
141 WEST JACKSON BOULEVARD
SUITE 2313
CHICAGO, ILLINOIS 60604

RICHARD J. DENNIS

MEMO

TO: ALL TRADERS
FROM: RICH DENNIS
DATE: April 23, 1986

Real-world drawdowns far in excess of theoretically expected values have caused us to reassess the linkage between theory and fact regarding how big to trade. It seems that we have misconstrued the theoretical data so that you have been trading as much as twice as big as we thought.

The good news is that this has been true throughout the whole trading program--your profits were doubled, but at the cost of a doubling of the risk. We must be living right.

The bad news is that we should get the risk down to what we expected when we started. This would require a 50% cut in the size of your trading. The recent highly profitable period should blunt the pain of this cut somewhat. Please be prepared for a cutback soon.

We will set up a meeting to discuss this situation soon.