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CAPITAL MANAGEMENT, INC.

OFFICE OF THE SECRETARIAT

September 11, 1998

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

SEP 14 1 39 PM '98
 COMMODITY FUTURES
 TRADING COMMISSION
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Re: Performance Data and Disclosure for Commodity Trading Advisors and
 Commodity Pools; 63 Fed. Reg. 33297 (June 18, 1998)

Dear Ms. Webb:

We have made a thorough review of NFA's proposed changes to Compliance Rule 2-29(b)(5) and the creation of Compliance Rule 2-34. NFA appears to have a good grasp of the difficulties faced by CTAs who do not trade a single fully funded account. These CTAs are placed in the position of publishing accurate rates of returns in violation of current regulations or complying with those regulations and publishing misleading rates of return. We agree with the NFA proposal, as it stands, and take exception to the additional disclosures being considered by the Commission staff ("Staff"). We would like to specifically address several of the more wayward Staff proposals.

A. Disclosure of Risk Profile Data on CTA Programs For Clients Considering Participation on a Partially-Funded Basis.

The Staff's proposal to present drawdown data adjusted for various levels of notional funding would result in a "Rube Goldberg-like" presentation that would distract the public from relevant disclosures.

B. Presentation of Data Concerning Estimated Margin Ratios.

We believe that it would be informative to present an estimated range of a customer's equity, based on the nominal account size, which would be devoted to margin, as NFA has proposed. While we know of no study that would support the proposition that margin requirements are a reliable indicator of risk we think that common sense could lead one to conclude that a program which has a margin-to-equity ratio of fifty to sixty percent would probably be more risky than one with a margin-to-equity ratio of ten to twenty percent when comparing "like" trading programs (i.e. diversified vs. diversified or financial vs. financial).

We strongly disagree with the Staff's thoughts on requiring CTAs to commit to an absolute maximum percentage of customers' funds devoted to margin. Dunn Capital Management, Inc. ("DCM") could not adhere to a predetermined margin-to-equity ratio without violating its trading programs. DCM would have surely violated such a requirement in the

October crash of 1987 and in subsequent markets upheavals since then. We follow our trading programs and "weather out" unfriendly markets, inevitability making money for our clients. A rule that would require a CTA to violate an established trading program when market conditions caused an account's margin-to-equity ratio to exceed expected parameters, which will happen from time to time, is in direct conflict with one of the most basic tenets of technical trading, "Follow your program!" While we know that the Staff has the public's interest at heart it worries us that it is even contemplating such a requirement. This proposal suggests an acute lack of knowledge of basic fundamentals of the managed futures industry.

C. Presentation of Risk Profile Data on Commodity Pools

We believe that the Staff's proposal for "enhancing" pool risk disclosure would again result in a "Rube Goldberg-like" presentation that would distract the public from the most relevant disclosures.

D. Theoretical Soundness of the Basic of Computation and Presentation for ROR and Related Risk-Profile Data

We believe that the Commission's use of Generally Accepted Accounting Principles ("GAAP") solely in determining ROR has become obsolete in calculating rates of return for notionally funded accounts. The Commission appears to be more concerned with preserving the Staff's auditing procedures than it is in presenting the investing public with meaningful ROR information. The general public is misled when reading the RORs of a CTA who has adhered to current regulations and has no fully funded accounts. The fully-funded subset requirement should be dropped in its entirety. The fact that many CTAs may have difficulty in obtaining a fully-funded subset does indeed demonstrate a flaw in the regulatory methodology. In calculating ROR without fully funded accounts a CTA should use a duly documented beginning nominal account size.

Let's step out of the "Ivory Tower" and forget about being able to describe rates of return for accounts using notional funding in terms of economic and financial accounting theory and use a little common sense. If client A has a fully funded account valued at \$1 million and Client B has a partially funded account, also valued at \$1 million, and the accounts start trading at the same time, have the same commission and incentive fee structure, and receive identical fills for a given period, the rates of returns for the two accounts should be exactly the same, period!

Conclusion

While the Commission is charged with protecting the public from unscrupulous CTAs we believe that the Staff's zeal in fulfilling its charge sometimes results in flawed disclosure proposals that would divert a reader of a disclosure document from truly relevant information. We urge the Commission to approve the NFA proposal as it stands.

Sincerely,



J. Allen Como
Vice President, Administration