

THE TECHNICAL ANALYST TALKS TO...

Peter Panholzer is CEO of Geneva-based DynexCorp, a currency portfolio manager established in 1990.

TA: What is your role at Dynex?

PP: I oversee the proper implementation of DynexCorp's trading strategies.

TA: How is Dynex's customer base made up? Does it include both private investors and institutions?

PP: DynexCorp manages institutional funds and those of hedge funds specialising in currencies.

TA: What are your strategies for trading the FX markets?

PP: We have two basic strategies. One is technical and works primarily with the same statistical measures that underlay Bollinger Bands; the other one is really a co-operation with John Percival (of Chescor fame) and relies on the professional implementation of his signals based heavily on market sentiment and contrary opinion.

TA: Which currency markets best suit your strategies?

PP: Our systematic strategy operates within very small price observation windows so we must only deal in extremely liquid markets, primarily EUR/USD and USD/JPY, as they have the steadiest and smallest spread for size. For that reason our systematic strategy does not trade other currency pairs, at least for the time being. The Dynex/Percival Market Sentiment strategy, on the other hand, trades all major currency pair combinations.

TA: You mentioned sentiment indicators. How do you apply these?

PP: Ideally the only useful contrarian input should come from participants who are unaware of the final use of their input. Useful contrarian opinion should be based on at least two of the following: →



“IDEALLY THE ONLY USEFUL CONTRARIAN OPINION SHOULD COME FROM PARTICIPANTS WHO ARE UNAWARE OF THE FINAL USE OF THEIR INPUT.”

- PETER PANHOLZER

- Opinion given gratuitously (excludes paid advisories as in the long run they tend to break even)
- Advice given that is un-punished (typically by salaried employees of a brokerage house who are not involved in trading or managing client funds)
- Volunteered opinion or forecasts (for example in an interview or in the press)
- A buy or sell recommendation arrived at by committee (e.g. within a bank or brokerage house)

TA: Do you apply Bollinger bands in the usual way?

PP: We use standard deviation measures from a smoothed mean, very much like Bollinger Bands, except that we use our own version of parameters such as randomized buffers to determine stop levels. This assumes that currency prices are random and are following a normal distribution. We know this not to be the case, since currency prices generally display leptokurtic behaviour with narrow peaks and fat tails. On the other hand they do behave quasi-normally most of the time and our strategy exploits this premise.

TA: What time horizons do you trade?

PP: Our TETRA3 strategy uses a series of time intervals for signal generation, of which the basic 4-hourly interval (tetra is the Greek word for 4) provides the backbone in a time spectrum that runs from 1-minute signal generation to 12-hourly filters. Within these time frames our positions follow trends by way of algorithmic stop-loss orders. This defines the exit mechanism. For every exit, which puts the strategy "flat", a re-entry algorithm exists, on a similar premise as the exit algorithm. In principle, stop orders should ideally be located where they are unlikely to be hit (e.g. far away), yet they should ideally also associate the result of being stopped-out with optimal preservation of equity.

TA: To what extent have your strategies been back-tested?

PP: The reliability of back-testing is largely dependent on the quality of the historical data that you use. The further back in time you go, the more difficult it becomes to maintain confidence in the data you are using. This is particularly applicable when you are using intraday tick data for back-testing strategies. We purchased our own tick database and are keeping it up-to-date from multi-bank feeds. A lot of programming was conducted by Adam Hartley of SnapDragon Systems, as well as in-house by Mihai Iuga, DynexCorp's head of systems development.

TA: Given the highly technical nature of your trading, do fundamentals play any part in your strategies?

PP: The short term nature of our trading is obviously suited to technical trading but we do pay attention to economic data releases such as non-farm payrolls or trade balance figures. Of course, we look at the markets only after the data is released in order to observe and potentially exploit the market's reaction. We don't get involved in anticipating the reaction to data releases because, in our opinion, these are completely random.

TA: What has been the performance of your funds in recent years?

PP: In 1998 we were the best currency fund on a risk-return basis, delivering almost 40% to investors. It is no secret that 2004 was a difficult year for most currency managers. This year has been very positive for us even though the major currency manager indices are down on the year. In our 26-year performance history we haven't suffered the crashes some big portfolio managers have gone through.

TA: What is your outlook for EUR/USD for 2006?

PP: Our outlook is very much the same as John Percival's: a lower euro against the dollar. John Percival called the euro top since late 2004 and early 2005 when most currency observer's views were set for it to go to 145 and above - a perfect example of contrary opinion at work! ■