

**36 South views by Richard “Jerry” Haworth****Negative carry strategies are dead... long live negative carry strategies**

Having just returned from a marketing tour of duty we must confess that it has been useful but not for obvious reasons. It has reconfirmed WHY we have had a free lunch over the years in our little niche on the financial reef.

One client in particular summed it up: “our clients will not even look at any strategy which involves them carrying negatively”. “You mean to say,” we retorted “if we offered them the following investment profile they would not take it?”

Year	1	2	3	4	5	6	7	8	9	10
Return	-1	-1	-1	-1	-1	-1	-1	-1	-1	+30

“Correct”, he said. “They would prefer to earn the low but known yield today and run the risk of blowing up at some indeterminate time in the future.”

As first we were perplexed, frustrated and irritated but then we realised that their irrational bias against negative carry is EXACTLY why there is a rich vein of long term performance to be had in this niche.

So it finally makes sense... if there was a casino which offered punters the opportunity to be the “house” or to “punter”, they would all still be the “punters” even though the “house” enjoys the favourable odds!

Add to that the counterintuitive behaviour of participants in the US\$66 trillion (yes trillion) notional global options market where they accumulate belief based on recent history, i.e. if it has been quiet they accumulated belief that it will stay quiet, and if it has been volatile they start to believe it will stay volatile where really the opposite is true.

This means that most of the participants in this market sell the most when it is cheap and buy the most when it is expensive. Hardly the stuff that consistent outperformance will be made of in the long term.

Cockles, mussels and other shellfish which behaved like this in the presence of cyclical behaviour of tides would probably last a little over 24 hours. They would open their shells at low tide where predators could pick them off with ease, and close them at high tide losing their ability to feed.

We weep with joy. Well maybe not just yet.