

John W. Henry:

Holding on to Dreams



Starting out as a “dirt farmer” in Arkansas, John W. Henry started trading commodities by hedging the family farm production – and a few years later, founded what is now one of the largest managed futures advisory firms in the world...and owns a baseball team to boot...

There are few in the financial markets who share the same humble beginnings as John W. Henry, chairman and founder of John W. Henry & Company, Inc., and few again who share his successes. Starting out as a “dirt farmer” in Arkansas, Henry started trading commodities by hedging the family farm production – and a few years later, founded what is now one of the largest managed futures advisory firms in the world – not to mention that he is principal owner of the Boston Red Sox and the famed Fenway Park.

Henry’s company, which he set up as a CTA in California in 1981, was an early pioneer in the concept of the managed futures product. Twenty-four years later, Henry’s company has enjoyed unprecedented success employing systematic trading models he designed himself. Although today he has a professional team of corporate officers managing the day to day operations of the firm, as chairman, Henry reviews and approves research and system development proposals prior to implementation in trading, and reviews and approves of decisions involving the strategic direction of the firm.

According to his vice president and senior strategist, Jules Staniewicz, JWH the company “invests as if the trend is never going to end, until the market tells us otherwise”. JWH the man says he takes this same approach to his outside interests (namely, baseball) and subscribes to a six-pronged philosophy that reaches across financial, personal and sporting boundaries:

- One must have a valid personal philosophy.
There is no Holy Grail [to trading].
- Discipline is more important than genius
- Persistence is more important than talent
- Performance is more important than capability
- Ability to create value is more important than ability or creativity in any realm
- Continue to look for ways, and to think about, how you can create value

With a view to the managed funds industry in particular, on the last point, Henry is passionate. “This industry does more to create value than people give us credit for – just look at portfolio theory and the effect managed futures have on portfolios. We create tremendous value in this industry, but you don’t get a lot of credit for it. We are all charged with getting that word out,” he says.

“I’ve been in this business for 24 years and people still say it’s Black Box or that it’s too volatile,” says Henry. “As an organisation, we have to do a lot more to sing the song that should be sung about this particular industry. It has

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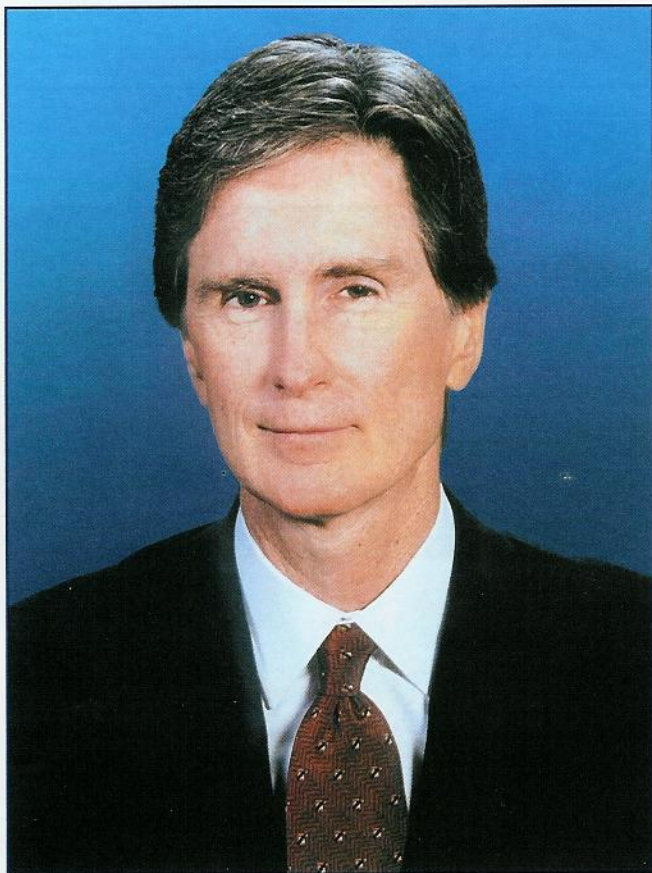
been over 20 years and we still aren’t respected much more than we were in January 1982.”

SOMETHING RESPECTABLE

To this end, Henry feels the currency markets have served the company well (JWH trades cash forward currencies, and futures in all other markets it trades), and says he expects to increase the percentage allocated to currencies. “I always thought we would end up building the currency business to a point where half our business was in currencies – and I think that will happen. It’s viewed as okay to be a currency trader – less so, a managed futures trader,” he says. “You almost become legitimised when you trade a currency fund – it’s seen as more appropriate than managed futures. I hope that at some point, people will think of us as currency managers, rather than just managed futures. I think we will reach the point where it feels like we are running two separate businesses.”

The firm is well on its way. JWH launched its first currency fund in 1986 and currently has about 41% of its roughly \$2.88 billion assets under management allocated to currencies (about \$1.2 billion). JWH operates four currency-only programs: the International Foreign Exchange Program (trading since August 1986, with returns of 13.81% since inception); the G-7 Currency Portfolio (trading since February 1991, with returns of 9.14% since inception); and the Dollar Program (trading since July 1996, with returns of 10.54% since inception). The firm launched a multiple style programme trading currencies, the Currency Strategic Allocation Program, in September 2000, which has returned 6.66% since inception.

JWH’s staunch trend-following approach to currency trading meant that 2004 was a difficult year for the firm. But trends



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being as they are, a bad year turned into a good one in the final quarter (not unlike 1987, when the fourth quarter turned out to be the firm's best ever – one which actually led Henry to consider taking early retirement). “Markets are peoples' expectations, and this manifests itself in trends. So we take a very long-term approach to currency trading,” says Henry.

The firm takes a diversified approach to currency trading. “We diversify as much as possible. We've never shied away from illiquid markets. We've found there is always someone willing to step in – and sometimes more so than in the liquids,” he says, adding, for example, that if China floats the renminbi, JWH will “absolutely” get in.

JWH has 11 investment programs. Depending on the programs selected, investors can potentially participate in over 70 markets, encompassing global interest rates, currencies, stock indices, energy, precious and base metals, grains and other agricultural commodities, emerging markets, as well as those of the major industrialised regions.

BUILDING AN INDUSTRY

During his career, Henry has been strongly committed to the concept of building an industry. While he reminisces over the early '80s when he told his wife “the gentlemen I work for are

superstars”, Henry says it was these “pioneers” that really inspired him to enter the market and try to help build an industry. “I have always been more interested in being part of the industry – helping to build a community – than to be a superstar,” he says.

In keeping with this belief, Henry has given back much to the industry, and continues to do so. He is a long-standing member of the Managed Funds Association, and has served on the Board of Directors of the Futures Industry Association, the National Association of Futures Trading Advisors, and the Managed Futures Trade Association, as well as served on the nominating committee of the National Futures Association. At JWH, he chairs the Investment Policy Committee and oversees trading program design and composition.

In 1987, following that great Q4 in which Henry says he considered retiring, he notes, “We made an extraordinary amount of money. I went to Hawaii and thought about what I wanted to do with the rest of my life. I came to two decisions: one was to stay involved in JWH – which has turned out to be an incredible ride for the last 18 years – and also, I decided it would be great to get involved in a sports team, so in 1989 I bought a triple-A team.”

By 1992, Henry bought into the Yankees and, focusing on another long-term trend, held onto the team for the next 12 years and saw his returns improve with each passing year – including, in 1996, the first World Championship win for the Yankees since 1978. He later took over the Florida Marlins, and in February 2002, along with former San Diego Padres owner Tom Werner, Henry became the principal owner of New England Sports Ventures, LLC, which owns the Boston Red Sox baseball team, New England Sports Network, and certain real estate, including Fenway Park. As such, he is president and CEO of the Red Sox – the \$700 million deal doubled the record price for a baseball team.

Henry lives in Boca Raton, Florida, and Boston, Massachusetts with his wife, and is...rather obviously...a keen follower of baseball. ■