



Validea Trend Following User Guide

Trend Following is a technical system that is used to move into and out of stocks and other asset classes when technical conditions deteriorate. The goal of trend following is to move into cash when a particular asset class is showing signs of further losses in order to limit major drawdowns. When the asset class begins to appreciate in price again and shows positive technical signs, the system will return to an invested position.

Trend Following uses moving averages, which are just the average price of an asset over a specified number of periods. For example, the 50-day moving average of the S&P 500 is the average of its price over the past 50 trading days. Our trend following system uses the 50 day and 200 day moving averages. When the price of an asset class breaks down technically according to the system we have developed that combines these moving averages, our system will generate a sell signal. When the price begins to move up and our sell criteria is no longer met, our system will indicate a buy signal.

Our system is intentionally biased toward being invested more often than not. Its goal is to limit losses during major drawdowns and not to reduce risk during smaller declines. It is also setup to reinvest very quickly when a positive trend develops since gains can often come very quickly when markets turn. The signals change once per week on Saturday morning based on Friday's closing data.

The Pros and Cons of Trend Following

The goal of a long-term trend following system is to attempt to reduce losses during major market drawdowns. In our historical testing, the vast majority of the benefits of a trend following system come during these periods. It is not setup to protect from smaller drawdowns and will likely remain invested in many cases during market corrections. In addition, a trend following system requires time for technical conditions to deteriorate. As a result, it will likely not be able to sidestep significant losses in market crash scenarios like those that occurred in late 1987 or early 2020. Trend following is also likely to underperform during significant bull markets and will have periods where it gets whipsawed in and out of markets during volatile times. Trend following systems are typically wrong more than they are right in their decisions to move out of an asset class, but that is made up for by the fact that their correct decisions are typically of a very large magnitude.

If you would like further details on trend following, you can listen to our podcast on the subject [here](#).

Using Our Trend Following Page

We offer trend following on a variety of equity indexes, asset classes, sectors, investment styles, and our guru portfolios. In each case, we use the pricing history of that asset to generate the trend following signals. We have tested our trend following system on each individual asset as far back as we could obtain data and we show those results on our main trend following page. Trend following on equity indexes,

asset classes, and our guru portfolios is included in our standard subscription. Sectors and investment styles are included in our professional subscription. We also send out a weekly trend following alert every Saturday morning. If you would like to receive it, click the account link at the top right of the site and turn it on in the email section.

Our detailed trend following page is accessible by clicking any asset name on the main page. The detailed page offers a chart that shows where the asset currently trades relative to its major moving averages and more detailed information about its historical performance using trend following relative to buy and hold. You can also click the full signal history link to see all the historical signal changes for that asset.