

FROM THE TURMOIL OF THE PAST FEW YEARS IN THE FINANCIAL MARKETS, NICHOLAS EDWARDS - THE FOUNDER AND CEO OF AN INNOVATIVE NEW HEDGE FUND MANAGER CALLED **ALTERNATIVE ASSET MANAGEMENT** - HAS APPARENTLY FOUND A NEW PATH TO PROFITS. IT'S BEEN A ROLLER COASTER RIDE FOR HIM BUT SUCCESS HAS SEEN EXPANSION THROUGH A MOVE TO NEW OFFICES IN TUNBRIDGE WELLS

WORDS  
RICHARD  
MOORE

# Alternative path to profits

**V**irtually everyone has been touched by the collapse of the global financial markets since early 2008 but Nicholas Edwards has been there before. As a director of Barings he knows all about disaster and recovery and in this our new *SO MONEY* section we find out about his journey.

Few words stir the emotions in the financial markets more than the name of Barings Bank, London's oldest merchant bank which collapsed in 1995 after trader Nick Leeson lost £827 million speculating on futures contracts. One man who saw it all unfold from the inside was Nicholas Edwards. He has seen many a collapse in confidence and markets and has learned from over three decades of experience.

We meet for coffee in his new, but modest offices along a cobbled lane off Tunbridge Wells High Street. It all seems a far cry from those dramatic days when scandal swept the corridors of Barings Bank where he was a director. The Hawkhurst farmer and father of four was one of many who lost fortunes in the ensuing days.

**But let's go back to the beginning... when did you first realise you were attracted to the world of finance?**

"I was fortunate to have a reasonably privileged background and always thought I would end up becoming a farmer. As a fourth child, unlikely to inherit any meaningful wealth, I began to explore what business would provide me with the earnings capacity to afford to buy my own farm. That's how my fascination with the world of finance began.

"From the age of 14 I read the Financial Times and had a strong desire to join the financial markets. My real interest lay with the mechanics of how money was made; how profits were generated and distributed from the profit centre and down through various channels and on to a bottom line from which the Government extracted their share in taxes in order to run the economy."

**Your first job in finance was when and where?**

"I wasn't the most hard working of academic students! Having started out as a chorister, I soon found greater interest in the world of sport and 'other' activities which led to an early departure from school.

"There was little prospect of a 15 year old entering the financial sector so I started in the retail furniture business. My break came at 18 when I was approached by the Bank of ►

Scotland and offered the chance to join the commercial finance division.

"The experience of working in a cut and thrust commercial financial environment enthralled me and I yearned for more. "The next big break came in the early 1980's when a next door neighbour in Fulham helped me to join one of the best known names in UK stock broking, James Capel & Co. He knew the CEO."

#### **What was it like in the business in those early days?**

"Incredibly fast moving, energetic and vibrant. I worked as a junior member of a 'desk' of four brokers. Demand for product and services was strong and there was little time to stand still. I found myself thrust into dealing with clients within a matter of months of joining the industry. I didn't mind the long hours and hectic working environment. It became a way of life."

#### **Eventually you ended up at Barings Bank.**

"I wrote to the head of a business division at Barings that I identified as of real interest to me. It took me some time to persuade him that we should have lunch but when my opportunity came to show how much I knew about the business I was fortunate there was indeed an opening for a new team member.

"I worked with a tremendous bunch of people and together we enjoyed an enviable position within our market. It's sad these things cannot last forever but business and life moves on; in our case the whole of the business was moved along courtesy of Mr Leeson."

#### **When did you first realise the bank was in trouble?**

"You will not find too many ex-Barings people enthusiastic to talk about the past. We all lost a significant proportion of our wealth, and many their pensions.

"I will just tease you with the notion that it was fairly obvious to one or two of the banks counterparties that things were not as they should be! Some of us were aware of the issues but perhaps at the time couldn't believe what was going on. "Sadly we were all let down by a series of unfortunate events. Realising that the bank was in trouble was devastating but factual. We all very quickly learnt to live with the drama of the situation."

#### **How did you feel?**

"When we found out things were really bad and the Bank of England were involved we became more united than ever and made strenuous efforts to try to keep the integrity of the individual business units intact.

"In the main, senior management were impressive and coped well under difficult and stressful circumstances. There are perhaps one or two, who shall remain nameless, who were simply unprepared to admit to any responsibility in the build up to the end.

"I have moved on with my life and business and so have most of my old colleagues and friends. The world is not a better place without Barings, just different."



#### **So, were did you go from there?**

"Post Barings and ING Barings I spent two years with Society Generale (Socgen) in London, as head of the Country Funds business. Most of my close colleagues and friends from Barings were with me.

"Socgen, though, had their own agenda and growing an emerging markets operation became less important to them, as did growing their Country Funds business.

"After two years with the French bank the decision was taken to scale back their operations and our business was cut.

"Fortunately I had built a strong contacts base and had many powerful friends who were keen to back me in a new investment banking venture.

"I created a newly authorised and regulated investment banking business with one of the largest privately owned banks in Austria and was joined by a number of my old team from Barings/Socgen.

"We opened our doors with 11 professionals and a bright future within a well capitalised new boutique broking firm. Within months it was obvious our majority partners were not able to share our thoughts on 'best practice' and I took the difficult decision to close the business and pull out.

"It took some years to come to the boil but the majority Austrian partner has since collapsed and the CEO is facing legal challenges of his own.

"It was an important lesson and encouraged me to start the building process for my next venture. I had ambitions to set up my own specialist hedge fund focusing on trading the world's largest financial markets using options and futures. However, some hands-on experience at the helm of a professional hedge fund manager was going to be pre-requisite.

"And so in 2002 I joined Charlemagne Capital and spent two years helping co-directors build the business into a successful ►

specialist manager, before departing to start my own hedge fund business, Alternative Asset Management Limited (A2ML).

"A2ML was set up in late 2004 to manage an emerging markets fund and then to build a suite of specialist funds. My ambition was to grow a successful business managing high performance trading funds.

"I focused on building relationships with only the 'best of breed' within the trading industry by running my own proprietary portfolio and using the Company as a prop-trading business.

"So successful was this approach that I had little time to build the business further until 2007, when I designed and structured the Alternative Vision Fund Limited (AVF) to achieve absolute returns for investors prepared to accept high risk in return for high rewards."

#### **And then, of course, along came the financial crisis.**

"No sooner had we launched AVF in January '08 than the first shock wave of the global financial meltdown hit the markets. One crisis led to another and the markets were as ever, unforgiving!

"AVF was not spared with our automated trading systems software failing to produce the historic returns we had enjoyed. By July 2008 we had to take the decision to stop using the automated trading systems and re-focus our attentions on the ever more reliable and more readily controllable manual discretionary trading methods

"I recognised there was a need for a radical shake up and substantial enhancement to the 'markets' approach to risk, and so I set about designing and structuring a suite of new funds based on existing tried and tested trading strategies using skilled traders with long term track records of achievement but with a dynamic new approach.

"After much research and testing I reached agreement with a small number of independent trading teams that they should try my new approach.

"I made it clear that my ideas would require the different teams of traders and managers to build a minimum

period of 'live' trading of physical assets in order to build a track record that was tangible and one that investors would take seriously.

"This testing went on throughout '08 and into '09 and has proven to be the most significant factor in taking us to where we are today."

#### **You managed to weather the storm then?**

"It is important to be realistic in these matters. Few entrepreneurs have managed to avoid losses and I'm no different. The key is to learn from the experience .

"There will be further turmoil in the markets and I expect difficult times within the next 12 to 15 months as the UK economy begins to feel the bite of the fiscal tightening. However, most market professionals will have put themselves in a better position to weather any future storm by taking risk off the table.

"My attitude to risk is that it must be recognised and clearly understood. If one can quantify risk it is considerably easier to deal with the consequences of taking risk through investment.

"I would argue that every form of investment carries risk and the trick is to carefully analyse that risk, understand and assess how the risk will affect you if things go wrong and make sure that you never expose yourself to potential losses of more than you can afford."

#### **How has the crisis changed people's approach to investments?**

"People are far more focused on risk. Three years ago a prospective investor would sit down and for 80% of the time analyse strategy, investment objectives, and potential returns with perhaps a 20% focus on risk.

"Today investors sit down and analyse risk for 80% of a meeting and spend perhaps only 20% exploring the potential returns opportunity. The world has changed, if not forever, certainly for the short term three to five years."

#### **Are there still real opportunities out there?**

"Yes, tremendous opportunity exists, indeed our focus is on capturing the ►

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opportunity to trade the markets for profit by exploiting volatility. Underlying market volatility has risen sharply post early 2008 and we look to exploit this opportunity for profit. "We have several traders who trade the markets both long and short - i.e. they buy with a view to selling at a higher price and sell ("short") with a view to buying back at a lower price.

"It follows that increased volatility in prices creates greater opportunity to trade the markets no matter the market direction. We have the ability to make profit when markets go down as well as up.

"We have put our own capital to work in various trading strategies to achieve a physical track record of results. Indeed in February 2009 we began trading a new strategy using dynamic new risk controls which have produced a remarkable increase in trading returns whilst demonstrating lower risk characteristics.

"We have grasped the opportunity to deliver incredible actual returns with very small monthly losses. For example our flagship 'Vision' strategy investing in financial futures on the German market (DAX) has experienced a maximum monthly loss of -4.02% for a total return of +257% net of all fees and charges since February 2009, and our most recently launched 'Trader' strategy investing in futures on the US market (S&P) has had no monthly losses with a net return of +60% since launch in April of this year.

*(Edwards is clear to emphasise that these are High Risk / High Returns investment vehicles and only suitable for experienced qualifying investors.)*

**Do people have to now take greater risks for reasonable returns?**

"It's very difficult for investors to find profit without taking risk. It is all about the level of risk they wish to take for the expected returns they seek. The relationship is linear; the greater the expected return the greater the risk taken.

"This is the science of trading. It's not a lottery or like betting, it is in fact a highly skilled profession.

"Naturally we expect to substantially reduce if not, where possible, eliminate losses. Our trading results show how this is possible but overall the concept of risk must be clearly understood."

**What's your read on both the short term and long term market trends?**

"The markets will remain fairly subdued over the next 12 months while we all try to second guess where the next economic and or financial calamity might come from. There are plenty of candidates including Hungary, Spain, Ireland and even some of the major economic powerhouses including the UK and USA.

"No one really knows how events will unfold but with sensible policy decisions it should be possible to avoid another meltdown. There are no guarantees and people would do well to understand the risks involved!

"On the positive side there are countries like Turkey which should enjoy fabulous economic growth and prosperity as we enter 2011. The same can be said of emerging markets like India, China, Brazil and Russia.

"So... both short and long term market trends will be both up and down. The trick is to be on the right side of the markets when they move - this is what we focus on!" SO



Nicholas Edwards is CEO of the Alternative Asset Management group of companies based in Tunbridge Wells.

The group provide training and trading services as well as specialist hedge fund management through Alternative Asset Management Limited ('A2ML'). The Company manages PIF products (Professional Investor Funds) and provides services to eligible investors only. It does not provide services to 'retail' investors. The Company does not hold client money.

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