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October marked the 25th anniversary of the commencement of Winton's live trading. As most readers will probably know, Winton was founded as a successor to AHL (Adam, Harding and Lueck), which had, using a similar approach, begun trading around 10 and a half years earlier. AHL itself was a successor to Brockham Securities which had – once again, using a similar approach – traded for four to five years before that.

Brockham Securities was the Adam family commodity trading company, where Michael Adam and his close friend Marty Lueck had written software on early personal computers to backtest and operate a technical trading system. That takes us back to the 1970s, a time of high inflation, soaring commodity prices and enormous price trends. During these years, Michael's father Cyril Adam had become disillusioned with stock and bond markets and had seen the potential of a diversified trend-following approach. Michael and Marty's development of sophisticated computer software had provided an empirical basis for optimising such a trend-following approach and, excited about its potential, they recruited me to join them.

I was already working for a Commodity Trading Advisor (CTA), Sabre, one of the largest in Europe, managing about $5 million! Within months of my joining however, disaster struck. Brockham entered a huge drawdown due to five or six limit down days in cotton at a time when we had a large long position, and the ensuing stresses caused Brockham Securities to cease trading.

Out of this disaster however, opportunity arose. Michael, Marty and I started AHL on a shoestring and with equal shares. Immediate success followed as trend following produced large profits in the late 1980s. Over the subsequent years, the inherent volatility of the method subjected the young AHL to stresses and strains. Although AHL grew very substantially, the partners lost control of the company to ED&F Man, a commodity trader that was the parent of Mint, the world's largest CTA. The enormous growth of financial futures and the high level of financial market volatility meant that by the end of the 80s, a large CTA managed $1 billion, as opposed to a few tens of millions of dollars a decade earlier. As Man took control in the 90s, Michael, Marty and I successively departed after a spirited battle amongst ourselves, and with our corporate overlord.

At the time, this was a bruising battle for all concerned. I finally left Man in 1996 with little idea what to do next. Luckily for me, an ex-colleague, Martin Hunt, was also at a loose end and he persuaded me to found Winton to, once again, pursue the trend-following strategy.

One of the difficulties of trend-following trading is that there is only a weakly comprehensible rationale for pursuing it. The rationale is almost entirely empirical: it will work in the future because it has worked in the past. At this time, the high ground of the intellectual orthodoxy was occupied by efficient market theorists, whose founding proposition is that the future movements of markets are random which, if true, firmly discounts that empirical past success as luck. Trend-following traders were thus relegated with chartists and other technical traders to the same catalogue of eccentrics as clairvoyants, palm readers and other assorted metaphysical fortune tellers.

It was impossible not to be affected by this. It was however also impossible not to be impressed by the power of computer simulation and by the potential for the modelling and investigation of trading strategies they unleashed. At this time, we dreamed of uncovering multiple, computer-driven strategies. Instead of the company being just a bet on trend following, it would be a bet on the power of our research ability and technology to discover knowledge in financial markets that was still hidden from others – a much more robust and general proposition.

Quickly skipping forward 25 years, our past selves would have been very surprised by several things. First, that our original methods have continued to work quite well over the intervening period. Second, that this general proposition of quantitative strategies using advancing technology has been overwhelmingly profitable and influential in markets. And third, that despite this second point, Winton still places a high weight on trend following. Strategies such as statistical arbitrage and convertible arbitrage worked spectacularly well but have proved, so far, too difficult for Winton to diversify into. Other strategies have evolved in other sectors of the market, such as high-frequency strategies from market making and alpha capture from equity research analysis. There has been an entrepreneurial flowering of companies exploiting these opportunities and Winton has only had some success thus far in creating a fund combining all of them. Our dreams of the 90s remain partially unfulfilled.

Returning to when we began trading in October 1997, we lost 13% in our first month! Little did I know, that on the basis of what doesn't kill you makes you stronger, this loss didn't turn out to be an entirely bad thing. In later drawdowns, we were able to point out to clients that they weren't as bad as that. Drawdowns are how risk manifests itself in investment. In liquid investments, these take the vivid form of money lost, whereas in illiquid investments such a constant, immediate assessment of the investments' progress is absent. This drawback is exaggerated by each successive layer of investment responsibility. Each level at which accountability for the success of an investment is demanded is like a link in the chain of responsibility and, as we all know, a chain is only as strong as its weakest link. If it has been a challenge for us over the years to "keep the faith" and stay the course, it has been even tougher for many clients to maintain the long-term attachment to the strategy required to really profit from it.

Of course, somewhere over this long history, the efficient market theory has taken a few knocks. After the events of 2008, we were no longer as despised by the mainstream; indeed, trend following saw an increasing number of new entrants, enough in fact to make it quite uncomfortable for the old timers. Pretty soon, trend following was widely represented as a commodity or, in technical parlance, a "smart beta", requiring no exceptional skill.

Whilst we disagreed with the characterisation, we have to agree that the basics of trend following are indeed quite simple. Our accelerated attempts at diversification met with mixed success, and in 2020 we met a severe challenge when several of our diversifying strategies, almost simultaneously, performed poorly. Trend following itself did quite well during the year. This tested our clients' confidence and our assets under management shrank considerably. Since then, our systems have bounced back strongly.

And so, we arrive in 2023 with nearly 40 years of successful trend following experience, not an easy ride, but a successful one for anyone who has been effectively lashed to its mast. The CTAs remain a somewhat obscure and unfashionable subculture. To the extent that the mainstream ever notices them, they are "quantitative managers" or "robots". The mainstream remains suspicious and labels CTA strategies alternatively as too hard to understand, or as naïve and stupid.

The implications of trend following's long-term success are, at once, too big and too small. The autocorrelation within markets is too weak to provide interesting forecasts and the familiar causal reasoning is absent. Yet the strategy's long-term success disproves the cherished efficient market theory, which is a cornerstone of modern finance and economics, and at the heart of the justification of the market fundamentalism doctrine (to coin George Soros's phrase) which has been so impactful on world events over this time.

It seems so ironic that the proof of the existence of trends in markets is entirely consistent with their being social institutions, reflecting human behaviour in the same way as other human institutions ranging from fashion to philosophy.

The understanding that market prices, to some extent, reflect the prevailing biases and sentiments of their participants is a healthily humbling one. The alternative, that there is always a "correct" price which follows mathematically from a proper understanding of "fundamentals", is less inclined to encourage humility. It leads to the cult of expertise, to the contest for authority, and often, to the search for gurus whose authority rests on status and power.

To understand that markets trend is to understand that not only is our understanding of the world imperfect, but that everyone else's is too. The evidence for market trends was in plain sight 40 years ago and it remains so today. I would rather believe the evidence of my senses than the theories of "some defunct economist" (Keynes).

One of the many mistakes that I have made over the years was to be extremely slow to recognise the value of so-called “alternative markets”. This too is ironic as I have always been well aware that trend following relies on the widest possible diversification. Alternative trend following would go on to be pioneered by AHL, my old firm, in the wake of 2008. For years, I believed the alternative markets were too highly correlated to those we already traded, and too costly to trade to provide meaningful added value. This has turned out to be untrue and the complexity of trading these markets concealed an important new trend: the spread of OTC and counterparty-based futures trading to many markets beyond the established exchanges. In energies and credit, in particular, many markets have developed exhibiting large and diversifying trends and it is only belatedly that we have taken advantage of them. We did not make the same mistake with the spread of futures trading in China, which has grown from modest beginnings around 2008 into a large industry today. There, we were early and well placed, and we have been rewarded with ownership of one of the largest CTAs in China.

Further, we have added numerous diversifying strategies over the years, none spectacular in itself, but with the expectation that in aggregate they would elevate our Sharpe ratio. Together, these developments have made a positive contribution, though less than we would have hoped, and our research remains focused on developing new strategies.

After 25 years, I think we can count Winton a success and reckon it to have good prospects. I believe Winton to be well managed and governed; to have a reputation for integrity and consistency; to be efficient in its operations; and to have a track record of managing important succession events successfully. Winton operates a highly sophisticated technology and trading platform, helping it to attract and retain talent in a competitive market. It has long, valued, and loyal customer relationships. And, below myself, the company has an extremely able, younger generation management team at the helm, ambitious to build an even brighter future.

David W. Harding

Winton Group Founder and CEO