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Interview Central: Robert Allen Christy

Robert Christy is a registered investment advisor and President/CEO of Christy Investment Group, Ltd. a private wealth management firm. He began his professional trading career in 1982 as a Retail Institutional Account Executive with a major Wall Street firm. After 7 years in this capacity, he left to join another firm in order to expand his study of technical analysis and the inter-relationships between supply and demand as it related to the stock and bond markets.

That study led to the creation of the Christy Investment Group in 1996 as a stand-alone money management firm.

Early in 2003, he formed a new company, Plato Advisors, LLC, which at this writing is currently being registered as a CTA (commodity trading advisor). This partnership will trade pools of investor capital and will combine the current Christy Investment Group portfolio structure with that of the new E-mini futures and option contracts. The new company will also serve as a Point & Figure technical consultant to hedge funds and other institutional accounts.

Mr. Christy is nationally recognized as an expert in the Point & Figure methodology. He has been featured in many financial publications, radio and financial television programs. He has also presented research and lectured on trading and investing at conferences across the United States. As a writer, he has published more than 40 articles on topics ranging from trading and investing to the world of sports.

Mr. Christy continues to manage money and trade proprietary accounts. He is currently putting together a speaking program that will be designed to aid investors on the topic of risk management and is developing a new web site that will post his trading activity real time online.

Bob received a degree in economics from Grove City College (PA) in 1978. Please enjoy the trading thoughts of this outstanding wealth manager.

YH: What is it exactly that you do?

RAC: I am the President and CEO of the Christy Investment Group and the Managing Partner of Plato Advisors, LLC both of which are portfolio management companies.

To be more exact, I run multi-cap long/short portfolios for high net worth investors. That sounds like a mouthful, but it's a very simple concept. Think of it as the best of a mutual fund and the best of a hedge fund.

If we break it down, it would look like this:

First, we're multi-cap. That means that we have no constraints whatsoever as to the size or the capitalization of the companies that we invest in.

Our taxable privately managed portfolios are also long/short. In other words, we can be either long or short in stocks or Exchange Traded Funds (ETF). It's structured this way so that we are not locked into a "long-only" mode like a mutual fund. Given the bear market that we've just endured, "long-only" accounts have been hazardous to your wealth. The ability to be able to make money in either up or down markets will become even more important in the future. The American adage has been to buy low and sell high – I want to introduce investors to the concept that you can do this in any order you prefer.

YH: I was looking through your brochure and was surprised that your overall strategy looks like a simple one.

RAC: This may sound funny, but it is. I've tried a lot of things over the years and the formula that we have today is one that works for us. I wanted to develop a system that was both nimble and one that could quantitatively evaluate an enormous information flow.

We're top down managers and our first step is to let the market tell us whether we are on offense or defense. I define offense as the "capital appreciation" mode and defense as "capital preservation" mode.

Step two is to evaluate the various sectors using our Relative Strength tools. Our goal is to have the portfolios invested in the strongest sectors and to avoid the weaker ones. Even though a rising tide lifts all boats, our studies show that sectors like seasons move in and out.

Step three is to run our database through a series of proprietary quantitative screens in order to select the most fundamentally sound names in the strongest sectors.

Once that is completed, we then turn to our Point & Figure charts (step four) to determine when to initiate the position.

Step five is to continuously monitor the portfolio using our proprietary state of the art risk management tools.

YH: Interesting. From what I'm hearing, it sounds as though you're using both fundamental and technical analysis. Is that right?

RAC: It is. In my 22 years in the industry, I've come to the conclusion that you need both to be successful. Using only one is like playing the piano with just one hand. The best music is played when you use both hands. Fundamental analysis tells us "what to buy" and technical analysis tells us "when".

YH: Let's back up a second - you mentioned earlier about Offense and Defense – could you explain what you mean by that to our readers?

RAC: It comes from my background in commodities. I've long believed that buy and hold was only half the answer. Before the most recent bear market, the universal maxim was to buy low and sell high. Shorting stocks, sectors or indices is selling high and buying low, was seen as almost un-American. In fact, only a handful of brokers that I know even incorporate such a concept into their business plans.

If the investing world has learned anything the past couple of years it's this: what goes up may in fact come down and in most cases, the fall is faster than the climb. And there is no reason whatsoever to ride a name such as Lucent from 70 to 10. Professionals use stop losses and other risk management techniques.

What makes us different is that we have a strategy for up markets as well as down markets because there is money to be made on the downside. When we're on Offense, we want our portfolios to be fully invested and invested in the strongest names in the strongest sectors. We want to avoid the weak sectors and pockets of extreme risk. This phase is our "capital accumulation" phase.

On the other side of the coin, we have Defense. In this mode, we want to have a high cash position and to be in defensive names. We also want to be able to sell short the most extended names in the most overextended sectors.

We use the concept of Bullish Percent to determine which team is on the field.

YH: Could you tell me a little about your back office?

We clear our trades through First Allied and Wells Fargo Investments (WFI), a non-bank subsidiary of Wells Fargo Bank. Clients receive a monthly brokerage account statement and a quarterly Profit/Loss Statement. Clients also appreciate the fact that we provide their tax preparers with a Year End Trade Summary.

YH: The market today is so big and there is so much information available. Where and how do you come up with your ideas?

That's a million dollar question. You are right about the information. Everybody now advertises un-biased research etc. You can get information on just about anything with a click of your mouse. I like to say that knowledge is sold separately.

After we complete steps 1 and 2, we create our fundamental database of names from a number of sources. The list is comprehensive because of who I am. I know that doesn't sound quite right, so let me explain.

I've been in the investment business since 1982. I've been with 3 large Wall Street firms and over the years, I developed a really extensive network of professionals. These range from people on the various exchange floors, to research departments, money management firms, and hedge funds.

Some of the best ideas come from clients simply hearing something. They'll relay it to me and I'll set out and get to the bottom of the information. Information is a commodity and we try and use it to avoid major surprises.

YH: How does a name get into your portfolio?

RAC: After the fundamental database has been compiled, we then run the database through our technical screening process. The names that are then selected are ranked 1-4 and a suitable entry price is assigned. Our goal is to get two points of upside for every one point of risk. Once the security is acted upon, the trade is monitored until it is complete.

YH: What is it about Risk Management that makes you different?

RAC: Two things. The first is tangible and that is our automated in-house stop loss system. I like to think of this as shark protection. The market is a fickle animal and inherent in that are things that we just can't control.

We use a rolling stop loss system that I developed three-five years ago. It's a synthesis of various indicators such as Relative Strength, Volume, and Option Volatility. The purpose of this is to alert us to a position that isn't acting quite right.

I wanted to have something in place to act as a governor on the portfolio. Once triggered, it gives us time to reassess a name or strategy if something isn't right. I need to be reassured that I'm not playing catch up with my emotions.

One of the biggest mistakes that investors make is that they become emotionally attached to each and every position. The stock doesn't know you own it and doesn't care. If it's a bad situation or one that could get dicey, I want out as soon as possible. It's a money thing not an ego thing.

The second thing that makes us different is intangible. It's my network, my sources, and my instincts. The intangible is hard to explain because it's something that has come about in the past 22 years. You can read and study until you're blue in the face. But how does a stock feel? Is it being weighed down by selling or propped up by buying. How do various institutional programs affect the name? Is the news expected or unexpected. The intangible comes from years of successful trading.

YH: Thanks, Bob for taking the time to discuss how you manage money. Bob is a master trader and money manager. I encourage you to read his work or hear him speak if you want to add his unique approach to your own accounts. Be sure to visit his website at www.christyinvestments.com or give him a call at 404-906-5443.