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Acorn Seeks Deep End of Pool

Acorn Global Investments, an Oakville, Ontario-based hedge fund with \$24 million under management, trades in highly liquid markets spanning currencies, metals, agriculture, energies, equities and bonds.

MARKETS MEDIA QUERIED Jason Russell, CFA, president and chief investment officer of Acorn Global Investments, about how the fund's strategy operates in a vibrant and global futures market.

MM: How did you go about founding Acorn?

JR: I have always been interested in building and adapting processes and systems in business and more importantly, investing. In 2005, after about 14 years in the investment business at Bankers Trust, Merrill Lynch and CIBC, I decided to start my own firm. I quickly learned that it required a team effort. Shortly after completing all

of the necessary registrations, my lawyer was hired by one of the larger hedge fund firms in Canada. As it happened, this firm was very focused on resource-based equity strategies and was looking to diversify. My systematic global macro approach was completely different than theirs and thus, seemed to be a good fit. They brought me on board and my new firm sub-advised the newly created Macro fund. It was a great opportunity. My approach was so different that there was very little research or trading benefit in the relationship but it was very helpful to have the structural details of running a business taken care of.

For the next few years I built a strong track record with a compound rate of return in the high teens. However, the numbers put up by the other managers were often double or triple that. Then, the credit crisis of 2008

changed everything. The macro fund I ran, posted a +22% year in 2008 but the other managers ran into several large challenges. Obviously, the environment was not good for managers using leverage with small cap resource stocks in the portfolio. Significant losses in the other funds began to mount. Then, Lehman Brothers happened. Most of the other funds were Prime Brokered at Lehman and one morning, those funds were effectively gone. The firm began losing people and as the number and quality of people leaving increased, it became apparent to me that it was time to go. Fortunately, the fund I ran was safe. I had the opportunity to close the fund down and leave on good terms.

Then, Acorn as we now know it was founded. I found some outstanding partners to help with the business and the research/trading side. We raised funds in Canada within

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an entirely Canadian structure and have continued to add to our track record of success. It is very exciting to have an organization entirely dedicated to our systematic global macro approach. The only way to really do it right was to do it ourselves.

What was the original investment strategy and how has that evolved?

This general strategy has many different names: Managed Futures, Trend Following, CTA, Global Macro. All are often used interchangeably. I personally prefer "Systematic Global Macro," as my focus has always simply been on researching and executing systematic strategies that work on a wide variety of instruments. I would say that in the early days, there was a larger element of trend following but over the years, it has evolved in such a way that we have multiple strategies working on a wide variety of global markets including equities and futures. Our mandate is to produce the best risk-adjusted returns we possibly can by using systematic strategies in highly liquid markets. That has not changed.

Why do you focus on futures?

Liquidity. Futures deal with the real goods of the underlying economy. There are quite simply more reasons for transactions to happen when you are dealing with these real goods. If investors and traders seek liquidity and stop or reduce transactions, equity markets can grind to a near or complete halt. However, markets with other participants such as processors, importers, farmers and end users still need to transact in order to grow, move and use goods. This adds important liquidity and gives us comfort that we can more likely execute our strategies. We do invest in stocks but we currently only look at the S&P 500 constituents which are some of the most liquid stocks in the world.

Does the trend of exchange consolidation bode well for futures trading?

From a big-picture perspective, global futures markets are vibrant and thriving. This is good for global futures traders. Looking at things more closely, competition has been fierce and while a few years ago the talk was about all the new entrants, now the talk is about consolidation. The free market



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is doing what it should in allowing both to happen. I take comfort in knowing that if these consolidations create big, fat lazy exchanges, they will get their butts kicked by new upstarts. From my perspective, I can switch exchanges very, very easily. I am not alone and it is this fact that helps keep everyone on their toes.

Talk a little about the two research groups you founded — one that focuses on system development and the other on psychology.

Developing the systems for many things is often the easy part. Having the ability to stick with systems through the inevitable challenges that present themselves is where many people and organizations break down. I helped start a research group of systematic

traders from diverse backgrounds. We fully disclose our research and ideas to each other and it has created very strong research results. We all trade so it is a very practical and pragmatic group. We much prefer empirical proof to theory.

With regards to the psychology, that is a longer story than space will allow. Suffice it to say that good research and strong psychology are closely intertwined. If you do not do your research well, it will be difficult to stick with a system through adversity. If your psychology does not allow you to be open-minded and skeptical at the same time, chances are that your research will suffer.

Will the proposed TMX/LSE merger affect your business?

I do not think so. We trade a small number of TMX markets and as I mentioned earlier, if we do not like what we see then we can just stop trading any given market. The exchange business is challenging which is how it should be. I expect that if the merger goes through that it will be positive in the end.

What regulatory changes do you expect for Canadian financial markets this year?

From my perspective as a manager registered as a Portfolio Manager, Investment Fund Manager, Commodity Trading Manager and Exempt Market Dealer, I believe that we have just seen a fair amount of tuning with regards to regulations. In several ways, Canada is ahead of many jurisdictions. There is of course a push for one national regulator. However, the response to this push has been thoughtful which I think is actually a good way to act. I am not entirely convinced such a change would be for the better.

What is your outlook for the duration of 2011?

From a markets perspective, truly anything can happen. After all my years of managing money, all I know is that I do not know what is going to happen next. Observing 2011 as it unfolds and ensuring that our positions are in alignment with what is happening in the moment will get us further than predicting what is going to happen and hoping that we are right. 🍌