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Panholzer Suggests Currency Inclusion in Portfolio

By Dave Lindorff | November 30, 2009 | Leads Database

In the world of investing, and especially in the volatile world of currency trading, there are plenty of stories about people who got it wrong. But **Peter Panholzer**, a veteran currency trader and fund manager who is a founding partner of the currency fund manager **DynexCorp**, saw something more than a sad story. He saw an investment strategy.

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Back in the mid-1990s, Panholzer said he noticed that a certain currency trader at a Chicago-based futures brokerage—he called him "Mr. X"—had a remarkable track record for failure.

"His trades were almost always wrong," said Panholzer.

Seeing this, Panholzer developed a currency program he called the Dynex Market Sentiment Strategy, which simply inversed whatever "Mr. X" did.

"We consistently used his entry price to go in the opposite direction," he said, "and used his stop-loss as our profit target." Eventually, "Mr. X" changed jobs, and started being right sometimes, so the strategy was terminated.

Today, Panholzer, who pioneered the idea of offering a fund for currency investors, in effect creating currencies as an asset class, has a new approach to earning returns in the currency markets, which is called the Dynex Dynamic Currency Alpha Investable Index strategy.

Basically, Panholzer said what he, his partner **Marlene Harrison**, and his team of five does is monitor the 70 or so most active traders on the Deutsche Bank currency platform, which handles about 20% of worldwide FX volume. He puts together between six and 12 of who he considers to be the most successful of those traders and has them handle DynexCorp's assets.

"It looks a bit like a fund of funds," he explained. "But our basket of traders can be changed daily, which you can't do with a fund of funds. With this strategy, we don't worry about which currencies to buy or sell. We only worry about the best traders. Studies have shown that you need six to get diversification, but out beyond 12, you don't reduce your risk very much by adding more."

The targeted return for this strategy is 4% per year on top of interest, but most clients use at least 100% leverage, so that they can make 8% per year. Over the past two years, he said Dynex has beaten the benchmark Barclays Global Index, by 10%. In 2008, while the equities markets were crashing, the strategy earned a tidy 3.81% unleveraged profit.

Most of DynexCorp's clients are private banks, along with some pension funds and family funds, Panholzer said.

Panholzer, has been a currency trader for over 30 years and said the current environment is a dramatic change from when he first got into the field.

"Now, we're looking at a wildly inflationary era ahead," he said. "What the U.S. government has done recently—the bank bailouts and all—is incredibly inflationary, and has made the U.S. dollar one of the weakest currencies. But the Euro is also weak because of all the credit that's been created in Europe."

Panholzer argues that currencies should be included in investment portfolios as an asset class for a number of reasons. Of course there is hedging against inflation, but that's only part of it.

"The currency market is the biggest market in the world," he said. "It's 10 times the size of the bond market, and is even bigger than the equities market. It's easy to get in and out of, and there are no trading limits."

Panholzer, who holds a masters degree from the **Technical University of Vienna**, started out as a currency trader at **ContiCommodity, a** subsidiary of **Continental Grain**, where he founded the Magna Currency Program, believed to be the first investment product to offer currency only as an asset class to investors. After a brief stint with **EF Hutton** in London, he founded DynexCorp in Geneva, Switzerland in 1988. The firm, which began managing currency portfolios for clients in 1990, currently has offices in Geneva, London and Toronto, with plans for an office in New York City.

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