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Summer C-Level Series: Tom Rollinger, Red Rock Capital

What have been the major themes of your business so far this year?

The significant appetite for, and growth of, our Commodity Long-Short program. Physical (i.e. tangible) commodity futures are significantly more susceptible to regular supply and demand shocks than are financial futures. While billions of dollars of investor capital invested with grizzled CTA "trend followers" continued to grow weary waiting for global trends to clearly develop in the interest rate and currency markets, we were busy successfully exploiting inefficiencies that clearly manifested themselves in agricultural, metals, energies, and livestock markets. We've spent a lot of time trying to educate family offices and institutional investors about the fundamentals of the commodity futures markets. Most investors are stuck in an "up is good, down is bad" mindset – but this opinion, due to the mechanics of how commodity futures work, is, by definition, incorrect. In very general terms, producers of commodities are pleased when prices go up, but consumers, on the other hand, desire prices to fall. Once potential investors can conceptualize this point and the fact that the commodity futures markets were designed to help both groups (producers and consumers), it becomes crystal clear to them why a strategy that implements both long and short positions (separately) is the most efficient (and apropos) way to trade the commodities markets.

What has surprised you in 2014?

Major banks such as JPMorgan Chase, Barclays, and Deutsche Bank essentially throwing in the towel on their global commodities trading businesses. It appears there has been too much emphasis on "revenues" to the banks generated by their commodities trading, rather than providing important client-centric value such as effective risk-management and/or alpha-generation. Also I've been surprised by all the belly-aching about the lack of volatility across global markets. Why should investors desire "volatile" markets, anyway? They shouldn't. The press, and many investment management firms, mistakenly think that volatility is, in and of itself, valuable. Sideways markets that go nowhere over time can satisfy the definition of "volatile" and not add any value or growth to one's bottom line. Directional volatility is what is desired and valuable to most strategies, and we've continued to see an impressive amount of it in the commodities markets we trade. For instance, the coffee market had a +70% up move earlier this year and since May corn, wheat, and soybeans are down –29%, –28%, and –19%, respectively.

What are your expectations for the duration of 2014?

Due to incorrect information and assumptions, investors typically have too strong of expectations about the future direction of the markets in which they are invested. I expect the remaining portion of 2014 to continue to surprise investors. Many investors are fooled by meaningless patterns in and observations from the markets. For instance, a stock market making an all-time new high can continue to go higher, and just because certain commodity markets have dropped a lot in price does not mean they cannot weaken further. Behavioral finance has shown us that our markets are greatly affected by investor biases such as anchoring, fear, greed, confirmation bias, and the disposition effect. Considering all of the continued Fed intervention in the markets, the situation in Europe, the geopolitical tensions with the U.S. and Russia and China, and the extreme weather we've been experiencing, I expect the latter half of 2014 will likely be a fertile environment for those that can efficiently capture short-term directional volatility with their strategies.