Kevin Bruce: improving on a passion.
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Publication: Futures (Cedar Falls, Iowa)

Kevin Bruce has been trading futures based on the same trend-following methodology he developed in the late 1970s as a graduate student at the University of Georgia. Despite 25 years of trading for himself and as a proprietary trader for Signet Bank, later First Union Bank, Bruce's commodity trading advisor Strategic Capital Corp. is just now coming into maturity three years after striking out on its own. While Bruce is no rookie, there are few things he had to learn to manage customer accounts vs. a bank's proprietary capital. He had to hire people to handle the accounting, book-keeping and other aspects of a business that were previously handled by the bank. "At the bank, I was just a trader. I did my trades, went home and didn't think about anything else. The managing of a company is a whole lot more encompassing," Bruce says. He splits the workload with his partner Tim Jester, who he worked with at Signet since 1985. Bruce faced other adjustments beyond operating a start-up. At the bank, he had an unending stream of capital and an investor that hedged its bets in non-correlated asset classes. "The biggest difference is that when you are part of a bank the acceptable level of profit/loss volatility is much greater because you are only one piece of a big pie. It was not nearly as important to be consistently profitable," Bruce says. That transition is a natural one though as Bruce has been adding markets and risk management techniques to his original strategies to reduce volatility since he turned an elective futures trading course he took at Georgia's agricultural department into a lifelong passion. After catching the trading bug, Bruce would pour over charts, finding patterns and developing his trend-following methods. "I could not analyze 20 markets fundamentally and make money. One of the reasons [trend following] works is because you don't try to outthink it. You are a trend follower, not a trend predictor," he says. In 1995 Bruce added global commodities to his currency and interest rate program in an attempt to lower the volatility. "In the early years we traded mostly currencies and now we trade energies, interest rates, currencies and even some ags like corn, sugar and cotton," Bruce says. While trading for the bank, he established a CTA to build a measurable track record. The CTA was set up to have a fixed asset base to calculate a rate of return and traded the identical system that he used to manage approximately $80 million in bank assets. From 1996 through 2000 the program produced an average annual return of 62.67% with multiple triple digit years. In 2000 Bruce and Jester bought the CTA from the bank. In November 2000 they began accepting customer money. The program trades with 70% of the previous leverage, and Bruce continues to look for ways to lower volatility. "We spend a lot of time researching ways, not necessarily to make more money, but to make the same amount of money with [lower] drawdowns and less standard deviations," Bruce says. The most recent enhancement involves options. "When markets are making a major top, volatility picks up and your exit signals get far from the current market," Bruce says. The use of options allows them to protect the open equity profits. Bruce began looking at options at the end of 2002 but didn't implement the strategy in time for the massive reversals of this March. The program dropped 22.16%. "We got hit on everything, but bonds being 35% of the portfolio, that is where we got nailed," Bruce says. With the options strategy in place, Strategic handled this summer's interest rate reversal much better, dropping 3.1% in June following a 23.6% performance in May. Bruce says it is harder to make money trading today than it was 10-15 years ago. Judging from his 34.11% year to date (through August) return and a compound annual return of 30.04%, Bruce has found a way to balance the continuity of a successful trend-following approach with diversification and risk management enhancements.