Since Len Fox first brought his Scarecrow investment strategies to Theta Investment Research, he has dominated the ranks of the top performers, with returns ranging from a loss of -11.6% in 2006, his worst year, to his best year, a 89% gain in 2009. To discover more about the man and the strategies behind Scarecrow Trading, we visited with Len and asked him a few questions.

There’s a wry laugh in Len Fox’s voice when he remembers his early forays into investing. “It was the 1990s and everything I touched was golden. I thought I was the most intelligent investor around.” In fact, Len almost turned down a gift from his wife in 2000 – an evening adult education class on investing - thinking he knew enough to teach it himself. When she reminded him it was either stay home with their four small children or take the night off to learn more about something he enjoyed, class won.

Len came away from the experience with two key lessons that are still part of his strategies today. (1) You can’t do everything. To succeed, an investment approach needs to be narrowly focused. (2) You have to know when to sell.

“It sounds crazy, but I didn’t have stop losses on my positions. I added stops and within two weeks I was out of all my stocks. I looked around and bought other stocks. Two weeks later I noticed I didn’t have any stocks. I did the same thing a third time before it finally occurred to me that the direction of the market was more important than individual stocks. By then, I lost over a half of my portfolio,” he explained. “After getting my butt kicked in my IRA, I got mad and decided I was never again going to stand by idly and watch my assets get decimated and do nothing.”

With the bear market of 2000-2002 in full steam, Len wasn’t the only investor to figure out there had to be a better approach to investing, but the subsequent success of his strategies sets him apart.

The next three years saw Len develop a composite of market analysis signals designed to establish whether market conditions dictate a long, short or cash position.

“I don’t believe that any one methodology is an accurate enough system to place all my money on,” he explains. “Composites are like going around a conference room table and asking individual experts ‘What do you think will happen tomorrow?’ Every person has a different expertise. You are looking for consensus. The question is how do you assemble those different opinions? What weighting do you give to one signal over another? Which do you include? Over the years, I have looked at more than 150 various signals with a history of performance. My primary program - Crow Chaser – is based on 17 separate programs that range from momentum-based to seasonality, sentiment and trend analysis. Each signal is given a weighting within the composite. When trigger points are met or missed, I establish either a short or long position, or even a cash position.”
FROM CONCEPT TO COMPOSITE

A scuba diver, Len likens his choice of investment vehicle – index-based funds and ETFs – to a school of fish. “It is easier to watch the movement of 100 stocks than one. Indexes capture movement and direction in a much more predictable manner than a single stock.”

“So there I am in 2003, sitting home making money and thinking ‘this is interesting.’ It was about that time that I stumbled across Theta Investment Research and started having my Crow Chaser composite tracked on the system. When I found out my program was ranked #1, I realized that I had something.”

Scarecrow Trading was incorporated in 2003. In 2004, Len received a “tap on the shoulder” from his employer of the last 25 years – AT&T – saying, as he puts it, “Would you like to leave, please, and here’s some money.”

Len had joined AT&T just after leaving the army and worked his way up through various management positions in the tech divisions over the next 25 years. With the financial support of his military benefits and AT&T’s employee education program, he had earned his bachelor’s degree in technical management and in 1989 completed his MBA in international business from Regis University in Denver. He looks back on his years at AT&T as an incredible experience of watching computers revolutionize the business world from the development of the first database spreadsheet to early email messages sent between engineers using UNIX.

SIGNAL DETAILS

With his departure from AT&T, Len turned full time to investing, looking for ways to take his composites to new levels and accepting his first management contracts. Today, he provides trading signals for money managers throughout the U.S. based on four programs:

Crow Chaser is a composite of two separate composite signals where consensus/disagreement determines a single market position – long, inverse or cash. It is used to trade the Nasdaq 100 (Len’s favorite), Russell 2000 and S&P 500 investment vehicles, including two-beta mutual funds and ETFs, depending on the company utilizing the signals.

The Symphonic Index determines exposure allocations stepped from 5% to 100% in a given market direction, utilizing index vehicles tracking the Nasdaq 100 and Russell 2000. The signal uses four distinct methods to apply 14 programs incorporating 35 decision elements.

Shorty is a short-only signal that watches for bear markets. If it is making money, the market is in an ultra-bear phase.

The MultiSourced Sentiment Trader is used to trade Nasdaq 100 vehicles. It is a composite of four professional market signals combined into a single subscription. Each has a 25% influence on the overarching market position. This signal is a website signal only. The number of decision elements and characteristics of those elements varies by professional user. The goal of the MS Sentiment Trader is to offer:

1. Manager diversification
2. Method diversification
3. Slow trader
4. Protect from bear markets
5. Affordable
6. Effective

All signals have a five-year history of actual trades before they are released. Scarecrow Trading monitors sources and generates its signals on a daily basis through offices in North Carolina and Minnesota, with redundancy throughout its system to assure uninterruptable service.

Len has opted to provide his signals through other advisory firms rather than managing assets because, as he explains, “Investors have a hard time finding people like me. What we do is so unique that there’s almost a perception that it is a kind of scam. What I tell investors is ‘Please verify me.’ There are third-party firms whose whole existence is based on tracking and verifying manager performance. Go to them and say, ‘Tell me about Len Fox.’”

The name Scarecrow Trading reflects Len’s basic approach to investing. “Without a scarecrow, market returns can get picked to pieces. Our systems are used to optimally expose client assets for growth opportunity, while mitigating risk.”

There is no certainty that any investment or strategy (including the investments strategies developed by Scarecrow Trading), will be profitable or successful in achieving investment objectives. Past performance is not a guarantee of future success and there are no assurances that any strategy will match or outperform any particular benchmark. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of Scarecrow Trading, Inc.

Len Fox is the founding shareholder and C.E.O. of Scarecrow Trading, Inc., and the designer of proprietary market signals used to optimally expose client assets for growth opportunity and risk mitigation.

Len holds an MBA from Regis University and enjoyed a 25-year career with AT&T in various management positions prior to founding Scarecrow Trading. His signal strategies are consistently found ranked in the top 10% relative to performance over time for their respective sectors. He has served as a market consultant for asset management firms successfully applying his strategies in various portfolio configurations throughout the industry.

Len is an active member of the National Association of Active Investment Managers (NAAIM) and recognized as a NAAIM TREND SETTER by the organization.

For more information, visit the Scarecrow Trading website at: www.scarecrowtrading.com.