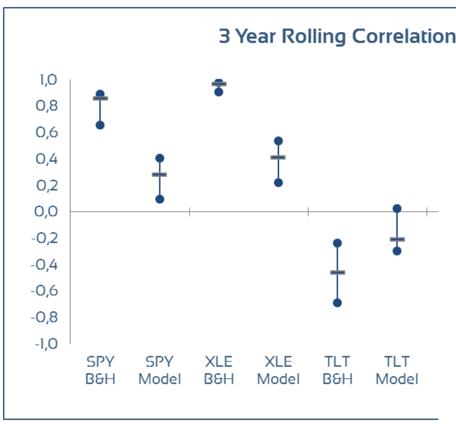
QAP Oil Strategy

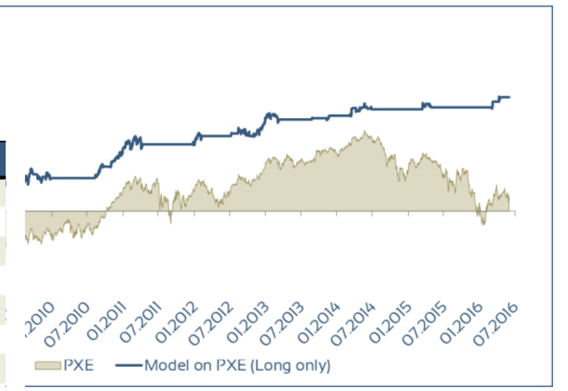
Subject

Oil (energy in general) is the most important commodity/input for products and services. As such, its supply has tremendous effects on prices, inflation, and the valuation of assets.

Over the last years, the oil price was characterized by two severe drawdowns in 2008 and 2014/2015. A passive allocation to oil (roll losses not considered) lost money. From our observations, the selection of active strategies and manager came also with a high probability of receiving negative returns.



	Model
Time in Market	32%
2007	10.7%
2008	-3.7%
2009	25.1%
2010	22.1%
2011	12.6%
2012	12.0%
2013	15.8%
2014	5.8%
2015	1.4%
2016	9.9%



Our Role

For our consulting business, e.g. analytics of funds/ETFs or strategies, at least implicitly, energy prices are often one of the main factors in models to evaluate strategy philosophy and scenarios. Commodities are a also vital part in non-traditional segments of SAAs. In the persisting low interest environment, active strategies as satellites or within TAA are more and more seen as necessary alternatives to pure beta exposure and/or as part of the shift into alternative investment sources of return.

Insights from these two activities led us to derive a strategy that is only positioned (long or short) when conviction is high. We acknowledge that information is missing. Instead of targeting the oil price, our multi factor model processes the behavior of market participants and concludes effects on the direction of oil.

An attractive risk return profile is established from improved correlation features compared to a passive allocation and from causal independence to widely used approaches like trend following. Signals from the QAP Oil Strategy can be utilized for a single strategy, for hedging, as a “second opinion” or as style diversification among existing commodity allocations.

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