FEATURE

WRITTEN BY:
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WORRIED ABOUT MARKET VOLATILITY?

DON'T BE.

Peace of mind is just a click away.

The war in Ukraine. The pandemic. The subprime mortgage crisis. The DotCom bubble bursting. These are all crisis events that created varying degrees of market volatility. They are painful, unforeseen times when investors tend to seek safe havens — but often no asset class is safe. And such events have given rise to a financial planning and investing concept known as crisis correlation.

"I got crushed personally, as well as friends and family and nearly everyone in the equity markets, back in 2000 when the dotcom market crashed," Scott Andrews, CEO and co-founder of InvestiQuant told Advisors Magazine in a recent interview. "Almost everything sold off; virtually any combination of stocks, bonds, ETFs, funds, commodities, emerging markets," he continued. "No matter how well-diversified people thought they were, most got crushed."

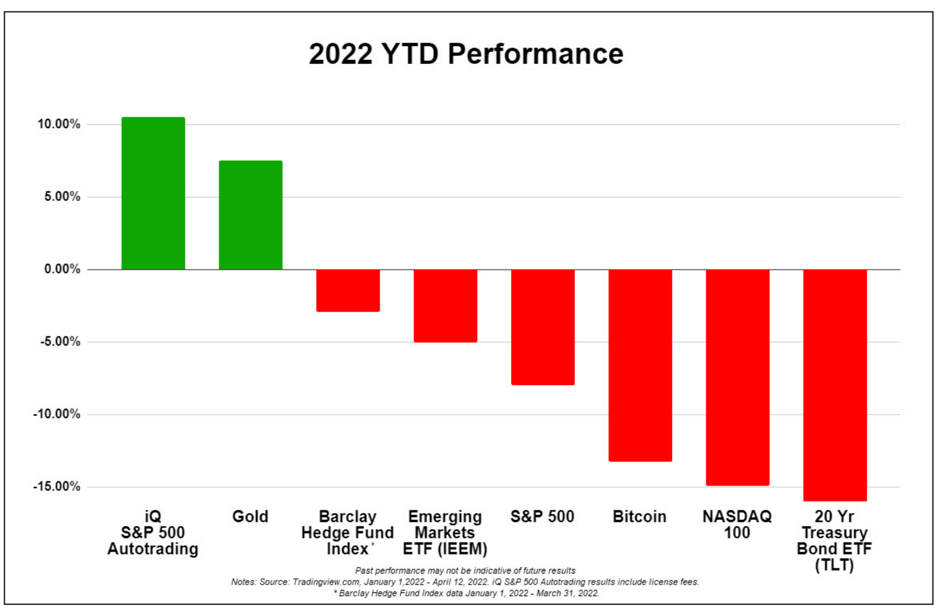
Andrews said his firm coined the phrase 'crisis correlation,' and it's at the heart of his business, which has been providing statistically-based diversification and autotrading solutions to investors and traders since 2008. No software or programming is required. Clients can have their broker's system trade Andrews' strongest signals in their accounts for them.

The factors behind crisis correlation and the reasons why most assets tend to sell off during times of market stress is well known by many people in the financial planning/investment advice industry. But for Andrews' InvestiQuant, it's a passion.

"We love to connect the dots for people around this whole phenomenon," he said, emphasizing, "Crisis correlation is real and it's something you need to think about, and plan for. If you wait until you're getting hammered, it's probably too late. Plus, it's a tremendous opportunity for the prepared investor."

The key is to diversify your portfolio with a solution that can take advantage of volatility in an manner that is uncorrelated with equities, according to Andrews. In his view, the best solutions are short-duration or short-term active investment programs, similar to what his business provides.

A devastating setback led Andrews on a path to becoming a crisis correlation expert and to founding InvestiQuant. Some 22 years ago, just prior to the DotCom Crash, he was CEO of a public tech company trading on the NASDAQ exchange. His portfolio was heavily weighted in his own company, and he also held stock in other leading technology companies like Intel, Amazon and Ebay. At its peak, Andrews says his portfolio was worth more than $50 million. Only in his thirties, he thought he had made it.



InvestiQuant CEO and Co-Founder

Scott Andrews

“WE ALL SAW THE OPPORTUNITY TO TAKE THIS TO THE MASSES BECAUSE EVERYONE NEEDS PROTECTION FROM VOLATILE AND DECLINING MARKETS.”

SCOTT ANDREWS

But then came the DotCom crash and within two years his holdings were decimated. The NASDAQ plunged 80 percent, to a level virtually no one had fathomed. “I went — in what felt like one day — from being completely set for the rest of my life, to feeling like I had been kicked in the gut,” Andrews recalled.

He said the worst part was the collateral damage on family and friends whom he had urged to get heavily invested in the stock market. He had encouraged them to load up on technology stocks because it was obvious the internet was about to change everything.

“It destroyed the hopes and dreams of a lot of those closest to me,” Andrews lamented. “It was a really, really rough time that few saw coming; the market had been rising for five, six years in a row.”

Money Show: The International TradersExpo

Fortunately, his company did survive but valuations did not. Never again would he be “all in” on stocks and just rely on a buy-and-hold strategy. So, he went in search of ways he could put his money to work that could avoid the catastrophic selloffs. Over the next few years, Andrews found hedge funds to be viable solutions, but they required large minimum investments and had long lock up periods.

Seeing the need and the opportunity, he decided to take matters into his own hands. After stepping down as CEO, he immersed himself in a markets ‘deep dive,’ learning everything he could. Andrews eventually joined forces with a partner, a classmate from West Point and the original software developer of his first company, who had similar interests.

“He and I started building systematic trading strategies on the index futures markets,” Andrews said. “We wanted to build a diverse basket of statistically-based strategies that could profit in both rising and declining markets.

He explained they migrated to intraday trading to maximize statistical significance and avoid overnight volatility. Realizing the looming threat and opportunity of the mortgage crisis in early 2008, Andrews began sharing his strategies and started a business called Master The Gap, which developed quite a following and morphed into InvestiQuant.com a few years later.

“We attracted a bunch of investors who wanted the same things we wanted: the ability to take advantage of market crises,” he said. “And our mission—our goal—was to help regular investors better protect and grow their investment portfolios in all market environments.”

After helping clients successfully navigate the financial crisis, some urged him to automate his strategies

CEO Scott Andrews monitoring InvestiQuant's automated trades

and turn it into a bigger business. He ended up raising about $3 million in outside equity capital and collaborating with Duke University's Center for Quantitative Modeling.

"We saw the need for this on 'main street' because black swans and bear markets are impossible to predict and most investors are not diversified enough to weather the storm during a recession," he said.

The company name was changed to InvestiQuant in 2015 and its infrastructure and technology made more robust. "We had to build out and automate our solutions if we were to help the masses," Andrews said, "that was the key."

A bidirectional automated system

As for the process, a client will open an account with one of InvestiQuant's specialized execution brokers. "In this scenario, we are the signal provider, and the broker oversees the automated trading of our strategies in the client's account for them," Andrews explained, noting that InvestiQuant does not have access or visibility to the client's account or funds.

"What this means is when our strategies trigger, the broker electronically executes and monitors the trade on behalf of every subscribing client's account until it is finished, which is always by the end of the day," Andrews explained.

"It's an elegant solution. Every account gets traded exactly the same. The only difference is the funding and trading level used by each," Andrews said. "Whatever happens in my personal account also happens in every client account simultaneously. And no account is ever exposed to overnight risk or surprises, which provides a lot of peace of mind."

The bidirectional nature of their strategies to go long or short, Andrews noted, is designed to take advantage of market selloffs, while also reducing correlation with buy and hold investments.

"Our strategies have a long history of outperforming equities during turbulent periods and a client doesn't have to do anything other than set up an account and monitor it from time to time," he said. "The broker helps them with client support, moving funds in and out, and so on. We just focus on the strategies. So, it's really a win for everyone in that regard."

What's more, Andrews' clients never lose visibility of what's happening with their money.

"With every client account, they can actually see what's going on day to day," he explained. "And they've always got access to it — 24/7 — it's just a button click, and funds can be wired in or out."

That's a big selling proposition for InvestiQuant.

"With the markets the way they are today," Andrews mentions, "and with the internet, you expect transparency and there is no reason you should not be able to see exactly what's happening at a given time. So, we're able to fill that need as well—while providing real diversification and a growth opportunity."

In fact, Andrews says his company is seeing a high level of what he describes as "grassroots" interest – especially from sophisticated investors, family offices and retail firms.


L/R: Founders Scott Andrews & David Skowron

InvestiQuant's algorithmic strategies are constantly monitoring massive amounts of market data. Some 1,000 factors are considered every day and fed into its system, so the company's program trades only opportunities that meet its strict performance criteria. Targets and stops are automatically tailored for the current conditions.

"We love market volatility because typically that's when we do best," Andrews added, "But it's also important for compliance teams to know that people in an ivory tower are not making the decisions that drive the program; these are all fully automated, statistically based, updated every single day, and adapting to changes in the market as they happen."

There is also a risk management filter for times of excessive volatility, when there is a lack of historical market data that can be studied, or the risk required is beyond tolerances. In short, the program automatically reduces the daily risk level until more suitable conditions return.

"The algorithms actually 'self-paused' briefly during the pandemic," Andrews recalled. "As a trader, I was somewhat disappointed because I wanted the algos to keep trading. But we couldn't risk capital when the data was not supportive."

Turned out, the algorithms made the right call—all automatically, objectively, and unemotionally.

"That was a huge advantage for everyone involved — the algos side-stepped the most extreme of the market instability and then turned back on to take advantage of the residual volatility," Andrews said. "And in that [pandemic] environment, volatility was much higher, and we had a fantastic year."

He emphasized: "So, that's how we manage risk. We're doing everything statistically based. Our program only trades when it sees a mathematical edge based upon robust analysis of contextually similar scenarios."

Said another way: sit back and let the crisis correlation begin.

For more information, visit: InvestiQuant.com

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