Learning More About Charles Dai and Buckingham's Global Advisors, LLC Trading Programs

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Q: Charles, please share a bit about yourself and your journey to becoming a CTA.

A: I started as a software programmer in various industries before earning my MBA from the University of Chicago during the 2008 financial crisis. Despite challenging job prospects post-MBA, I witnessed significant market movements, inspiring my focus on trading index options. Utilizing the efficient market hypothesis, my strategy centers on exploiting inefficiencies in the S&P 500's derivatives market.

During my time at the University of Chicago, I developed an option-based quant replication model under Prof. Pastor Lubes. This model, refined over the years, has been the basis for managing client assets since March 2015, leading to me registering Buckingham Global Advisors, LLC as a CTA in July 2015.

Q: How does your trading method work, and what is the underlying theory?

A: We employ a pure quantitative model, back-tested with 20 years of S&P 500 data. Based on factors like volatility, price, volume, and momentum, the model generates strikes and weights. We diversify our portfolio by trading positions throughout the week and across different expiration cycles. Our edge lies in the spread between option implied volatility and realized volatility, exploiting the tendency of implied volatility to exceed realized volatility.

Q: What managed futures products do you currently offer?

A: We offer two managed futures programs:

1. Weekly E-Mini Program ("WEP") focuses on weekly options expiring within 8 days, targeting 12-15% annually after fees with around 7% annual volatility.

2. Small E-Mini Program ("SEP") trades longer options expiring within 2-3 weeks, targeting 15-18% annually after fees with around 8% annual volatility.

Both programs underwent significant risk-management enhancements after 2020.

Q: What is your trading strategy and goals?

A: Our trading strategy can best be summed up by "slow and steady wins the race". We focus on not hitting home runs but many singles. It's much easier to hit singles, which add up to home runs. Our goal at Buckingham is to achieve net annualized returns averaging 12% to 18%, with 85% plus winning months and smaller drawdowns than

in the S&P 500 Price Index. But there are never guarantees with trading futures and options futures and therefore, we want to make sure investors do not get the impression that past results are indicative of future results.

Q. What do you believe are some of the highlights of your trading programs?

A: We are achieving our risk management and performance goals supported by the following facts:

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- The S&P Price Index has experienced triple the losing months and around double the worst peak-to-valley drawdown compared to the WEP program (13.77% vs. 24.77%).
- Unlike the S&P, our programs may profit in both rising and falling markets. In 2022, for example, the S&P Price Index fell 19.44%, while the WEP program gained 2.34%.
- We have overcome our past drawdowns to make new equity highs since the inception of both programs.
- Every 24–36-month period has been profitable.

While this all looks very nice and we look forward to repeating this in the future, we need to ensure investors fully understand that trading futures and options on futures is highly leveraged and it brings great amounts of risks to achieve these results. We remind all investors that past performance is not indicative of future results. We do our best to minimize risks.

Q: How do you differentiate yourself from other CTAs with similar strategies?

A: Unlike many option programs, we systematically trade both puts and calls, incorporating programmed risk management to eliminate a great amount of human emotion. Our focus on short, near-term options, absence of frequent position adjustments, and adherence to a pre-defined trading plan set us apart. We prioritize consistency and have a dedicated team for continuous market monitoring and hedging.

Q: What percentage of decision-making in your trading is systematic versus discretionary?

A: Approximately 80% is systematic, guided by our models, while the remaining 20% involves discretionary timing based on market conditions, particularly in high volatility environments.

Q: How do you manage risk?

A: Our risk management prioritizes systematic control of max daily drawdown. After a significant overhaul post the 2020 Covid crash, we use P/L triggers for hedging, neutralizing positions to contain drawdowns.

Q: Can you provide an example of a successful hedging trade?

A: In a market selloff on March 9, 2023, triggered by Silicon Valley Bank's (SVB) collapse, our hedging module profited from long puts, leading to a 0.62% weekly profit.

Q: What market environment is favorable, unfavorable, or neutral for your strategies?

A: Uptrends and oscillating markets are ideal, with a preference for VIX levels between 15-30%. Sudden VIX spikes are navigated through our enhanced hedging module.

Q: How do you minimize the possibility of large losses in your program?

A: Systematic position hedging is our primary strategy to control max daily drawdown, supported by extensive modeling of various volatility events.

Q: What's your outlook for your programs?

A: We believe our programs can achieve above-average returns, capitalizing on market volatility and the spread between option implied volatility and realized volatility, exploiting the tendency of implied volatility to exceed realized volatility, as we have done for the past 10 years.

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