



THE GLOBAL SOURCE FOR MANAGED FUTURES

Issue No. 299
January 2004

Reprint

Hawksbill Capital Management Steadying the ship

Learning from the mistakes of the past

By Elise Coroneos

Publisher's note

This article originally appeared in the January 2004 edition of MAR. It is in all respects identical to the original.

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Steadying the ship

Learning from the mistakes of the past

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Assets under mgt

Hawksbill Capital GL Diversified	\$37.3 million
Hawksbill Capital GL GDP Low Vol	\$2.1 million

Minimum investment

\$2.0 million

Registration

NFA, CFTC

Fee structure

Management fee	2.0%
Incentive fee	20.0%

Ratios (based on Global Diversified Program)

Avg margin-to-equity	15.9%
Ann comm-to-equity	2.6%
Avg Roundturns/\$M/year	3,500

Auditor

Deloitte Touche

First reviewed by MAR in 1990, Chicago-based Hawksbill Capital Management celebrated 15 years of trading public money in November 2003. Tom Shanks, who founded the firm in 1986 as Quicksilver Commodities, began trading in November 1988 before changing the firm's name to Hawksbill only a year later.

This was the first time Shanks had managed public money after having spent three years exclusively managing capital for Richard Dennis in the Turtle Program at C&D Commodities.

Despite experiencing both good and bad times, the firm's original Hawksbill Global Diversified Program has evolved to boast an annual return of more than 20% for each of the last four years. Such consistency, however, was not always a hallmark of the program, which has experienced outsized highs, like that of 252% in 1990, followed by a down year, such as a 29% loss in 1991.

The program's "evolutionary tweaks" along the way have produced a robustness that was not evident in the early 1990s, says Shanks. The tweaks include a gradual reduction in leverage, with the program currently using only a quarter the leverage it did a decade ago.

"We don't trade nearly as aggressively as we did in the early 1990s," says Shanks. "The markets simply got more difficult to trade and investors in the capital markets don't bear that kind of aggressiveness anymore."

Despite this more subtle approach to the markets, Shanks insists that the firm has recaptured some of the edge it had in the early years.

Another significant tweak has been the elimination of trading in stock indices, except in the case of the Nikkei. More specifically, despite some positive years, the program lost significant ground as a result of discretionary trading of stock indices.

"Discretionary trading of the stock

indices was a mistake," says Shanks, adding "we learn from our mistakes."

Although the firm's programs are primarily mechanical in their approach, a discretionary overlay is used for approximately 10% of their trading—but not on the Nikkei.

"I now feel very comfortable in saying that our discretionary trading is adding value," says Shanks. "I think there is some benefit to having traded these markets for 19 years and that experience can be capitalized on."

The firm began offering the Legacy Futures Fund to investors in December 1990. The fund, which trades in an identical fashion to the original Global Diversified Program, can take minimum investments of as little as \$50,000.

This was followed by the launch of Hawksbill's GDP Low Vol program in October 2000. This program, which takes positions approximately 50% smaller than those of the original program, is specifically geared toward accommodating the fund-of-funds and institutional community.

The program currently has \$2 million under management, and a compound annualized return of 18.9%.

New system soon

Between the two programs, the firm trades more than 50 financial and commodity futures markets, using three trading systems. The primary difference between each system is the timeframe utilized.

The first one uses a long-term approach with a holding period of about eight weeks; the second is an intermediate-term system with a holding period of four weeks; and the third is a short-term program with a holding period of about two weeks.

The long-term system, which originally employed a breakout approach, now uses momentum and volatility to confirm signals. The intermediate-term

system uses pattern recognition, break-out and momentum components to identify trends.

Both of these systems trade about 60–70% of the markets traded by the firm as a whole. The short-term system trades 80–90% of the markets.

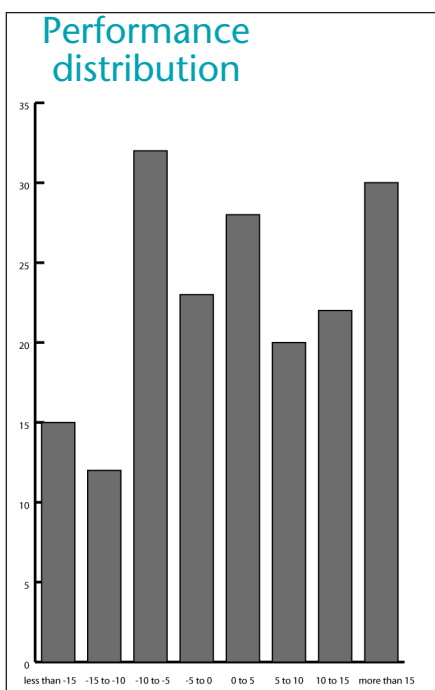
“Assets are committed roughly equally to each system, but we do lean a little harder on the long-term end,” says Shanks. “The long-term positions have been a little larger than the short-term and intermediate-term positions for quite some time.”

The essential backbone of each system has not changed in the last four years, he says. “They are designed to promote diversification in as many aspects as possible, and each initiates and liquidates positions at inconspicuous places.”

The first quarter of 2004 will see the introduction of a fourth system. Although its parameters are not set in stone, it will be longer term than the existing long-term system, with a holding period of at least 16 weeks.

“This new system is a result of constant research,” says Shanks. “We’ve found something that is stronger and far more robust than anything I’ve ever seen before.”

The robustness of this fourth system will facilitate its use across the entire spectrum of markets Hawksbill trades.



Hawksbill Capital Management

PERFORMANCE HISTORY

November 1988 – November 2003

	Hawksbill Capital GL Diversified	Hawksbill Capital GL Div Half Lev	Median of Diversified Subindex
Return(%)			
Annual comp rate	27.03	18.88	6.75
1988 (2 mths)	12.05	N/A	0.52
1989	56.45	N/A	(1.16)
1990	252.41	N/A	19.80
1991	(29.92)	N/A	11.35
1992	17.24	N/A	(6.01)
1993	114.26	N/A	22.13
1994	11.48	N/A	5.28
1995	(7.86)	N/A	15.05
1996	(27.10)	N/A	12.72
1997	73.51	N/A	7.09
1998	43.72	N/A	11.61
1999	(24.55)	N/A	6.50
2000	24.68	21.14 (3 mths)	8.07
2001	22.76	9.62	6.04
2002	36.37	19.69	12.38
2003 (11 mths)	15.39	8.79	9.34
Risk (%)			
Annual std dev	55.83	18.99	23.49
Semideviation	27.20	9.77	14.35
Maximum decline	(61.78)	(13.11)	(25.81)
Return/Risk			
Sharpe Ratio	0.41	0.77	0.10
Comparison with CISDM Diversified Subindex			
R-Squared	0.49	0.58	
Alpha	0.68	0.16	
Beta	3.27	1.45	

What's ahead?

While the volatility embedded in the firm's Global Diversified Program has traditionally been sought only by high-net-worth individuals, it is now finding an audience among the institutional crowd, says Shanks. “There are segments of the investor market that are geared towards the return profiles of both the Global Diversified and Low Vol funds,” he says.

As such, Shanks believes both programs could add significant assets during 2004. Capital is raised via the firm's relationship with Gale Investment Services, which also represents two other trading advisors.

“We want sophisticated investors who understand that drawdowns are part of the game,” says Shanks.

As an example of the mutual benefits to be had by long-term relationships between the firm and its clients, Shanks

cites the first client of the Global Diversified program who invested \$300,000 in 1988. Despite redemptions of more than \$1 million, this client's account has grown, without further additions, to over \$18 million.

Like the rest of the trend-following universe, the Hawksbill programs perform best in an environment of macroeconomic dislocations and price shifts, says Shanks.

“In the late 1990s, when all the markets were going in one direction, we knew at some point the stability that fostered would change, and we have been able to capitalize on that change in the last four years,” he says.

And those conditions still remain. You can see it in the fall of the dollar and the ramifications of that are at least continued uncertainty, says Shanks, who believes it is a great time to be in managed futures.



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