

# TREND FOLLOWING TRADING<sup>1</sup>

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## Abstract

Trend following strategies have the reputation of being the holy grail of investment. This paper investigates the trend following strategy both from a theoretical and empirical perspective. This article also discusses conditional expected return and the drawdown with Value at Risk (VaR). VaR will not tell you how likely you are to experience changes in expected return for the securities in your portfolio. Such a number is very easy to estimate historically but not so easy to forecast i.e. how do you detect the next Bernard Madoff?

**Keywords:** finance, trend following, risk management

**JEL classification codes:** G11, G15

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<sup>1</sup>A revised version of Davidsson, M. (2011) Trend following and expected return, *Economics, Management, and Financial Markets*, 6(2), 39–56.