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Report 8

Cayler Capital's Energy Program outperforms during a volatile year for oil

Bailey McCann, Opalesque New York:

2020 is proving to be a trial by fire year for energy traders. Just when it looked like the rebound in oil prices might have legs, oil suppliers are once again booking tankers to store millions of barrels of crude oil and refined fuels at sea. China's post-covid buying binge has slowed and global demand for oil isn't back to pre-pandemic levels. Trading volume also slowed down in July and August as summer vacations took hold.

Still, some energy traders see potential for new opportunities heading into the back half of this year. Cayler Capital's flagship Energy Program is up +34.62% year to date through July 31. The fund posted double-digit returns during the volatile March and April period and has continued to outperform as oil prices rebound. Fund AUM topped $30 million in July on the back of strong performance and the fund has attracted interest from institutional investors.

"We think the long term picture looks quite strong," says Brent Belote, Portfolio Manager at Cayler. "I believe we are one geopolitical event away from a spike higher in oil. The wild card for me continues to be OPEC+ and the likelihood of a new President come November."

With a drop in demand from China, OPEC+ may be forced to cut production even further if it wants to avoid a repeat of the extreme oversupply markets experienced earlier this year. With the global pandemic limiting travel worldwide, it is taking longer than ever before to clear excess inventory. Additionally, a Biden administration is likely to view the drop in oil demand as a net positive given its stated goals on sustainability. Against this backdrop, oil prices are likely to increase, which will benefit energy traders and their investors.

Cayler's Energy Program is a fundamental systematic trading strategy that uses a combination of relative value and a directional oil approach. Investors can invest in either sub-strategy or the comingled program depending on their risk profile. The strategy uses a combination of fundamental and technical analysis to make its trading decisions and builds on the work Belote did as manager of the Oil Product Derivative book for North America at JP Morgan.

The Energy Program uses six algorithms that track WTI, Brent, Heating Oil Cracks, RBOB Cracks, WTI/BRT Differential, and WTI volatility. These algorithms generate fundamental data that help craft the trading signals for the program. The strategy avoids other inputs common to energy funds including momentum indicators, moving averages, stochastics, or any other backward looking data. The goal is to understand where energy markets are headed directionally, while also identifying the best value opportunities along the way. The directional component will go long/or short depending on where pricing is headed.

Belote's relationships with energy producers also inform the Energy Program's fundamental and technical analysis.

The strategy is currently open to outside investors and advisors. Belote will be presenting during Opalesque's upcoming webinar - "Diversification Matters: Outperforming Strategies" on September 22 at 10am ET. Registration is free. Sign up here.