MAR TRADING ADVISOR REVIEW

The program architect

Dynex designer's new fund has stellar launch

By Patricia Ward

DYNEXCORP LTD
c/o DynexCorp SA
8, rue de la Rôtisserie
CH-1204 Geneva, Switzerland
Tel: +41.22.317.8888
Fax: +41.22.317.8889
email: peter@dynexcorp.com

Vital Statistics

Assets under mgt	$125 million
Dynex Currency Strategy	$36.7 million
Tetra High Beta	$88.4 million

Minimum investment	
Dynex Currency Strategy	$500,000
Tetra High Beta	$100,000

Registration	(US clients via CFTC registered FCMs)
Fee structure	
Management fee	1.2–2.4%
Incentive fee	25.0%
Average commission	$90/$M
Ratios	
Avg margin-to-equity	4.0%
Annual comm-to-equity	N/A
Roundturns/$M/year	1,000
Auditor	
Deloitte & Touche	December 1998

Peter Panholzer

Architecture may not seem an ideal trading advisor background, but the honing of mathematical skills and creativity this induced in Peter Panholzer facilitated his designing the Dynex Currency Strategy program, launched eight years ago, and the brand new Tetra High Beta program.

"I changed from architecture to trading because of the more immediate, and therefore more just, financial rewards or punishments," says Panholzer, who finds that many program designers are both artistically and scientifically inclined. "Many good traders are also good chess players," he continues, indicating the need to apply logic to tactical trading moves.

He made such a move on June 10, when he started trading the new Professional Currency Fund. According to Panholzer, it was up 33.6% in its first 20 days of trading, beating the June results for the Zurich Fund/Pool Qualified Universe, which was up 5.8%.

Panholzer's Tetra High Beta program, was launched in March this year. THB, up 54.5% after its first four months of trading, is a higher leveraged version of the flagship Dynex currency program. THB's leverage is up to 10:1, compared with 2:1, on average, for Dynex.

Designer trading

Program design involves contrarian, statistical, mathematical and quantitative elements, says Panholzer. "I don't rely on chart patterns. Reading chart patterns for the purpose of predicting future developments is like reading tea leaves."

Panholzer trades dollar/yen and dollar/euro. The latter pair replaced dollar/Deutsche mark after the introduction of the euro, which he finds has enhanced liquidity.

About the apparent lack of diversity, he says: "Instead of diversifying by instrument, we diversify by time interval, with six time intervals: daily, four hourly, one hourly, half-hourly, 10 minutes and five minutes. Positions are held anywhere from two hours to 20 days, and average position length is one week."

With rules for all eventualities, Panholzer finds discretion superfluous. "We stick to the rules," he says. "We even have rules for the use of windfall profits."

Rules also set maximum risk per month. "If maximum risk is reached in any one month, then we cut out for the rest of the month," says Panholzer, who believes his risk rules have served him well.

He finds these rules have made him one of only a few alternative asset managers who have been in business for over 20 years without sustaining a major crash, and have resulted in his program's being well suited to equity protection, even in the most difficult market conditions.

Such conditions have prevailed until recently. From April 1999 through February 2002, Dynex sustained its maximum decline of 21.1%. Panholzer relates this decline to the kind of poor trading period he finds occurring in cycles about every decade. The current such cycle, he believes, is now drawing to a close.

"There has been a complacency about the stock market, and so eyes were turned away from the currency sector," he says. "The big hedge funds were very busy in the currency sector before 1999, and when they found better returns in the booming Nasdaq, they turned away from currencies, thereby taking away some of the power that drives the currency sector into strong moves. Just as participation accentuates the moves, a lack of participation does the opposite."

Panholzer finds all this led to an absence of the kind of volatility that his program exploits to advantage.

Changing conditions are now boosting returns, with the program up 6.6% in June. Dynex has a compound annualized return of 9.7%, which compares very favorably with the median of the Zurich currency subindex.

The program's best month occurred in November 1994, when it was up 11.9%. "This was driven by contrarian attitudes to market moves when we did the opposite of the crowd," says Panholzer.

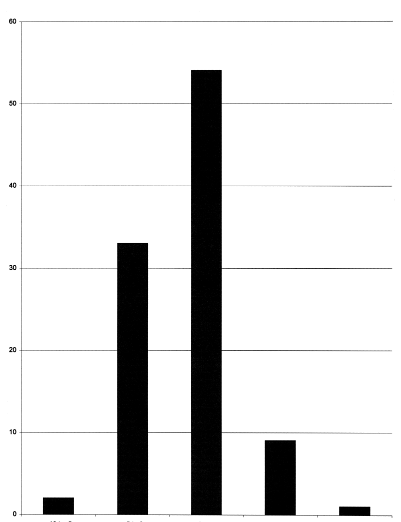
But even Dynex's best month trails results for its newer sibling, THB, up 19.5% in June. That is despite the fact that THB's first few June trading days were negative, but very strong gains were made after the fund started trading via THB on June 10. The delayed June trading start date resulted in results being even better than those of THB.

Assets under management have also had their ups and downs. Those in the Dynex program peaked at $52 million in the first quarter of 1999 and then declined steadily during the rest of that year, before rising and peaking again at $67 million in February this year.

After pointing out that big surges and declines stem from large clients joining and leaving the program, Panholzer explains that receipt of several large institutional mandates led to the latest peak. "We have a range of institutional and private European and Middle Eastern clients who are looking more to alternative investment."

Panholzer estimates capacity in terms of aggregate position sizes. He puts this at $1 billion, and stresses that Dynex uses more then one dealing platform.

Performance distribution



DynexCorp Ltd

PERFORMANCE HISTORY

March 1994–November 2002 (updated)

	Dynex Currency Strategy	Median of Zurich Currency Subindex	S&P
Return (%)			
Annual comp rate	10.24	(1.30)	12.53
1994 (10 mths)	22.66	(3.30)	0.71
1995	34.45	4.28	37.59
1996	(6.47)	9.25	22.96
1997	10.65	10.78	33.38
1998	40.38	0.89	28.57
1999	(9.38)	6.42	21.03
2000	6.52	6.52	(9.09)
2001	(9.27)	(0.44)	(11.88)
2002 (11 mths)	11.35	2.03	(6.50)
Risk (%)			
Annual std dev	12.52	13.28	15.32
Semideviation	7.14	10.06	9.81
Maximum decline	(21.10)	(18.65)	(30.49)
Return/Risk			
Sharpe Ratio	0.45	(1.00)	0.49
Comparison with MAR Currency Subindex			
R-Squared	0.00		
Alpha	0.82		
Beta	0.04		

As assets increase, Panholzer expects to recruit more staff for all areas of DynexCorp business. "We will look to recruit from bank trading desks because bank traders have been trained to achieve the best returns for the treasury," he says. "We require meticulous execution of all tasks performed by our staff."

Long apprenticeship

Panholzer has been in the money management business for more than 23 years. "I started out in 1973 in Toronto with Clayton & Co of St Louis as an account executive and later progressed to managing client money," says Panholzer.

In 1979, he initiated ContiCommodity's Magnum Currency program, which he believes was the first-ever currency program offered to the public. In 1984, he moved to EF Hutton, where he got into spot foreign exchange for the first time. A subsequent two-year stint at Refco was followed by his founding Panholzer Advisory Corp to manage currency futures in 1988.

Finally, after finding opportunities for round-the-clock trading frustratingly inadequate, Panholzer founded Dynex Corp in 1990, and set about developing and in March 1994 launching his Dynex trading program.

For Panholzer, the most important technology developments he has witnessed during his career have been the change from placing orders over the phone to via the Internet, and the chance to choose the most easily tradable platforms.

"Now we can deal with counterparties such as Deutsche Bank London, who offer liquidity windows and give us, for example, $30 million at the click of a mouse."

He finds that this straight through processing has brought increased liquidity, while reducing telephone communication and back office hand processing errors and as a result increased profits. ■