



Q&A with Morgan Slade, CEO of CloudQuant LLC the first Cloud-based Crowd Research Platform with a High Frequency Backtesting Engine and Machine Learning for the Hedge Fund Community



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CEOCFO: Mr. Slade, what is the concept behind CloudQuant today?

Mr. Slade: CloudQuant is leveling the playing field so that people who traditionally do not have access to jobs on Wall Street, have the ability to plug in as part of our team using our cloud based crowd research platform. They can contribute to the investment process the same way an employee in a hedge fund would and they have a chance of earning the same kinds of compensation. We

structure it a couple of different ways. We enable people to build their trading strategies on our platform and, if it meets certain benchmarks, will license the strategy and allocate funding to it. The creator will get a percentage of the net profit. We also allow strategy creators to contribute to parts of our investment strategies that we run using our data science platform called CloudQuant.ai. Since all you really need is an internet connection to participate in the process we have people from over one hundred and forty different countries that are on the platform conducting research.

CEOCFO: Are you mainstream with this yet? Is it still a new idea?

Mr. Slade: We are still in the early adopter stage. There are only a couple of players in the industry that have tried to do this. Cloud computing has really taken off in many industries. However, for hedge funds and asset managers we really have not seen high utilization yet. As we start to increase the number of data sets that we make available, that typically would only be available to large hedge funds, I believe people are going to get really excited about this opportunity.

Many of the investment opportunities in the world are governed by your access to alternative data, the new data sets; new ways of looking at things. We are going to bring together a couple of different key ingredients into one place. We are bringing cloud computing in, but we are also giving people access to machine learning, artificial intelligence, free data sets and of course, capital to run the trading strategies. Therefore, this is really unique. We are proud of our track record. We have been managing money for almost seven years now and we have been profitable over that time. CloudQuant has specifically allocated about \$92 million to crowd-researched strategies. In the future we hope to add more crowd researchers to our platform and get the word out, that really anybody with an engineering background or an interest in the market can get involved.

CEOCFO: Do you qualify the people that get involved or is it self qualification?

Mr. Slade: It is really a Darwinian approach to the process. You have the ability to go in and everybody starts on a level playing field. Therefore, if you are really great at it then you are going to stand out and if you put a lot of time into it you will eventually stand out as well. Much of it has to do with your passion and how engaged you are and how hard you work.

That is really what we want; to create opportunities for people so that we can find the hardest workers and the most creative thinkers out there.

CEOCFO: *What type of data? Would you give us an example of what you might bring to the table that is a little less traditional and how it makes a difference?*

Mr. Slade: There are many different data sets that are now being stored. Many people have talked about how the amount of data in the world is multiplying so rapidly and I look at it differently. I do not think that is true. I think the amount of data in the world is constant. I think that we simply have more people capturing the data and storing it off in digital formats. Some of the data sets that we have are your traditional fundamental data sets. We have microsecond level tick data that you typically would not have access to. However, to my knowledge we are the only place where you can get access to high frequency microsecond level tick data for free. We provide that as part of our backtesting platform.

An interesting data fit that I think people should think about, using our platform, is our social market analytics social sentiment data. We have a data fit that measures the sentiment of Twitter as well as something called StockTwits®, which is kind of a Twitter feed for stock traders. There are over, I think, one to two million contributors and they are usually speaking specifically about cryptocurrencies or stocks. Twitter obviously is Twitter, so this company scans Twitter and using natural language processing, characterizes the sentiment of the tweets and the influence of the tweeters. Then they are able to come up with scores for how important tweets are and what strength the sentiment is. You can look at various trends of sentiment in various stocks as predictors for what the stock is going to do. We find that that is a pretty useful data set. We just rolled out about a half a dozen strategies using that. However, if you look at some of the other types of structural things that we trade like mean reversion or momentum factors; we have hundreds of strategies that use those factors. Therefore, we are very clearly just seeing the tip of the iceberg with the SMA (Social Media Analytics) or social sentiment data. It's important to note that alternative data and social sentiment data comes with high costs, so you normally wouldn't have access to this type of data unless you are a professional trader. Registered users can leverage this data for free on our platform.

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CEOCFO: *How does it work throughout? If someone registers do they have access and when they are happy you would let them use some money in trade?*

Mr. Slade: We have been a trading firm for over 25 years. I personally started out working for a large commodity trading advisor as a futures trader and an FX (Forex) trader for a large institution back in the 1990s. I also spent time at Merrill Lynch in New York managing an equity-trading desk. For the last ten years I have been engaged in high frequency market making using algorithms at places such as Citadel Investments, Wolverine Trading and most recently, Kershner Trading Group, CloudQuant's parent company.

We, at Kershner and CloudQuant, think that the US market micro researcher is sufficiently complex and that it is a real challenge for a novice or someone who is not from Wall Street to understand where all the bodies are buried, so to speak. Therefore, what we really want folks to focus on is research and coming up with strategies that they think will work. Then for the last mile we will take a look at what we call the trade expression and how the trades enter the market. We may enhance or adjust what they think they should be doing to leverage our knowledge and expertise in those areas. As it turns out we end up being the ones that operate the strategy, because we need to be the ones who monitor the execution quality of the strategy in the market. We also want to ensure that the high frequency traders are not taking advantage of us and that we are getting the very best execution that we can get. We are encouraging the authors to really focus on the big idea behind the strategy, the big idea behind the thing that causes our predictions to work.

Therefore, we break it up that way. We end up preparing a software license, where we license the algorithmic strategy from our registered user and then we use that license to operate the strategy on their behalf. We give them a log in. We let them log in to see how much money is being made each day so that they know that they are part of the team and that we want them to be very engaged and very focused on profitability. We want them to be thinking, “Okay, we made one thousand dollars today, which means I will be getting one hundred dollars more in my check at the end of the month.” We want them to be thinking, to start out with, about making hundreds of dollars and ultimately we would like to see them

thinking, "I can make a thousand dollars a day or two thousand or three thousand." Therefore, it becomes something that is not just a side hustle, but may be potentially a full time job.

CEOCFO: *Is there a role for luck and gut feeling in here?*

Mr. Slade: Certainly, in terms of finding good ideas or alpha, as we call it; there is a lot of luck involved. However eventually, if you spend enough time, you will probably find something. Although some people get lucky and the first thing they try ends up working. I like to think that there is a lot of common sense involved in choosing what to try first. Therefore, people who are practical and have good insight end up finding something sooner, rather than someone who has very few insights and is really just kind of regurgitating things that they read or see. Independent thinkers are rewarded and they probably appear to be luckier, when in fact it may be that they just think differently. We are a big fan of luck and independent thinking.

CEOCFO: *Does it tend to be that if you put six elements together you have got a better shot than if you put two elements together? Is each strategy unique and there is not a pattern of any kind?*

Mr. Slade: What a great and complex question! That is one of the things that we struggle with today. Our internal team of researchers will mix and match signals and ideas, that we license from crowd researchers, together into strategies. Ultimately, the goal is to come up with a better signal by using things in combination to make a prediction. Sometimes that can become overly complex and when things stop working it is harder to figure out what went wrong. That is the down side of that approach. The upside is that you can start to simulate the kinds of complex thought processes that human traders go through when they make investment decisions and so you can start to get some pretty high-level ideas captured by machine learning. Therefore, I think my answer would be that there are both. There are opportunities for individual ideas that are simply unique and diverse and different from things that they have done before. However there is also room for data scientists and engineers with maybe some machine learning or artificial intelligence experience or someone who is really good at building regression models, to combine various indicators together in to a single alpha and then build a strategy based on that or license the alpha to us. Both work equally well for us and we support each approach.

CEOCFO: *CloudQuant launched less than a year ago. What, if anything, has changed in your approach? What have you learned as it has been working?*

Mr. Slade: We have looked around the industry at our competitors and we have looked at what we are doing. We have interacted with many wonderful people around the world who are earnestly trying to get involved in quantitative trading and trying to find a way to make a career out of it. What we have found is that what we do is very difficult, as building an entire trading strategy is quite challenging for someone who is new to the field. However, building pieces of it is a very tractable problem for them. Over time we have drifted towards a model that is customized to your experience set, where you can choose to take on the responsibility for everything or you can choose to contribute ingredients to a recipe that is bigger than what you are working on. That is one of the things that we have done recently in launching CloudQuant.ai, which is in beta testing right now. We are creating a way for people to simply contribute their ingredients as opposed to the entire investment strategy from start to finish. We feel like that is going to cast a much wider net to embrace people who may feel a little intimidated by having to build an entire strategy by themselves. That is kind of a new approach. We have been managing money, as I mentioned, for a long time. We are starting to prepare to eventually launch a fund. We may do that later this year. We think that that is going to be a really interesting opportunity for us to, not just work with crowd researchers, but to work with new institutional investors as well.

CEOCFO: *Why should people pay attention to CloudQuant?*

Mr. Slade: CloudQuant has many firsts. We are doing something that has never been done in the hedge fund community. We are the first firm to have a high frequency backtesting engine. We are the first firm to leverage cloud research that has been trading historically, profitably every year for the last seven years. We are the first firm to fully support machine learning on our platform and encourage people to join us. We are at the cutting edge of the human resource problem in the hedge fund industry. The biggest challenge, from our perspective in finding investment returns for institutional investors, is the ability to create signals that are unique and novel. Also, and probably even more important, is the ability to scan through alternative data sets more rapidly than your competitors. We cannot tackle that human resource problem without the help of the crowd researchers and because we are the only ones with crowd researchers we think we have a competitive advantage over really any other firm. Even the larger hedge funds may only have a couple of hundred analysts working for them, whereas we have thousands of crowd researchers and growing every month.

CEOCFO: *What do you think people might miss about CloudQuant that they should understand?*

Mr. Slade: I think that because it is so new it is kind of hard to understand how we work. You asked the question earlier and the reality is that it is still something that we are exploring. We certainly have a couple of different ways of working

with researchers, but we think we are going to find more ways to work with them; whether it be ultimately creating a pathway for them to become employees after we have had to work with them for a while at a distance or whether it be finding ways to farm out our crowd researchers to other hedge funds or other firms that may need researchers who are accustomed to using our standard tool set.



CloudQuant