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Munificent May

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Munificent May

And it wasn't just a currency fest

By Patricia Ward

May has provided a bumper harvest for both currency and diversified traders. Some of Europe's biggest beneficiaries explain why.

Two Dublin-based currency traders Alder Capital and Appleton Capital Management posted particularly strong returns in May.

Alder's Global 20 program was up 10% in May. "The start of this trend goes right back to May last year, when euro/dollar was about 82 cents for one euro," says Alder co-founder Brian McCarthy. "We've been buying euro and selling dollar and yen ever since, and we're still holding our positions (as of June 9)."

Alder's other co-founder Mark Caslin says that the firm's system indicates the trend will continue, "but volatility is getting higher."

The Appleton Capital 25% Risk program also did well in May, up 8.3%, bringing year-to-date returns to 31.8%, says head of trading David Walsh.

His systematic model selects currencies based on risk/return profiles rather than on trends alone. "We had three dominant positions throughout May: long euro/yen, long Canadian dollar/yen and short US dollar/Canadian dollar as all three crosses proved attractive from a risk/return perspective," he says.

"We had a bias towards the long euro/yen and long Canadian dollar/yen positions with the short US dollar/Canadian dollar position representing a small percentage of exposure."

Beach Capital Management's more diversified discretionary program also enjoyed a good May, up 14.4%. Chief investment officer David Beach says that while currencies performed best, bonds also did well.

Similarly, trends in these sectors favored the diversified, systematic Winton Futures Fund, which also did well in interest rates. According to Winton managing director David Harding, May's 10.4% return was achieved with a lower-than-average margin-to-equity ratio of 14.5%, implemented to the mitigate risk of a sudden large reversal.

> "Diversification has really helped in the last month or two"

Beach Capital found stocks was another sector which did well for him in May. "We had a strong short-term buy signal in the S&P on March 13, which helped to reposition our portfolio and offset shorts elsewhere in this sector," says Beach, who also exploited short-term signals to go long in the Spanish stock market.

Diversification, direction

"Diversification has really helped in the last month or two as many markets have been less driven by one big picture," says Beach. "As a consequence, correlations between different sectors have diminished."

He found good moves in a variety of markets such as hogs, platinum, copper, nickel and grains. "Even coffee helped, which doesn't happen very often."

Regarding currencies, he says that one of the best performers was the euro appreciating against the Swiss franc, as fears resulting from international conflict receded and yield factors came more into play. "From an historical perspective, the cross rate has had an important change of direction."

Also exploiting the Swiss franc to good effect, London-based Mulvaney Capital Management's systematic Global Diversified program was up 7.6% in May. Chief investment officer Paul Mulvaney found that currencies, of which he trades Swiss franc, US, Canadian and Australian dollars, euro, sterling, yen and peso, were the strongest performers in his global financials and commodities portfolio.

"May performance was enhanced by the fact that the US dollar was weak across the board, including against the Australian and Canadian dollars, which are typically relatively stable versus the US," says Mulvaney.

"The Canadian dollar broadly kept pace with the euro, which by historical standards represented a relatively big move for the Canadian dollar, because it is traditionally a low volatility currency against the US dollar; so that generated a windfall gain for us. We also profited from uptrends in the euro, Swiss franc and sterling against the dollar."

Reflecting on how stocks reacted to currency moves, Mulvaney says the greenback's weakness seems to have been a supportive factor for the US stock market. "On certain days when the dollar weakened and European currencies strengthened, the knock-on effect was that European equities were hit while US equities benefited."

Although Mulvaney hasn't perceived a generalized knock-on effect on physical commodities, he notes that as gold trades like a currency, it has participated in the overall currency rally against the dollar. "One of the reasons that trade is happening is because interest rates are so low," he says.

"So by historical standards, there is little opportunity cost in owning gold."

The good results being posted by trading advisors is prompting enhanced awareness of the virtues of their inclusion in portfolios. For example, of the eight managers to which the new Bright Capital Alpha Fund will initially make allocations, half are trading advisors: two diversified traders, whose programs include currencies, and two systematic currency traders. ■