

FOCUS ON

# SYSTEMATIC TRADING

Alternative investment specialists Dr Guenther Dobrauz-Saldapenna of PwC and Nils Beitlich of Credit Suisse discuss the state of the financial markets, the value of systematic approaches, and what fund managers can learn from rock bands in order to perform in a challenging environment. They chatted with legendary heavy metal guitarist and noted political and economics thinker Jon Ryan Schaffer as part of their activities at the Swiss Strategies think tank.



## Dr. Guenther Dobrauz-Saldapenna

heads PwC Zurich's Asset Management R&C Services practice. Prior to this, he practised with Deloitte and as an attorney. He was also legal counsel to a VC/PE firm and to a hedge fund group. He holds a PhD in investment law, an MBA degree, and is co-founder of the Swiss Strategies Group.

It's been said that all one will ever need to know has been captured in rock songs. All jokes aside, there is actual evidence that in dire times people gravitate towards heavier music; hence, unsurprisingly, heavy metal music is today almost as popular as in its heydays back in the 80s. With this in mind, Dr Guenther Dobrauz-Saldapenna of PwC and Nils Beitlich of Credit Suisse asked Jon Ryan Schaffer of the legendary US heavy metal band Iced Earth for his two cents.

**Q** GUENTHER DOBRAUZ-SALDAPENNA (GDS): Listening to your band's latest output "Dystopia" and also to your solo project "Sons of Liberty", one gets the impression that you do not quite share the view that the worst of the financial crisis lies behind us. Where do you think we stand right now and where are things headed?

**A** JON RYAN SCHAFFER (JRS): I think we are on the precipice of complete economic disaster, actually. I think what happened in 2008 was a cakewalk compared to where all this is really headed.

**Q** NILS BEITLICH (NB): So I take it that you're not a big-time investor in equities and bonds these days. Where do you allocate then?

**A** JRS: Precious metals including gold, silver, palladium, and platinum, as well as guns, ammunition, storable food, water, fuel, and so forth. I have zero faith in paper, and almost none in the banking system. But some say I'm a crazy radical. Time will tell.

**Q** GDS: I've had the chance to watch concerts from your perspective on stage. Time and time again, it's awesome to see how all the people in the crowd morph into almost a single body as they sing along and move to the beat of the music. I think it's a perfect example of the typical human herd mentality, which basically means that people are influenced by their peers to adopt certain behaviours. This, of course, is the main

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cause of trends, which in turn provide the basis for many systematic trading strategies. Seeing as how you get to witness this phenomenon every time you go on stage, we assume that you have recognised the value of exploiting such tendencies while simultaneously eliminating the emotional factor – for example, fear and greed – by employing fully systematic trading approaches.

**A** JRS: Absolutely. There's no doubt that humans are tribal and herd-like. At a heavy metal concert, it's quite an enjoyable thing to see the human spirit unite and celebrate. But watching the human race on a bigger scale behave like a bunch of mindless sheep headed over the edge of a cliff is quite disturbing.

**Q** GDS: In my opinion, a great team should be structured like a band. The result is then potentially greater than the pure sum of the parts – everybody contributes, there has to be a shared vision and preferably no competence overlap and hence no redundancy. You've steered the vision of your band through 20 plus years in one of the most challenging industries. What would your generic piece of advice be to investment managers who wish to build a strong team based on your example?

**A** JRS: I get asked this kind of question very often, and not only by young aspiring musicians. I think if you apply a few basic rules, you can be successful in any business. Integrity, staying true to your vision and yourself is key. You need to be able to look in the mirror and know that you did your very best on any given task. I think if you can inspire those around you to keep up that level of integrity and focus, everything is possible.

**Q** NB: We believe that for the creation of something superior today – be it trading models or music – one first has to be absolutely passionate about it and meticulously work on the basics. Then, when applying it in the given market, take a step back, cancel out the emotions and focus solely on rational thinking, utilise the best technology and deploy as many safeguards



JON RYAN SCHAFFER [FRONT], GUENTHER DOBRAUZ-SALDAPENNA [BACK]; Photo by Fabian von Unwerth

as possible. Is this a concept you'd subscribe to and which you see transcending genres/businesses; and could it emerge as a methodology for success?

**A** **JRS:** Yes, this is a concept I would absolutely subscribe to. I think everything that has ever been successful has passionate individuals at the root of it. Again, it's definitely a time for integrity, passion, focus, and I believe those who move in this direction today will be around and successful once we weather this coming storm. It's time to seize the day!

**Q** **GDS:** Over the past several years, the music industry has undergone a fundamental change that has left practically no stone unturned. This is yet another parallel for investment managers who have to face the fact that no strategy, no edge, ever lasts forever. What happened in your world; how did you respond and what is your generic advice?

**A** **JRS:** Yes, we are in a huge time of change in the music industry, but I believe that means big opportunities for the artists from a financial standpoint. The old model is dying. The future lies in



**Nils Beitlich** is head of alternative investment research at Credit Suisse. Previously, he was a quantitative and qualitative research analyst with a leading hedge fund group focusing on systematic trading strategies. Nils holds an MSc degree and CAIA certification, and is co-founder of the Swiss Strategies Group.

the bands doing business directly with their fan bases, and I am certain the new model will see artists being in far more control of their careers and gaining much larger profit margins.

When we really began to notice the change in the music industry, our mission became multifaceted. One angle was to gather as much data as possible from our fan base so we could start a level of direct communication; another was to start pioneering markets in new territories and emerging markets around the world. We also started to build our presence in social networks so we have direct communication with our fans. It's no longer exclusively through the press and our publicist. The focus has been more on selling tickets and concert shirts than actual physical CDs, though we still do offer special editions at our merchandising booths.

It's a very exciting time for artists in the music business, but not so much for record companies and music retail stores – they're in pretty serious trouble. However, the artists who are on the cutting edge of embracing and moulding the new models for the music business of the future are in a prime position to soar to new heights. I assume the same should be true for pretty much all businesses, including fund management. ■