Manager's Corner

By Paul Rieger, Executive Director of Managed Futures & Alternatives, RCM Asset Management

In this month's Manager's Corner Update, we have **Red Rock Capital** answer our "25 Questions Every Investor Should Ask". Plus get the latest rankings from Barclay Hedge and sign up to receive our Managed Futures Kit.

Red Rock Capital is an award-winning systematic global macro hedge fund (CTA) located on Chicago's Magnificent Mile. The firm recently celebrated its 10th anniversary and is well-positioned to grow and thrive in the alternative investment arena. Red Rock Capital currently offers one investment program – its flagship Systematic Global Macro Program.

To access our performance capsule, click here.

1.) What is the name of the program/programs and who are the listed Principals?

Systematic Global Macro Program
Thomas N. Rollinger and Scott T. Hoffman

2.) Can you provide us with some details of your corporate background? N/A

3.) Who are the principals with trading authority?

Thomas N. Rollinger and Scott T. Hoffman

4.) Can you provide details on the principal and/or managers' education, career and trading back-ground?

Thomas Rollinger: A 16-year industry veteran, Mr. Rollinger previously co-developed and co-managed a systematic futures trading strategy with Edward O. Thorp, the MIT professor who devised blackjack "card counting" and went on to become a quantitative hedge fund legend (their venture together was mentioned in two recent best-selling books). Considered a thought leader in the futures industry, Mr. Rollinger published the highly acclaimed 37-page white paper Revisiting Kat in 2012 and co-authored Sortino Ratio: A Better Measure of Risk in early 2013. He was a consultant to two top CTAs and inspired the creation of an industry-leading trading system design software package. Earlier in his career, Mr. Rollinger founded and operated a systematic trend following fund and worked for original "Turtle" Tom Shanks of Hawksbill Capital Management. After graduating college in Michigan, Mr. Rollinger served as a Lieutenant in the U.S. Marine Corps. He holds a finance degree with a minor in economics.

Scott Hoffman: graduated Cum Laude with a Bachelor of Science degree in Electrical Engineering from Brigham Young University in April 1987. In the 1990s, Mr. Hoffman began applying his engineering domain expertise in the areas of statistics, mathematics, and model development to the financial markets. In April 2003, after several years of successful proprietary trading, Mr. Hoffman founded Red Rock Capital Management, Inc., a quantitative CTA / CPO. Early in his trading career, Mr. Hoffman participated in a CTA Star Search Challenge, earning a $1M allocation as a result of his top performance. Since then, Red Rock Capital's outstanding performance has earned the firm multiple awards from Barclay Hedge. Mr. Hoffman is active in the research areas of risk and investment performance measurement as well as trading model development. His publications include Sortino Ratio: A Better Measure of Risk which he co-authored with Mr. Rollinger.

5.) Which firm calculates your performance numbers?

For our CPO, we have Michael Coglianese, CPA perform our yearly audit.

6.) What is the minimum investment for your program?

$500,000 (nominal).

7.) Do you accept notional funding?

Yes.

8.) What is your management and incentive fee structure?

Historically 1% and 20% but fees are somewhat negotiable in case of sizable enough interest.

9.) What is your program's capacity?

Our research in this area suggests it is upward of $4 billion with our current portfolio.

10.) When did you start trading this program?

In September 2003.

11.) What type of accounts do you manage?

Family Offices, a private CPO fund, among others.

12.) Can you give a brief description of your program?

The Systematic Global Macro Program was designed to capture the high-value payoff portion of globally trending markets by blending the benefits of both momentum and probability theory. The Program has three distinct aspects: Market Profiling, Alpha Generation, and Phase Discrimination. The Program is completely quantitative, systematic, and adaptable. Long and short positions are tactically implemented and managed on a globally diverse portfolio of liquid futures markets.

13.) Do you have a systematic or discretionary approach to the market and what are your program goals?

Implementation of the Systematic Global Macro program is completely systematic. Discretion played a very important role in the research and development that went into creating the strategy.

Thomas Rollinger (left), Scott Hoffman (right)

14.) What is the average holding period for each trade?

85 days.

15.) Do you trade options within your program? If yes, please describe the types of options traded and how options risk is monitored.

No.

16.) Are there any liquidity constraints in the markets you trade?

Yes - markets have to meet minimum (proprietary) levels of liquidity and stay under a maximum allowed execution cost in order to be included in our tradable universe.

17.) In what types of market environments does your trading program do well and /or struggle?

The Program is designed to generate alpha through capturing directional - i.e. "good" - volatility embedded in globally diversified, multi-directional, and sustained price trends.

18.) What is the standard range of margin to equity usage for the program and how long do you hold the average trade?

10% average margin to equity ratio.

19.) How do you manage risk / reward and what metrics are employed?

We utilize a proprietary and quantitative "market profiling" technique to identify and categorize current market conditions into four phases. To maximize risk / reward we minimize the amount of time we are exposed to 3 of the 4 phases. Additional analytic methods implemented by the Program on a continuous basis include probabilistic asymmetrical directional targeting and portfolio cross-sectional analysis.

20.) What are the optimal market conditions for your strategy?

When there are as many strong, sustained price trends as possible - both long and short - occurring in our universe of 70+ globally diversified futures markets.

21.) Describe your worst drawdown to date, how did it happen and what actions have been taken (if any) to prevent similar drawdowns?

Largest drawdown was 17.75% that occurred over 9 years ago during the 2004-2005 timeframe. The markets in our universe exhibited exceptional non-directional volatility during that period. However, the drawdown was well within our expectations and one could expect similar drawdowns in the future. Active risk-management is in place on multiple levels with our Program, but, as evidenced by our +49% performance in 2008, we manage the Program at an internal "heat" level where we expect regular drawdowns of reasonably-sized magnitude.

22.) What are your investment goals?

It is our aim, through the disciplined application of our Systematic Global Macro Program, to produce as high as possible risk-adjusted returns for ourselves and our investors – returns that are not correlated with – or dependent upon – the performance of major asset classes like stocks, bonds, and real estate.

23.) What makes your program unique and different from other managers in your sector?

Higher historical risk-adjusted returns than approximately 90% of our peers.

A full 50% exposure to physical commodities markets (many peers have 70-85% exposure to financials nowadays).

Equal 50/50 potential exposure to both long and short trades (several large, well-known CTAs appear to be favoring the long side of the markets).

Our Program's returns have exhibited very high amounts of positive asymmetry (high / positive "skewness" translates to upside surprises; investors generally prefer higher skew).

The Program is designed to extract the most efficient and valuable part of global trends (our peers will likely get in trends sooner - and stay in them longer - than us).

The two principals of the firm maintain significant personal investments in the Program.

Our Chief Investment Officer, Thomas Rollinger, received a highly valuable hands-on education in quantitative trading strategy development and risk management from a world-class mentor, Dr. Edward O. Thorp.

Our two principals are respected industry-thought leaders, having published two cutting-edge, quantitative and analytical research papers in the past 10 months.

24.) Do you feel you have an edge if so what is it?

As financial engineers we prefer to approach the markets with humility and respect. That being said, our almost 10-year net of fees track record suggests that we do indeed maintain an edge over the market and most of our peers. Our edge likely lies in our ability to ascertain on what points are most important to focus when analyzing markets, investor behavior, and large amounts of data.

25.) What is the one piece of advice that you would give to a new start-up CTA?

Stay humble and have great respect for the unknown.

For additional reading, you may also enjoy 'Sortino: A 'Sharper' Ratio', a Red Rock research publication authored by Thomas N. Rollinger and Scott T. Hoffman.