 23 when we were bottomed out at no exposure,” he recalled, “and very quickly worked its way back up to full exposure by April 17. From there, we saw increased exposure.”

Although the strategy is built to follow the market, it has nevertheless blown it out of the water this year performance-wise compared to the S&P 500, which has gone up 14.66%.

“The fund has the potential to excel during periods of time when the market is trending. It doesn’t necessarily matter which direction is trending and it just needs to follow a trend,” Teed said. “And that’s definitely materialized this year. Despite the fact that we had drawdowns in the first quarter, that drawdown wasn’t quite so bad for the Nasdaq and technology stocks.”

He continued: “But since then, the Nasdaq has really taken off. It’s trended basically the rest of the time this year and our fund has been able to hold on to that.”

### **Positioning for 2021**

Going into 2021, the fund is double-leveraged long the Nasdaq 100 index, but Teed said that does not necessarily convey the outlook of the fund.

He is wary of some “very conflicting pressures on the markets right now.” On the positive side, the ongoing economic recovery and the newly signed [stimulus bill](#) are inducing optimism for the markets. On the other hand, the full impacts of the pandemic and the [new COVID-19 strain](#) could set back all the progress made so far.

“Ultimately, it’s going to be really difficult to forecast what is going to happen in the market over the next few months,” he said. “So being invested in something that is managing that for you and not necessarily forecasting but reacting in real time to what the markets are doing is definitely an advantage to have over just buying and holding at the moment.”