MASTER CLASS:
Trend Following

Legendary Trader Explains a Timeless Investment Strategy

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Back in 1988, famed Turtle Trader Jerry Parker founded Chesapeake Capital on the simple conviction that one can invest successfully in long-term price trends. Jerry and his tenured trading team are still at it today. What follows are excerpts from an AXS Investments discussion with Jerry about systematic long-term trend following.

AXS: What was the biggest surprise from your early days as a Turtle Trader?

Jerry Parker: I was chosen by Richard Dennis in 1983 to be one of his commodity traders and trained to consistently apply a set of trading rules. I learned a lot trading for my mentor, particularly that my best chance for success came from **sticking to a system, without emotion or distraction**. A few years later, I opened Chesapeake and applied that systematic trading concept to managing money for my own clients.

What are the principles behind systematic trend following?

No one can predict where markets go, especially the tops and bottoms. But you can play them long or short if – and that's a big if -- **you can identify which markets exhibit a discernable direction in prices**. Again, we don't get distracted by headlines and other noise. Our methodology has been more or less intact since we started, and we trust the signals it detects.

Which markets are we talking about?

We trade a very large portfolio focused on maximum diversification, which helps smooth out performance. There are **over 100 futures markets** spanning everything from: currencies including crypto; commodities like grains, meats, energies and metals; equity markets all over the world; and fixed income markets.

How do you know if markets are high or low?

Our systematic models constantly watch price trends. At any time, markets will experience up, down or no trend. Casting a wide net affords the ability to **capitalize where opportunities present themselves**. Surprises are common, and sometimes it's the smaller markets that produce the biggest gains. You never know until the data tells you.

How do you know when to get in and out?

Our goal is to **ride the winners and cut the losers**. You can't simply go long the same way an equity investor might hold a company. Any given market is bound to rise and fall so our model defines a trend entry as well as a predetermined stop/loss on every trade to determine the trend exit. Systematic trend following allows us to take potentially outsized profits on winners by resisting the human tendency to sell too early. On the flip side, it should keep us out of trouble because we get out of losing positions quickly. Taking smaller losses can potentially protect capital, which is critical to our mission.

How has the strategy fared?

We take a long view and our **historical results have demonstrated the wisdom of trend following**. That doesn't mean there won't be leaner conditions, like we saw during the extended bull run. What's key is that our method has 34 years of history and we have stuck to its core principles throughout. I encourage you to look up our performance.

What are markets looking like now?

Trends abound making this **one of the best environments we've seen in 30 years**. If you look at 2022, commodities have seen considerable moves and there were standouts within that complex like oil & gas, canola oil and grains. The US Dollar has been a strong currency trade, too. By design, our computer-based model picked up on this activity. Of course, no one can say what will happen next, but as long as there is an established up or down trend, we can be there to participate through long or short exposures.

What type of investor is long-term trend following built for?

Originally, this kind of strategy was mostly used by institutional investors and sophisticated traders. We just celebrated the 10-year anniversary of our mutual fund, which any investor can access. We believe the wide diversification of trend following makes a **great complement to traditional investment allocations**. It adds a source of differentiated returns that has low correlation to equity and fixed income markets.

Chesapeake Capital serves as the sub-adviser for AXS Chesapeake Strategy Fund and is not affiliated with AXS Investments.

DEFINITIONS OF TERMS

Long position: Refers to buying a security such as a stock, commodity, or currency, with the expectation that the asset will rise in value.

Long-term trend following: A strategy that uses long-term indicators and averages, general five months or longer.

Short position: Is a position whereby an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future.

Systematic trading: Employs computer-driven, mathematical models to identify when to buy or sell an instrument according to rules determined before a trade is made, generally with little or no human intervention once a mathematical formula has been entered.

Turtle Trader: One of the most famous trend-following strategies, this strategy is based on purchasing a stock or contract during a breakout and quickly selling on a retracement or price fall.

IMPORTANT RISK INFORMATION

Mutual funds involve risk including possible loss of principal. There is no assurance that the Fund will achieve its investment objective.

The Fund's indirect and direct exposure to foreign currencies subjects the Fund to the risk that those currencies will decline in value relative to the U.S. Dollar, or, in the case of short positions, that the U.S. Dollar will decline in value relative to the currency that the Fund is short. Currency rates in foreign countries may fluctuate significantly over short periods for a number of reasons, including changes in interest rates and the imposition of currency controls or other political developments in the U.S. or abroad. In addition, the Fund may incur transaction costs in connection with conversions between various currencies. The Fund will invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives may expose the Fund to additional risks that it would not be subject to if it invested directly in the securities and commodities underlying those derivatives.

The Fund may experience greater losses than those experienced by funds that do not use futures contracts and options. There may be an imperfect correlation between the changes in market value of the securities held by the Fund and the prices of futures and options on futures. Although futures contracts are generally liquid instruments, under certain market conditions there may not always be a liquid secondary market for a futures contract. As a result, the Fund may be unable to close out its futures contracts at a time that is advantageous. Trading restrictions or limitations may be imposed by an exchange, and government regulations may restrict trading in futures contracts and options. Because option premiums paid or received by the Fund are small in relation to the market value of the investments underlying the options, buying and selling put and call options can be more speculative than investing directly in securities.

Investors should carefully consider the investment objectives, risks, charges and expenses of AXS Chesapeake Strategy Fund. This and other important information about the Fund is contained in the Prospectus, which can be obtained by calling 833.AXS.ALTS (833.297.2587). The Prospectus should be read carefully before investing.

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