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Long/Short Fund Takes Disciplined Approach To Investing

Long/short equity manager Disciplined Alpha has reached its one-year track record and surpassed $50 million in assets.

The firm, which was launched in July 2013 by CEO Kevin Shea, focuses on providing investors with a time varying risk aversion strategy that is based on macroeconomic "regimes."

The strategy is based on three macro regimes in the economy: value, momentum and neutral. Shea explained that each of the market environments reflects what is going on in the economy and allows the firm to establish factor weights and exposures.

The firm utilizes a proprietary macro regime index that consists of less than 10 factors that assist in identifying market environment shifts between momentum, value and neutral.

The factors are derived from the firm's discussions with company management and fundamental analysts, which is a diversion from most quantitative firms.

"When I meet with company fundamental analysts on the sell side, I'll ask them not so much what has happened in the last few weeks, but what they think the long-term drivers of success are," he said, explaining that he will ask company management the same thing in order to identify five or six key drivers that can be tested into the model.

Shea explained that the regime index is a way of looking at risk, as there are long periods when one style outperforms the other-typically regimes last for two years.

The portfolio will hold about 120 stocks on the long side and about 30 on the short side, which is constructed using a separate model.

The strategy was launched with $35 million with funding coming from an outsourced cio firm Shea declined to disclose. The firm currently manages approximately $55 million and recently launched a UCITS product for European investors.

The firm was also recently approved to be on the ClearVest platform, an independent investment platform that leverages the proprietary research and due diligence capabilities of Clearbrook Global Advisors.

While the strategy has not yet been able to flex its muscles through a significant regime change over the past year, Shea said he is pleased with the growth of assets and the performance of the strategy and sees opportunity in the future without hoping for the worst for investors.

"I don't want the market to sell off 50% again, but if that happens, I think this model would really shine pretty nicely here," he said.