



Trader Profile

BY DANIEL P. COLLINS

Year of the masters

If 2002 was the year of the trend follower, then look no further than established champions of this approach for examples of success. Two such traders are William Dunn and John W. Henry, who have carved out long profitable careers on the simple notion that trend following works.

While new methodologies will come along and experience varying levels of success, trend following will always be here. Dunn and Henry are among the best and oldest practitioners of the method. The compound annual returns for all of their programs, dating back to 1984, are in the double digits.

Mark Rzepczynski has taken over the reins of JWH and Daniel Dunn, EVP of Dunn Capital Management, is preparing to lead that storied CTA into the future. Both CTAs had multiple programs return better than 40% in 2002.

"JWH stuck to its knitting. Our methods stood the test of time. In three different decades you have seen JWH consistently near the top," Rzepczynski says.

Both managers trusted their long-term track records and their trend following roots. When trend following lost some of its appeal, Dunn was not tempted to explore more countertrend trading methods.

"That is a sure-fire sign that trend following will rise again," Daniel Dunn says. "There was no change for a number of reasons. We are looking at 10-15 years [of data], so a couple of flat years will not change our [approach]."

Adds Dunn President Pierre Tullier of 2002: "Anyone who stuck to their guns and stuck to their [trend-following methodology] was successful." Consistency is important, Tullier notes, because customers choose them to hedge their overall portfolio. "Our clients are looking at the same properties. If we change, that messes up [their] portfolio allocations."

JWH had a strong year in all of its programs from all market sectors. They made money in the second and fourth quarters in currencies, earned strong profits in the third quarter in interest rates and took advantage of trends in traditional commodities such as grains, metals and energies throughout the year. "It was a tremendous year with good dislocations in major sectors," Rzepczynski says.

While both CTAs had strong years, their total money under management is far below their all-time highs, which means they are well placed for the expected influx of new money.



William Dunn

John W. Henry

"Managed futures has not seen the growth of other alternative investment vehicles in recent years, which means that there is plenty of room for growth," Rzepczynski says. "One, there is capacity available, and, two, overall capacity [has grown] because as markets become more volatile, there will be more hedging interest." He also points out that additional countertrend strategies and more products also increase capacity.

Not only does Dunn say it has \$1-\$2 billion of additional capacity in their existing programs but an additional \$1 billion with affiliated advisors. Dunn has fee-sharing alliances with six other CTAs and more are in the works. Dunn tests its alliance partner's programs on its huge database, provides all the execution, and invests in and markets the programs, freeing up the managers to focus on the academic aspects of their strategies. "One of our long-term goals is if we are going to expand capacity, then alliances will be able to expand," Tullier says.

That expansion has already begun.

"Obviously the phone is ringing more — in part because of recent performance — and every indication is that there will be a lot of flow into managed futures. We have every reason to believe we can handle it," Dunn says.

While both managers stubbornly stick to their core philosophy, it doesn't mean they are looking behind. Rzepczynski cites the return of a real business cycle as a reason for 2002's sharp trends and he thinks it will carry on into 2003. "What set 2002 apart started at the end of 2001 with the first recession in 10 years," he says. "[We have] seen the return of dislocations in the real economy, the return of a real business cycle — more dislocations mean more movement in prices and greater opportunities for us."

Rzepczynski says the big question of whether managed futures will have another strong year in 2003 depends on uncertainty. "Do you think the world will be a more stable place? If you do, don't buy managed futures; if you don't, buy managed futures; if you don't know, [then] you want to buy managed futures because it is great diversification."

While there always is room for innovation, 2002 also indicates some methodologies stand the test of time. JWH and Dunn will not always perform as well as they did in 2002, but they likely will be providing diversification and trend-following investment vehicles for a long time to come.

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