COMMENT

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TUSCARORA CAPITAL MANAGEMENT, L.L.C.

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September 16, 1999

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Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
3 Lafayette Centre, 1155 21st St., NW
Washington, DC 20581

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Reference: "Performance Data and Disclosure of Commodity Trading Advisors"

Dear Ms. Webb:

We are a relatively new Commodity Trading Advisor (CTA) and we are writing to support the adoption of the proposed rules on computation and presentation of rates of return information and other disclosures for partially-funded accounts.

As an emerging CTA, partially funded accounts are the easiest avenue to obtain vitally needed customer funds as we develop a track record. Partially funded accounts also make economic sense in that they represent a more efficient use of capital by investors. The proposed rule changes allow a CTA to provide a more realistic presentation of performance, which should make business simpler for new CTAs. Hence, we support the adoption of the proposes changes.

The Commission has solicited comments on several portions of the proposed rules. We would like to take this opportunity to contribute the following points to the discussion.

We appreciate the need for disclosure of past draw-down data. However, such information may no longer be relevant because the CTA may have changed the trading methodology and leverage used over time. For example, a drawdown that occurred when the CTA was using higher levels of leverage (for a fully-funded account) is no long relevant to assessing the risks implied by the current level of leverage used by the CTA for a fully-funded account. Substantial changes in the markets traded by the CTA as well as the liquidity in those markets further cloud interpretation of past drawdown data. Further, the drawdowns experienced by any one account are influenced by timing factors such as precisely when the account of opened and closed. We feel a better method of assessing current and future risks is to use the standard deviation of monthly returns (calculated over the most recent 36 months) for the following reasons.

We analyzed the actual track records of 118 CTAs ranging in length from 3 to 10 or more years and found that the largest peak-to-valley drawdown was typically less than 3~4 times the standard deviation of monthly returns. We published these results in the September, 1998 issue of *The MFA Reporter* from the Managed Funds Association as well as the Spring ,1999 issue of the *Derivatives Quarterly* (published by Instituitional Investor, Inc.). The implication for the investor is as follows:

$$\text{Estimated Peak-to-Valley Drawdown (PVDD)} = - \frac{3 * \text{Standard Deviation of Monthly Returns } (\sigma)}{\text{Actual Funding Level (F)}}$$

where the standard deviation of monthly composite returns is in percent, and the actual funding level is in percent and the estimated Peak-to-Valley Drawdown is also in percent.

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Here is a simple numerical example. Say the standard deviation of monthly returns is 5% and the actual funding level is 50%, then the estimated peak to valley drawdown PVDD = - (3*.05)/(0.5) = -0.30 or -30%. If the account were fully funded, then F = 1 and PVDD = -(3*.05)/(1) = -0 .15 or -15%.

For instance, using the Monthly Rates of Return from Appendix A of the proposed rules, we find that the 36-month standard deviation of monthly returns was 12.44%. Using the above formula for a fully funded account, we estimated the peak-to-valley drawdown risk PVDD = -(3*.1244)/1 = -0.3732 or -37% approximately. Thus, the equation provides a reasonable approximation to the actual worst peak-to-valley drawdown of -34% reported in the Performance Capsule of Appendix A.

For example, using the suggested format of the Performance Capsule, an investor can deduce the size of the fully funded account (=Aggregate nominal account sizes in program / Current number of accounts in the program). For the data in the Performance Capsule, the fully-funded account size (FFAS) was $1,258,054. The potential peak-to-valley drawdown at this FFAS was estimated to be -37%. The investor can now decide the level of funding for this program, based on their ability to tolerate a 37% drawdown.

It is important to note that this is the estimated *future* peak-to-valley draw-down risk. It does not however mean that this level of PVDD will never be exceeded. We feel that this equation provides a more realistic assessment of risk for CTA and investor alike. Hence, we strongly support the presentation of monthly standard deviation of the composite returns as a measure of risk in the Performance Capsule. The computation of the monthly standard deviation should not impose an undue burden on CTAs.

We generally support the use of a bar graph to communicate the monthly rates of return. However, since the scale of the Y-axis (monthly returns in percent) is not specified, the appearance of the graph can be manipulated to make the bars "large" or "small", thus manipulating the visual impression of the track record.

We recommend that the CTA calculate the standard deviation of monthly returns (σ) over the most recent 36 months, and use a scale ranging from $-4*\sigma$ to $+ 4*\sigma$, rounded up to the nearest 5. In the case of the data in Appendix A of the proposed rules, $\sigma = 12.44\%$, hence $4*\sigma = 49.76$ or 50% when rounded up to the nearest 5. Hence, the scale would go from -50% to 50%. One advantage of this approach is that the lower part of the graph would be an upper bound on expected peak-to-valley drawdown for a fully funded account in the program.

We support the inclusion of interest in calculating CTA performance. Even though the FCM may determine how the cash is invested, it is the trading strategy of the CTA that influences the amount of cash available for the FCM to invest. Note that it may not be possible to provide "the same" numerical returns to each and every account of a CTA. For example, variations in fees can have substantially greater influence on differences among accounts than differences in interest earned. Further, in some instances, the CTA may have little or no control on the executions provided by the brokers specified by the client, providing another source of variation in the performance among accounts managed by the CTA.

We want to thank the Commission for the opportunity to comment on the proposed rules.

Sincerely,

Tushar Chande

Tushar Chande, Ph.D.
Member