II Asks The Experts **Monday, October 24, 2005**

Achieving Alpha Through Zen

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Monarch Capital Investment, a commodities trading advisor led by CEO and Founder **Clarkson Jones**, has been making waves in the futures market with the development of its hybrid FX Multi-Strategy currency strategy. In its first year, Jones's program returned 164.17%, but then it reversed course and had a negative performance in 2004. Jones has since deleveraged the program to reduce volatility and is now hoping to appeal to institutional investors, which have been leery of the program's unpredictability. The advisor announced earlier this month that through its relationship with **Pinnacle Alternative Investments** it is now agressively pursuing institutional and high-net worth clients.

InstitutionalInvestor.com's **Kate McGregor** spoke with Jones about achieving Zen as a futures trader, being labeled cutting edge and achieving his goal of $500 million in assets under management.

InstitutionalInvestor.com: With this new announcement, does that mean you are shifting a focus from retail to institutional clients?

Clarkson Jones: It has always been available to both. Basically, what we're doing with

Pinnacle Alternative Investments is opening the market. I had some infrastructure challenges and management challenges to get under my belt before I made it available to a larger base.

II.com: What are your assets under management at this point and what is your goal going forward?

CJ: We have $4.8 million now. I think we're capable of taking this well in excess of $200 million. I think the cap is going to be $500 million.

II.com: I read recently that the success of your program—which in 2003 reported returns of 163%—scared off many institutional investors. Can you win them back?

CJ: A lot of institutions don't like volatility. Having the return of 163% in one year, although that's great, it was done with a small amount of assets under management, and investors see the potential for a drawdown of equal magnitude.

In June 2004, we took the program and retooled it to take the volatility out. We reduced the leverage by half.

What we're trying to do now is keep a strong return for the risk take-in but keep the drawdown manageable.

II.com: What are you seeking in the way of returns?

CJ: We are going to be pleased with 20%... This year, we've already reached that; we're at 29% year-to-date right now. If we can make 20% going forward that is great. We're trying to keep drawdown to 7%; but nothing is certain. We embrace that uncertainty in a strategy, though. That's how we make money.

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II.com: How would you describe your approach?

CJ: People are telling me it's cutting edge; that's nice. I like to know we're different.

We are pretty unique. It is a systematic program that is intuitively manipulated; you need a methodical approach but there's an art to applying that method. That's what I've created with the FX multi-strategy, which is six different systems employed across variant time frames, across the different currency markets and then using my intuition and discretion in the direct application of those systems... It is unique in the sense that I'm mixing a systematic method with an intuitive decision-process, and that's what makes it a hybrid.

A lot of traders are systematic, black box or discretionary. There are two problems with being discretionary: one is bias, the other is variance. It leaves a negative skew in statistics. With systematic traders, the market never fits the system perfectly every time. Over a period of time, it's great, but what I've learned to do is live in the moment. What people are appreciating are the returns they're making now. A systematic trader might make money for five years in a row, but that one drawdown year, it's not appreciated. I've learned that. That was our year last year [when FXMS returned -13.69% in 2004].

When it comes to trading, you have to be flexible, but when it comes to executing the market, you have to be very methodical and very disciplined. It's like yacht racing; it's like yoga; it's Zen. You have to be a blend of the two energies in order for it to work and that's what the FXMS is; it's a blend of two energies. And if I can achieve the proper balance between those two energies, I think we can make alpha.

II.com: What happened last year?

CJ: What happened last year was perfectly natural, because there is a reverse to the mean in any program, but after a 163% run, a 21% drawdown is nothing. What happened last year gave me a great opportunity to realize, "It's time to pull the plug, retool, and if we are going to take this thing to industry, listen to what these institutions are telling us, and pull the volatility out."

II.com: Are you fairly confident going forward that that is not going to happen again?

CJ: Anything can happen, but I'm fairly confident [that it will not happen at] that magnitude. I've got a tight set of risk controls in place.

Another advantage of our program is that it takes advantage of the 24-hour market. We're exposed to more opportunity for a given period of time.

II.com: What is your relationship with Refco at this point?

CJ: I'm not going to comment on that. I have full faith in the people that work at Refco.

II.com: Are you still working with them?

CJ: We are and we will going forward. We were able to stem any adverse affects from that situation. It affected the trading zero percent. We were able to protect the account and make sure there wasn't a problem. I have full faith in the people that worked at Refco, and it's a shame that what happened, happened at the top. We're not clearing all of our business there. We also work with **Man Financial** and with several banks. The majority of our work right now is at the bank level. We're just now starting the work with [Futures Commission Merchants].

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