

The Interview - Alex Moisseev, Dighton Capital Management: “Last year saw many attractive trading opportunities, but we turned down nine out of 10 due to an unattractive risk/reward ratio”



Alex Moisseev (pictured), principal and chief investment officer of Dighton Capital Management, says the firm’s stable of managed futures funds are designed to perform in any market conditions, using a pattern recognition model and a strict selection process that produces a small number of high-quality trades.

GFM: What is the background to your company and funds?

AM: Dighton Capital Management is an alternative investment manager providing non-correlated alternative investment products to institutional and private investors. The company was established in 2003 and currently manages three funds, which are sub-funds of a Cayman segregated portfolio company.

Dighton currently offers two investment programmes based on managed futures strategies. The first is offered through Dighton Balanced and Dighton Aggressive Segregated Portfolio, while the second is the Dighton Dynamic Allocation MSP.

Dighton ASP was launched in 2003 and has more than USD230m in assets under management. Its principals are myself as manager and Andrey Korobov, and the strategy consists of discretionary managed futures with a global macro approach.

Dighton Balanced, a deleveraged version of Dighton ASP, was launched in 2009 and has some USD10m in assets. Dighton MSP with Dynamic Allocation was also launched in 2009 and has USD15m in assets. It invests in a family of CTAs with little performance correlation and diversified strategies.

GFM: Who are your key service providers?

AM: Our auditor is KPMG, our law firm is Campbells, the funds’ administrator is Caledonian Fund Services, and the prime broker is MF Global.

GFM: What is the profile of your client base?

AM: Dighton's assets come from asset managers, medium-size institutional investors and high net worth individuals. We are maintaining and growing our network of partners in order to meet the requirements of our target investor group.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

AM: Our strategy provides us with the ability to produce alpha in any market conditions. During the past seven years our Aggressive Portfolio delivered a return on investment of 40 per cent net of fees, while Dighton Balanced has delivered more than 16 per cent and Dighton MSP has averaged more than 20 per cent. The risk/reward ratio is weighted heavily in favour of reward.

GFM: What is your investment process?

AM: The manager employs a top-down approach based on fundamental and technical analysis. We reject nine out of 10 trading ideas and enter only high-conviction trades.

GFM: How do you generate ideas for your funds?

AM: We constantly monitor more than 50 markets, striving to recognise familiar patterns. When we recognise a pattern with potential, we start the analysis of the trading opportunity by implementing our proprietary framework.

GFM: What is your approach to managing risk?

AM: We rely not only on technical and fundamental analysis but recognition of patterns in the markets. The risk/reward ratio is constantly analysed not only before we enter the trade, but especially while we maintain the position. The trading plan with various scenarios and probabilities, incorporating stop-loss and additional entry and exit points for each trade, is constructed by the investment team and monitored and executed religiously.

GFM: How has your recent performance compared with your expectations and track record?

AM: Dighton ASP, Dighton Balanced and Dighton MSP delivered 36, 10 and 17 per cent respectively in 2010. While Dighton Balanced and Dighton MSP were in line with the expectations, the performance of Dighton ASP was slightly lower than our track record.

Last year presented many attractive trading opportunities, but nine out of 10 were turned down due to an unattractive risk/reward ratio, so we were 100 per cent in cash during a good portion of the year.

GFM: What opportunities are you looking at right now?

AM: We are looking at currencies and stock indices.

GFM: What events do you expect to see in your sector in the coming year?

Equities and bonds in the developed economies do not have a bright future. One only needs to look at the dramatic increases in interest rates at the long end of 30-year Treasuries to see that markets expect inflation to wash through the system at some stage. And while equities will see nominal earnings growth, much of that will be due to inflation.

There just won't be enough real economic growth. Quantitative easing is merely postponing the emergence of structural economic problems. It is hard to see the S&P 500 significantly breaching the 1,500 resistance level any time soon, and by the end of this year or early 2012 we fully expect its failure to do so will prompt a sell-off in US equities that will impact stock markets around the world.

Emerging market equities will suffer a knock-on effect from a major correction in the West but will

recover quickly, too. Their economies do not suffer from the blight of debt and they enjoy robust growth. But for investors, the real problem of emerging economies is their political instability, which can make the risk/reward trade-off unpalatable.

For long-only investors the best risk/reward trade-off can be achieved by owning commodities across the board. At Dighton, we believe the bull run in commodities is set to continue for another three to five years.

At present, all of Dighton's funds are slightly long the US dollar. This is not because we expect a major crash to happen imminently - indeed, we expect equities to enjoy a minor bull run this year - but because there is so much uncertainty in the markets that the risk/reward trade-off is too unattractive. Commodities will have a rocky ride and the bull run will end, most likely as a result of over-buying by investors. But until then there will be more opportunities in commodities than any other asset class.

GFM: How will these developments affect your own portfolio?

AM: The Dighton funds perform in any market conditions as long as we see volatility opportunities that fit our pattern recognition model.

GFM: How do you assess investors' current expectations?

AM: We are aware that investors have been disappointed by the performance of a broad range of investment products. There has been a sharp rise in demand for managed futures funds, which continue to show consistent non-correlated performance.

GFM: What differentiates you from other managers in your sector?

AM: We have a very strict selection process, which results in a small number of very high-quality trades; the proportion of winning trades exceeds 80 per cent. Trading on high conviction with a clear trading plan turns the risk/reward ratio in favour of reward, which has been proven during the past seven years.

GFM: How do you view the environment for fundraising over the coming 12 months?

AM: We are seeing a very strong demand for the funds, which offer both liquidity and absolute performance.

GFM: Do you have any firm plans for further product launches?

AM: A new product is currently under development. We expect to announce it and go to market later in 2011.

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