

# MAR

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# NuWave Investment Corp Infinite variety

### Publisher's note

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# Infinite variety

Trading multiple markets and time frames

By Marsha Zapson

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### Vital Statistics

Assets under mgt	\$35.3 million
Combined Portfolio	\$18.2 million
Electronic Futures Portfolio	\$ 2.1 million
Hedge fund	\$15.0 million
Minimum investment	\$1.0 million
Registration	CFTC, NFA
Fee structure	
Management	0%
Incentive	25%
Avg commissions	\$10.50
Ratios	
Combined Portfolio	
Median margin-to-equity	7%
Ann comm-to-equity	5%
Roundturns/\$M/yr	780
Electronic Futures Portfolio	
Median margin-to-equity	1%
Ann comm-to-equity	50%
Roundturns/\$M/yr	15,000
Auditor	Rothstein Kass & Co



**Troy Buckner, John Ryan**

NuWave Investment Corp offers model-driven programs that work equally well in equity and commodity markets. All of the firm's principals are experienced programmers, and research is paramount.

"I probably spend 70% of my time researching new strategies and improving existing ones," says Troy Buckner, a NuWave principal and founder.

"We're always on the edge, searching for something new. It's a function of the flexibility of our trading strategies. In that respect, we're different from many trading advisors because we offer multiple trading strategies, each of which trades effectively in multiple time frames, directionally or in market neutral applications."

### Morphing programs

Buckner and his partner John Ryan, who have worked closely together for the better part of a decade, began their team approach to trading at Hyman Beck & Co. They formed NuWave in February 2000, and launched the Combined Portfolio and the Electronic Futures Portfolio in 2001.

Buckner and Ryan also run a long/short hedge fund, which is not yet available to outside investors. They hope to offer it in about six months.

Once NuWave creates a trading program, its principals do not look to alter its personality dramatically from day to day or month to month. Yet they remain sensitive to market changes that warrant a moderate shift in focus. The firm's new programs are generally variations on a theme because their core concept is so malleable.

NuWave currently has two core strategies that are morphed and developed into other traded programs, such as the Alpha and the Pattern Recognition programs. Both strategies can and do trade equities and commodities from the tick level to holding periods of several months.

"Pattern Recognition is a free-form trading style in which history dictates the trades," says Buckner. "While you might say that about any model driven ap-

proach, we don't try to dictate the pattern."

The trading strategy assumes markets exhibit repetitive price action that can be identified historically. Fundamental factors (such as economic cycles, interest rates and the weather) and human factors (such as fear and greed) affect repetition.

Alpha, which exploits trending and nontrending behavior, is technical and systematic. Nearly 75% of its market exposure is derived from international stock, bond and currency markets; the remainder includes various commodity markets.

Neither program is available separately, although each was designed to stand alone. Both are currently blended in the Combined Portfolio, NuWave's marquis offering. NuWave tracks the performance of each program separately and runs them as discrete strategies, but clients see them blended in their individual accounts.

Both Alpha and Pattern Recognition trade the same 35 markets in the Combined Portfolio, but they do so in different time frames and with unique styles. Alpha, which is long term, has an average 100-day holding period, while Pattern Recognition's typical holding period is 25 days.

The two programs have been equally weighted in the Combined Portfolio. As of mid-May, NuWave will add a third program, Beta, with a nine-to-10-day holding period; it draws from both the Alpha and Pattern Recognition styles. And like its forerunners, it is designed to stand alone, but does not take investments directly.

Once Beta is added, the Combined Portfolio will equally weight all three strategies. Alpha and Pattern Recognition have a 0.3 correlation with each other, while Beta has an 0.1 correlation with the other two. "Beta's an attractive addition because it adds a lower correlation," says Buckner.

"But it's not so short term that we're in danger of running into liquidity problems, which might be the problem were we to trade it as quickly as our Electronic Futures Portfolio. Although shorter time frames generally produce smoother results, those trades are more difficult to execute. As a result, we developed an automated trading infrastructure to take advantage of these very short-term opportunities."

Harnessing this automated trading software, Electronic Futures averages a 10-minute holding period while using the Alpha core strategy executed down at the tick and minute levels. This is similar to day trading, doing 15,000 roundturns per million per annum. (In comparison, Combined Portfolio trades about 780 roundturns per million per annum, with a median margin-to-equity of 7%.)

Through March, the Combined Portfolio has a 10.8% compound annualized return, which is on a par with the median of the CISDM diversified subindex return of 11.9%. And it achieves those returns with much less volatility than the median.

The Electronic Futures Portfolio has a compound annualized return of 6.4% and a standard deviation of 4.0%, compared with the CISDM financial subindex median's return of 13.2% and standard deviation of 21.6%.

"If we could trade the Electronic Futures Portfolio large, we would, but we run into liquidity constraints," says

## NuWave Investment Corp

### PERFORMANCE HISTORY

June 2001– March 2003

	NuWave Combined Portfolio	Median of CISDM Diversified Subindex	S&P
<b>Return (%)</b>			
Annual comp rate	10.81	11.85	(17.99)
2001 (7 mths)	2.77	2.15	(7.85)
2002	9.92	18.11	(22.11)
2003 (3 mths)	6.86	0.81	(3.15)
April estimate	(1.58)		
<b>Risk (%)</b>			
Annual std dev	10.56	18.12	18.03
Semideviation	5.05	12.07	15.64
Maximum decline	(6.91)	(17.07)	(33.80)
<b>Return/Risk</b>			
Sharpe Ratio	0.81	0.46	(1.00)
<b>Comparison with CISDM Diversified Subindex</b>			
R-Squared	0.53		
Alpha	0.30		
Beta	0.77		

*Note: NuWave does not include interest income in its performance records.*

Buckner. "So, its growth is limited, and it is already closed to new investment."

That program currently trades only Nasdaq-100 and S&P 500 mini electronic futures and, Buckner points out, it benefits from NuWave's automated execution infrastructure.

Electronic Futures eschews human intervention (as does the long/short hedge fund), whereas the Combined Portfolio is systematic but requires that someone execute the trades. However,

none of NuWave's trading strategies have a discretionary overlay.

Stops are dynamically adjusted by the programs, and NuWave almost never overrides signals. "We use stops for all directional trading models," says Buckner.

"The Combined Portfolio has a stop for every trade, as does Electronic Futures. In the Combined Portfolio, where we trade longer time frames and an individual trader enters individual orders, we manage the stops manually, but they're computer dictated."

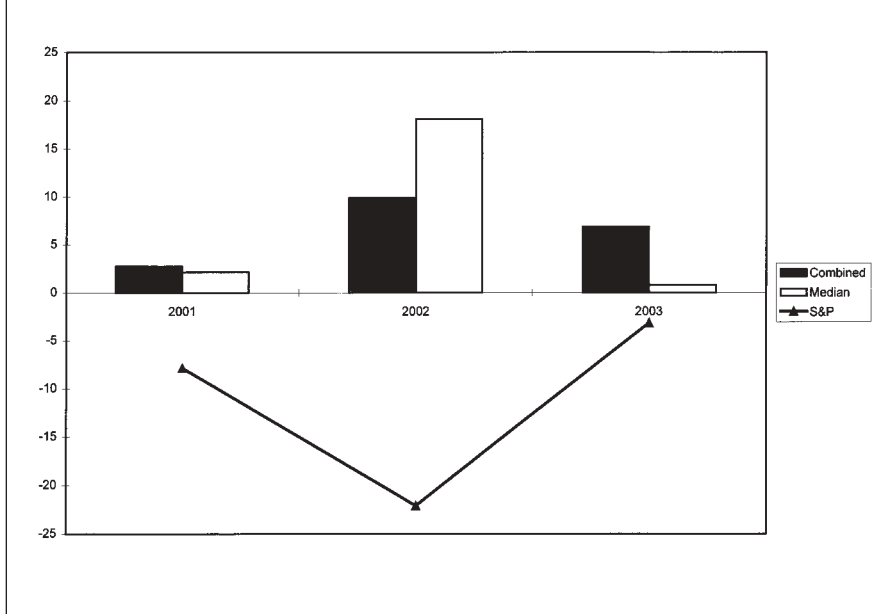
### Computer driven

NuWave has a strong back office, designed totally in-house. While many might consider that a major self-imposed hurdle for a startup trading advisor, all five of the firm's employees arrived with significant computer experience.

Today, NuWave has \$35 million under management and 12 clients in its three portfolios. "Historically, money came from large FCMs," he says. "Those clients are virtually nonexistent for us."

"Our investors are hedge funds, family offices and high-net-worth individuals. I think investors are realizing that managed futures offers low correlations to other investments, and they're finding groups like us who are keenly focused on risk-adjusted returns." ■

Combined vs median vs S&P





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