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CAPITAL MANAGEMENT, INC.

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September 30, 1999

COMMENT

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

Re: Performance Data and Disclosure for Commodity Trading Advisors and Commodity Pools; 64 Fed. Reg. 41843 (August 2, 1999)

Dear Ms. Webb:

Dunn Capital Management, Inc. is a Commodity Trading Advisor ("CTA") and Commodity Pool Operator ("CPO") that has been registered with the Commodity Futures Trading Commission ("Commission") since 1976. We have made a thorough review of the Commission's proposed rule changes as stated in the Federal Register. We are very much in favor of the basic tenet of the proposed changes: a CTA's rate of return ("ROR") is tied to the amount of money it has been asked to manage, not the amount of actual funds deposited at an Futures Commission Merchant ("FCM"). However, we are concerned with some of the additional rules changes that have been proposed and we would like to explain why in the following comments.

A. Interest Earned on Actual Funds.

In our experience interest plays an insignificant role in a commodity account's overall performance. Some of the accounts we manage earn interest, others do not. We do not see a need to change the rules governing the inclusion or exclusions of interest in determining RORs.

B. Disclosure of Actual Funding Levels and Funds Under Management.

We don't agree with the proposal to limit a CTA's calculation of funds under management to cash. CTAs should disclose the amount of nominal (cash plus notional) funds under management. In today's funding environment most customers keep only enough cash at an FCM to cover margin. CTA clients fund their accounts in this matter because they want to avoid losing all of their funds committed to a program if an FCM suffers a financial meltdown and becomes insolvent; also clients can usually obtain better returns on their cash in excess of margin than an FCM will pay.

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C. Disclosure Concerning Drawdowns

To include additional drawdown tables based on actual, composite or theoretical notional funding levels, as the Commission is proposing, would be counterproductive to the industry's attempts to simplify disclosure documents so potential investors will take the time to focus on the important disclosures. Investors with any financial acumen know that a partially funded account will experience greater drawdowns, based on invested cash, than a fully funded account. We also think drawdown data should be presented only for the period covered by the performance capsule, which is the current year plus the previous five years. CTA trading strategies are revised and/or re-designed over the years, drawdowns that occurred 10, 15 and 20 years ago are irrelevant and CTA's with longer track records are penalized relative to newer CTA's simply by virtue of the fact that older CTA's have had more chronological opportunities for a drawdown. The rather large and bold boilerplate disclosures required at the beginning of every disclosure document should dissuade investors from thinking an investment in futures is not risky even if a particular program has not had large drawdowns during the previous five years.

D. Disclosure Concerning Range of Rates of Return

Disclosing the range of RORs for closed accounts of an offered program would not provide useful information to prospective clients. The range of the ROR of a CTA's closed accounts is irrelevant in judging a CTA's trading because a closed account's ROR is too dependant upon the actions of the investor. An investor can materially affect an account's ROR by the timing of additions and withdrawals. We have closed losing accounts that would have been profitable over the life of their account had the investor not added funds when their account was at a new high and withdrawn funds when their account was at a low. In these cases accounts experienced a real dollar loss but a positive ROR. We believe the performance and drawdown information provided by the current performance capsule is sufficient.

E. Disclosure of Monthly Performance

The presentation of a program's performance capsule in bar graph format, in addition to the current numeric tabular table format, would not place any additional burden on us. However, it would place an increased burden on potential investors who have to pick their way through redundant presentations in an increasingly lengthy disclosure document. An investor, if given a tabular numeric presentation and a bar graph presentation of a program's performance, would probably concentrate more on the bar graph. The numeric tabular format of the monthly performance capsule, while not as pretty as a bar graph, lays out the facts in a straightforward and unambiguous manner that is not easily manipulated. A bar graph can be manipulated by changing the increments of its *x* and *y* axis to minimize shortcomings of a system, such as large monthly losses or small monthly RORs. While a bar graph presentation of a program's performance might look nice we are not in favor of its inclusion in a disclosure document.

F. Commodity Pool Disclosure

We are not in favor of the Commission's proposal to require CPOs to add pro forma and hypothetical drawdown information to a pool's CTA(s) performance capsule(s) as a means of highlighting the use of leverage by a pool. However, we believe trading allocations in excess of the pool's NAV should be prominently disclosed and explained.

In general it appears that the Commission is attempting to write rules and regulations with the premise that the average investor in the futures industry lacks a high school education and has no basic financial acumen. We believe this mindset has and will result in lengthy disclosure documents increasingly full of redundant and obtuse disclosures that will hinder the majority of investors in discerning the truly relevant information about a CTA or CPO and their respective trading programs and pools. Unfortunately, those investors who have a poor educational background and weak financial skills will be taken advantage of by unscrupulous members of our profession no matter how many disclosures are made.

In conclusion, we agree with the Commission's decision to include notional funds when computing ROR. For the most part we do not agree with the remainder of the Commission's proposed rule changes, most of which were not included in the original "Concept Release" dated June 18, 1998. We recommend the Commission adopt the proposed rules changes dealing with the inclusion of notional funds in calculating RORs and remove the other proposed changes.

Sincerely,

J. Allen Como

J. Allen Como
Vice President, Administration