



Anoosh Lachin, Portfolio Manager at Aspect Capital

Alternative Data and Macro Trading

How to be a Connoisseur of Data

By Hamlin Lovel – HedgeNordic

How can macro hedge fund managers choose amongst thousands of alternative datasets?

“Most alternative datasets are geared towards trading single securities, but we want market level data covering whole currencies, countries or regions, which is relevant to systematic macro trading”, says Aspect Capital portfolio manager Anoosh Lachin.

For any and all data used by Aspect, “the first criterion is the smell test: is it reasonable, ethical and legal. Even our trial data needs to be approved by the legal department. We are very strict and careful in rejecting data where we cannot get comfortable with where the insight comes from”, says Lachin. “The next step is to try and secure enough data on a trial basis to test its efficacy, and this can prove surprisingly difficult. We cannot understand why some vendors are reluctant to give us historical data. We are not asking for the very recent data, and are not going to reverse engineer what they do. Fortunately, this is changing a lot because vendors realize that we will not proceed with the data without testing it”, he continues.

Once Aspect has secured data, its research agenda starts to prioritize the testing process, which is comparable to traditional data in terms of productivity. “We have been testing more data than ever before, but our hit rates have not changed. Only about one in ten or one in twelve hypotheses tested find their way into the portfolio. It is more interesting to work with alternative data, but from a value perspective it yields the same kind of efficacy”, he explains. The systematic macro team use traditional, hypothesis-based, statistical time series techniques to test both traditional and alternative data.

Alternative data does not necessarily cost more than some traditional datasets, such as data behind pricing option surfaces, which can be very expensive, but cost efficiency always needs to be heeded. There are also internal costs, which can include cleaning the data. Some fund managers outsource part or all of the data scrubbing function to data engineering companies, but Aspect cleans and manipulates the data in house, with the help of a team of data scientists, who are very sought after in the job market right now.

Alternative data can be updated somewhat more often than traditional data. “When I started in the industry 20 years ago, we used to rebalance systematic macro portfolios monthly. It then moved to weekly, then daily, and we now do so three times a day”, says Lachin. “We are experimenting with more and more intraday datasets.

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Some alternative datasets, are by their nature new so have shorter histories. Here, the number of observations as well as the length of the history are relevant, so “four years of daily data could be better than eight years of monthly data”, explains Lachin. At the same time, he acknowledges that, “any datasets shorter than twelve years will not have included the great financial crisis (GFC), and a qualitative judgement would need to be made about how they might perform under such conditions”.

Though some alternative data can be sourced from internet, and Aspect does employ a “data scout”, the firm has not found web data very useful. Aspect does not disclose which data vendors it is working with, but generic examples of types of data providers could range from custodians, to travel companies, or those monitoring shipping traffic. Idea generation on the alternative data side can come from conferences, and Aspect recently participated in the CME Group’s Uncorrelated Investor Forum, held in conjunction with The Quant Group on May 22, 2019 in London.

Alternative and traditional data

Some managers claim to derive most value from alternative data when it is combined with traditional data, so that the whole is greater than the sum of the parts. “We are finding alternative data more useful to provide more timely verification of relationships that are known to exist, based on traditional data where alpha has decayed due to delays or the low frequency of data.

The systematic macro strategy delivered c.15% in USD in 2018, and received awards including The Hedge Fund Journal’s “UCITS Hedge” award for best performing UCITS launch. The systematic strategy now has assets of over USD 500 million, in managed accounts and two comingled vehicles – a Cayman fund and an Irish UCITS, which are run pari passu. The strategy was launched in 2017 after Aspect hired a team of three from Auriel Capital in 2016. The systematic macro team has since then doubled in size to six individuals. “We enjoy the luxury of focusing exclusively on research, safe in the knowledge that other functions such as operations, compliance and execution are handled by experts in their own fields”, says Lachin.

Aspect is agnostic on the direction of future research into alternative data. “We have a promising research agenda which will hopefully yield some interesting new models for the strategy” reveals Lachin.



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