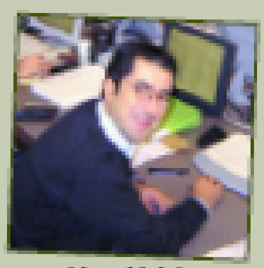
Conquest profits

With the theme of this year's look into the top traders appropriately titled "Return of the long-term trend followers," it is somewhat ironic that we are featuring a CTA that partly attributes its spectacular 2002 returns to dropping the long-term trend following element from its stable of models within its program, but who wants to argue with 62.44% returns?

Rich Silver

New York-based Conquest's Macro fund leveraged program utilizes a short-term and medium term trend following model along with a short-term countertrend model. It took out the longer-term approach in 2002 because managing partners Rich Silver and Marc Malek, who both held senior positions at UBS's forex division, felt it was getting too difficult to gain strong risk adjusted returns using that method. The average length of their trades is 4.5 days. They say the system managed to catch the trends that existed without facing the inevitable drawdowns that come with following long-term trends.

Despite this year's returns, Malek believes the best days for long-term trend following are behind it. He says the theory behind long-term trend following is that people get information at different times. With the increase in technology, Malek believes that isn't the case any more. While there still will be volatility and trends, the reversals will come quicker and will be sharper, making it harder to get in and out at the right time. "The world is a different place, the beginning [of trends] are sharper and reversals are sharper...reversals from trends will be so sharp that risk adjusted returns will get worse," Malek contends. Conquest sweeps away both the winning and losing trades every four days, he says.



Marc Malek

Conquest trades 32 markets in all the major financial sectors. They split up their allocation to the three major global sectors: United States and Canada, Europe and the Pacific Rim. In each of those regions they trade currencies, short-term interest rates, long-term interest rates and stock indexes. They also trade energies and metals. They do not trade grains, meats or softs because they do not want to run into capacity issues as the program grows. "We want to stay below 5% of daily volume in any market we trade," says Malek, adding, "We are not building this to run $50 million, we are building this to run $500 million."

They also note that their approach has a low correlation to other CTAs, which will become valuable as more money is put into managed futures and allocators look for something a little different. "We want to find a different way of extracting value out of the markets," Malek says.

It seems to be working. Conquest's 2002 numbers are as good as any out there, and they looked as good at different points in the year. They even managed to make money in October and November, months when even the best CTAs tended to give back profits.

They also had positive returns in the first six months when most trend followers who earned the majority of their profits in the third quarter and December, struggled. "Our program is designed to have a negative correlation to equities and hedge funds and have a low correlation to the rest of the systematic macro CTA world," Silver says.

An example of their agility came in the spring and summer when they earned profits on both sides of a large dollar/yen swing. Conquest took profits on a move in the dollar and on the reversal when most long-term trend followers where giving back profits from the original move.

The ultimate goal according to Silver is to provide a much better risk-adjusted return while still performing well in periods of dislocation.

Past performance is not necessarily indicative of future returns. The performance information herein relates to the leveraged version of the Conquest Macro Program.