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COMMENT

August 7, 1998

Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D. C. 20581

Via Fax 202-418-5521

Re: Performance Data and Disclosure for Commodity Trading Advisors and Commodity Pools

Dear Ms. Webb and the Commodity Futures Trading Commission:

Following is a response to the request for comments on the NFA proposals.

Background

I have been a Commodity Trading Advisor and Commodity Pool Operator since 1972. In the 80's I was a retail futures broker for a major FCM. Currently I am doing business as Muirlands Capital Management, LLC. Over the years, I have seen the managed futures business grow exponentially.

Over this time there has always been difficulty calculating and comparing performance. I feel that the basic problem is that results are calculated by and for accountants and performance comparisons must be done by statisticians. With that said, the following comments relate to the NFA proposals.

A. Disclosure of Risk Profile Data ...

Partially funded accounts unquestionably have more risk and greater volatility than fully funded accounts. But to make an arithmetic extrapolation of drawdown or profit data is inaccurate and misleading. For instance, a fully funded account with a 30% drawdown would not mean that a 25% funded account would have a 120% drawdown. This would only occur if the entire drawdown happened before the account was reduced in size to reflect the losses. With daily or even monthly rebalancing of a portfolio to lower levels, the higher leveraged account would decay towards zero faster than the fully funded account, but would not reach zero. See the following table which reflects declines in 5% increments.

		COMPOUNDED			
ARITHMETIC	FULLY	2X	2.5X	3X	4X
LOSSES	FUNDED	LEVERAGE	LEVERAGE	LEVERAGE	LEVERAGE
0%	0%	0%	0%	0%	0%
-5%	-5%	-10%	-13%	-15%	-20%
-10%	-10%	-19%	-23%	-28%	-36%
-15%	-14%	-27%	-33%	-39%	-49%
-20%	-19%	-34%	-41%	-48%	-59%
-25%	-23%	-41%	-49%	-56%	-67%
-30%	-26%	-47%	-55%	-62%	-74%
-35%	-30%	-52%	-61%	-68%	-79%
-40%	-34%	-57%	-66%	-73%	-83%
-45%	-37%	-61%	-70%	-77%	-87%
-50%	-40%	-65%	-74%	-80%	-89%

In this case, a 30% arithmetic drawdown results in a 74% drawdown for a 25% funded account, clearly different from the 120% figure used in past tables and discussions. The above table is based on assumptions of 5% incremental drawdowns, but is far closer to real performance than tables used previously.

B. Presentation of Data Concerning Estimated Margin Ratios

Margin requirements are set by the exchanges for the benefit of their members. They have only a general relationship to risk. Two portfolios with the same margin requirements may have very different levels of risk.

The overall problem with this whole subject is that "fully funded" accounts are not fully funded, or even close to fully funded because of margin leverage. Margins vary widely as a percentage of total asset value. And how do you fully fund a short position.

However, this proposal is easy to comply with and may be a warning of the degree of leverage to the unsophisticated investor.

C. Providing the CTA/Client Agreement to the FCM

Each FCM has its own requirements for documents for customer accounts. Why not let the FCM decide whether it wants this information.

D. Presentation of Risk Profile Data on Commodity Pools

This is all too hypothetical to have any meaning or practical use. Only actual trading results of the fund with the given CTA components has any value.

E. Theoretical Soundness of the Basis of Computation .....

The fully funded subset requirement is difficult to maintain, especially for a small or startup CTA. Perhaps the terminology should be "normal" or "standard" account size. Then overleveraged or underleveraged accounts could be adjusted to this standard, as determined by the CTA.

It will never be possible to compare performance of CTAs directly. Variances in leverage, management fees, incentive fees, interest income, loss carryforwards, etc. make even results of two accounts with the same CTA vary considerably. Perhaps a different approach should be considered.

Trading ability is really based on net trading profits divided by the minimum amount of capital required for the trading account. This percentage related to the standard deviation (or even better semi-deviation of the losses) is the most important statistical indicator. Other factors such as leverage, fees, and interest income are negotiable or out of the control of the CTA.

F. Changes in the Presentation of Historical Data

Historical performance data is maintained in a computer data base, so presenting more data should not be a big problem. The question here should be about the investor's ability to analyze the data.

G. Keeping Clients Regularly Informed .....

This seems like information the client should want and expect to receive. However, this should be for the client and the CTA to determine.

Conclusion

There are many statistical services available to analyze data reported by the CTAs. As long as we all report accounting data in the same format, clients should be able to make intelligent investment decisions based on competent statistical analysis.

For elaboration on these comments I can be reached at 619-454-0067, faxed at 619-454-6432 or e-mailed at muirland@ix.netcom.com.

Sincerely,

Dale W. Miller
President