

Strategy Spotlight
CTA Risk Off
What Live Trading Tells Us About Defensive Trend Following

October 2026, Ai For Alpha Team

Abstract

CTA Risk Off seeks to make trend following more defensive by filtering estimated CTA exposures for their relationship with equities. An account has traded live since September 2024. In the seven falling-equity months between January 2025 and August 2026, it gained in six and averaged +1.3% per month, compared with -1.4% for the CTA benchmark and -2.1% for US large-cap equities. Its weekly equity correlation was -0.30 over the year ending 30 September 2026, versus +0.10 for the benchmark. These observations support the diversification objective, but seven months from one account do not establish reliable protection. February 2025, when the account lost 1.6% as equities fell 1.3%, illustrates the limit. The evidence describes conditional behaviour and a historical relationship; it does not establish the account's full-period return or future downside protection.

Live account evidence. Monthly account returns are net of all commissions, fees and expenses. Monthly comparisons cover January 2025–August 2026; weekly correlations cover the year ending 30 September 2026.

Futures and derivatives involve substantial risk of loss, which may exceed the amount invested. CTA Risk Off can lose money when equities fall. There is no assurance of capital protection, negative equity correlation or positive returns. Past results are not necessarily indicative of future results.

1 Live Performance During Equity Declines

A CTA allocation can retain long-equity positions, or other exposures that move with equities, after a rally. CTA Risk Off addresses this overlap by filtering the estimated exposures. The first test is therefore its behaviour when equities decline. Table 1 includes **all seven falling-equity calendar months** between January 2025 and August 2026.

Table 1: Monthly returns in falling-equity months

	US large-cap equities	CTA benchmark	CTA Risk Off live account
Feb 2025	-1.3%	-3.2%	-1.6%
Mar 2025	-5.6%	-1.7%	+0.3%
Apr 2025	-0.7%	-4.9%	+0.1%
Feb 2026	-0.8%	+3.9%	+4.2%
Mar 2026	-5.0%	-1.6%	+4.8%
Jun 2026	-1.0%	-1.2%	+0.8%
Jul 2026	-0.1%	-1.1%	+0.2%
Conditional mean	**-2.1%**	**-1.4%**	**+1.3%**

Monthly USD returns. Live account net of all commissions, fees and expenses; equity returns include reinvested dividends. Figures are rounded to one decimal.

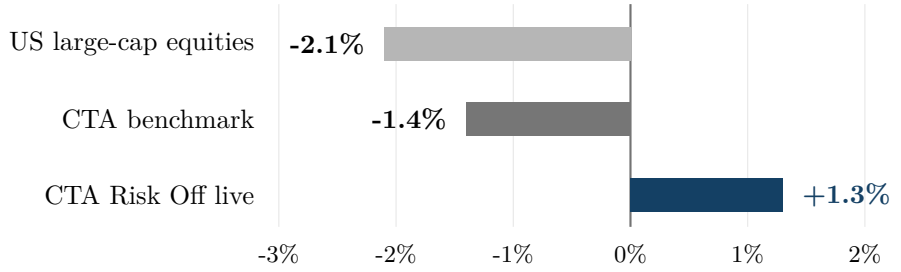


Figure 1: Arithmetic mean monthly return across the seven falling-equity months. These are conditional averages, neither full-period nor annualised returns.

Main observation. The account was positive in six of the seven months, compared with one for the CTA benchmark. This is encouraging evidence for the intended defensive contribution within this specific sample.

The selection rule matters: the averages exclude months when equities were flat or rose. They cannot be compounded into a continuous track record or used as the account's overall return for January 2025–August 2026.

2 Equity Relationship and Its Limits

The live account's correlation with US large-cap equities was **-0.30**, using weekly returns over the year ending 30 September 2026. The CTA benchmark's correlation was **+0.10** over the same window. This is a separate test from the seven-month comparison: it measures the historical relationship across weekly returns rather than performance only in negative-equity months.

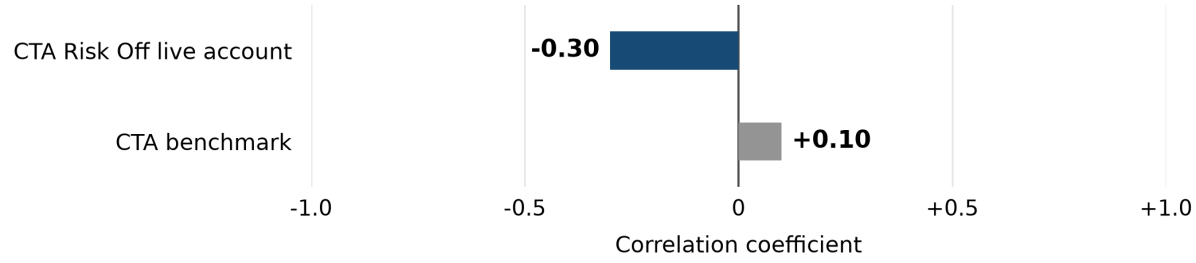


Figure 2: Correlation with US large-cap equities, based on weekly returns over the year ending 30 September 2026. Correlation coefficients are not investment returns.

An inverse relationship can support diversification alongside equity exposure. It does not mean the account gains whenever equities fall, or that the relationship will persist. Correlations can change and become positive, including during market stress. The coefficient also does not quantify how much a particular portfolio's drawdown would have been reduced.

March 2026 illustrates the intended role

In March 2026, the account gained **4.8%**, while US large-cap equities fell **5.0%** and the CTA benchmark lost **1.6%**. The account delivered a positive return during an equity decline in which the CTA reference also fell. This episode is consistent with the objective of seeking a clearer defensive contribution than a broad CTA allocation alone.

February 2025 illustrates the limitation

In February 2025, the account lost **1.6%**, while equities fell **1.3%** and the CTA benchmark lost **3.2%**. The account's loss was smaller than the CTA benchmark's, but larger than the equity decline. Its defensive objective did not prevent a loss or guarantee outperformance of equities.

Interpretation. The conditional monthly evidence and the weekly correlation both support a potential diversification role over their respective windows. They do not establish loss avoidance, a stable hedge ratio or the performance of an equity-plus-CTA Risk Off portfolio.

Portfolio contribution depends on the allocation size, the timing of returns and implementation costs. The full-period account record, drawdowns and behaviour during recoveries also matter when assessing whether the observed defensive contribution is useful in a portfolio.

3 How the Strategy Seeks Defensive Exposure

Ai For Alpha's proprietary Decoding framework estimates CTA positioning and reconstructs it across liquid futures markets. CTA Risk Off then reduces exposure to trends that tend to move with equities and strengthens exposure to trends that tend to move against them. The objective is to retain trend following's flexibility while changing the equity relationship of the resulting allocation.

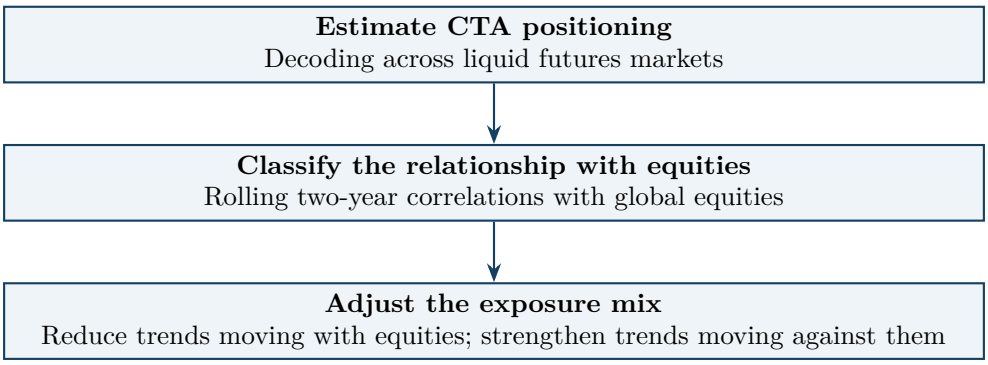


Figure 3: CTA Risk Off allocation framework. Classification memory seeks to reduce unnecessary switching as the relationship between trend exposures and equities changes.

The filter uses **rolling two-year correlations with global equities** and classification memory. This input differs from the one-year weekly comparison with US large-cap equities on page 3, which measures the live account's historical relationship with equities.

Positions may lose value before the allocation adjusts. Defensive exposures change over time and cannot assure protection at every turning point.

What the evidence supports

The live record supports an initial observation: one account displayed positive returns in most of the identified falling-equity months and a negative equity correlation over the one-year weekly window. The record remains short, the conditional sample contains only seven observations, and other investors may experience different outcomes. Full-period performance, drawdowns and recovery participation are needed to assess the broader return trade-off.

Important information

Performance reflects one live account. Equity and CTA references are non-investable indices with different construction, costs and exposures. Diversification and risk controls cannot eliminate investment risk. "Risk Off" describes an objective and does not imply loss avoidance or consistent outperformance.

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