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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Trading Futures with a Systematic Strategy

MARTIN H. BERGIN is the President and Co-Owner of DUNN Capital Management, LLC. Mr. Bergin is in charge of directing and overseeing the firm's research and development efforts, and constructing and managing the firm's managed futures portfolios. Mr. Bergin also assists with the operational and financial activities of DUNN. His duties include overseeing day-to-day trading and risk management; directing the accounting, budgeting and long-range planning processes; and managing the human resources function. In January 2010, a business succession plan was put into place that gave Mr. Bergin partial ownership of the firm and will transition the entire ownership to Mr. Bergin at the end of a 10-year period — December 2019. Mr. Bergin joined DUNN in September 1997 as Accounting Systems Manager, and was promoted to Vice President and Chief Financial Officer in March 2001. In May 2007, Mr. Bergin was promoted to President. Mr. Bergin earned a Bachelor of Science in business administration from George Mason University in 1987. He became a certified public accountant in 1988. From 1987 through 1997, he practiced public accounting in Northern Virginia, where he became partner at a local CPA firm, managing audit, tax and consulting engagements for clients in the managed futures, banking and defense industries.

SECTOR — GENERAL INVESTING

TWST: Please begin by telling us a bit about DUNN Capital Management and your role at the firm.

Mr. Bergin: DUNN Capital Management is a commodity-trading adviser located in South Florida and was started by William A. Dunn, who is a pioneer in the industry of managed futures. He actually started the firm and was trading managed futures before the regulatory body was even set up. So he was instrumental in actually setting up the regulatory body.

We've been trading since 1974. We're a trend follower. We are 100% systematic, meaning we don't have any fundamental decision-making by individuals. It's all mathematical calculations. We have computer models that tell us what to buy and what to sell.

TWST: I want to talk about your investment strategy. Obviously, it's based on these models. Can you talk a little about what goes into the models, and how you're selecting investments?

Mr. Bergin: We're outside the norm. So we're a liquid alternative strategy, and I'm sure most of the people you interview are either trading in equities or something in the conventional financial world, where people are looking at individual equities, companies, doing analysis of financials and things like that. Our approach is completely different. What we're trading is futures markets. So we trade 53 markets. They are all on regulated exchanges throughout the world. So we have a 24-hour trading desk. Basically, with today's technology and electronic markets, we're trading around the clock, where basically, all the futures, all 53 markets that we trade, we can trade all those at anytime.

So that goes into trading, the futures and the methodology that we trade. We're a trend follower, so what we're looking at each day is the price movement in each contract that we trade. That information is loaded into a computer model that then analyzes the trend of each market and determines whether we want to be long or short that market. What's interesting about our strategy, as opposed to most financial investment strategies, is this is not long-only, and we can be short as often as we're long. So we're not affected by the economy, per se, negatively as much as a lot of other strategies are. Therefore, we're not correlated.

And the reason people like our type of strategy is that it gives some protection during economic downturns. So for example, in 2008, which most financial advisers and investors would look at as one of the worst times of their investing lives, that was a great period for us. So in 2008, our main strategy was up 52%, and then, the multisystem funds that we trade here at DUNN were up over 120%. So those are the types of periods where we excel.

People like to get our strategy in their portfolios to offer diversification, which therefore provides a better risk-adjusted return on their portfolio overall. We are an alternative-type strategy that offers a noncorrelated revenue stream to people.

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TWST: What do you find that people tend to misunderstand most often about trading futures?

Mr. Bergin: I wouldn't say it's what they don't understand. I think one of the feelings in the general public is that futures are a very scary place to be and a very scary place to trade because you can lose more money than you actually put up in some cases. For instance, you're only putting up a margin requirement, but that means the position you're actually carrying represents eight to 10 times the amount of cash you have up. So if the markets were to move against you, you could actually have to make a cash call; you'd have to pay additional money just to get back to zero.

So you always hear these horror stories about people that don't know what they're doing, and they go out, and they buy a pork-belly contract, and then, the next thing you know, they're having to refinance their house to pay the broker for the losses. It's a scary thought, but it's not an incorrect thought; I mean, it's not that they didn't understand. It is a risk that's out there; it's a real risk.

What we do is we mitigate that risk with the strategies that we use so that the chances of having an outside loss are very small. As a matter of fact, from 1974 through 2012, we targeted a value at risk, or VAR, of -20% in a month at a 99% confidence level. So we trade at a pretty high volatility, but our risk was targeted so that we were willing to take 1% chance of losing 20% or more in one month of trading, and we did that for 38 years. During that time, we lost more than 20% in a month 1.2% of the time.

Now, in January of 2013, we modified that target to where, instead of having the same target every day, we adjust the target each day depending on our gauge of market conditions; we have a mathematical calculation of the trendiness of the marketplace. And as we feel like it's a good market to trade in, we bump our risk up, and if we feel like it's a poor market, we dial our risk back. What that does is cut down our downside volatility by about 25%.

TWST: You said a couple minutes ago that an environment like we had in 2008 would be a great period for you. How is a period like the one we're in now for you?

Mr. Bergin: Between 2008 and 2014, it's been a very difficult environment for the industry as a whole, the managed futures industry. I think the CTA indices were down over that period of time. We've actually done fairly well. I think our trailing 60 months at the end of November was, we were up 80%. So that's been good for us. The industry as a whole was about flat to modestly up over that same period.

When you have marketplaces where central banks and governments are influencing what's going on, what you've seen is a high correlation has occurred. When they talk about a risk-on, risk-off type environment, all the markets have become correlated, and the volatility has been sucked out of the markets for the most part. So you're seeing a steady climb in equities, but what you see in equities is really happening across all the markets. It's not just equities; it's also the bonds, you see it in currencies, you see it in gold and crude, in everything.

What's happened in 2014 is you've seen a break-apart of that correlation. So you're starting to see stocks behave differently depending on their geographical area. You're starting to see bonds react differently based on which governments they're associated with. You've seen crude oil break downward in a huge trend, which has been really good for our type of trading. Currencies have started moving a little bit.

So the increased volatility and noncorrelation of the marketplace is good for managed futures. The opposite is true when it's a very correlated marketplace with low volatility that tends to be very difficult for managed futures, especially trend following.

TWST: What kinds of investors would be a good match for you?

Mr. Bergin: A high net worth person with a high tolerance to risk who is knowledgeable about the financial industry and understands the value that's provided by a noncorrelated revenue stream, which we provide. If you really think about it, anybody who invests should have 20% of their risk allocated to managed futures because that gives you the best risk-adjusted rate of return for your portfolio. If you break the other 80% of your portfolio between equities and bonds, and 20% to managed futures, that will give you a very good risk-adjusted return over the long term. It will greatly exceed any of those individual investments.

It's hard to describe our actual investors because they cover such a wide variety. I think what's important is that they understand what it is that they're investing in. So we spend a lot of time educating not only people that don't invest with us but people that actually are going to invest with us. We educate them about the risk they're taking on, and then, of course, they understand the opportunities.

Highlights

Martin H. Bergin discusses DUNN Capital Management, LLC's investment strategy. As opposed to more traditional investments, such as equities, DUNN trades in futures. Mr. Bergin makes his buy and sell decisions based on mathematical calculations rather than through fundamental analysis. As a trend follower, Mr. Bergin watches daily price movement to determine whether to be short or long in a market. According to Mr. Bergin, DUNN's strategy offers diversification and a noncorrelated revenue stream to an investor's portfolio.

You have to understand half of the money that we manage — we're just over $900 million, and half of that money is our money. So we trade our money exactly the way we trade our clients' money. And the other thing we do — because we always want to be on the same side of the table as our investors — that's unusual in the investment industry as a whole, we don't charge management fees. So all our revenue is strictly based on incentive fees. If our investors don't make money, we don't make money, but when our investors do reach new highs in their accounts, we charge them a portion of their profits.

TWST: You said you spend a lot of time educating people. For people who do understand managed futures, what are your key messages to them for 2015?

Mr. Bergin: I can't predict the future. Anybody that thinks they can or tells you they can, they're lying to you. So I can't tell you anything about 2015. I know if the marketplace continues in the same form that it has in 2014, where the correlations are continuing to break apart and the volatility continues to be high, managed futures, especially trend following, will do well, but we have no idea what the marketplace will provide in the next year.

What I do know about us is we'll continue to do research and continue to implement enhancements to our program as we are able to develop them, and the technology is growing so fast, it offers all kinds of opportunities from the research standpoint, which of course makes our models that much better. So we'll just keep plugging ahead and doing what we do, and we've been doing it for over 40 years, and most of our investors have been very happy.

TWST: Thank you. (MES)

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