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Manager Interviews

Objective questions answered by this weeks featured fund manager

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Kenneth Sweet
Dover Management Group LLC

" We are primarily trend followers using our objective linear market models to simultaneously test across multiple markets while constantly adjusting position size to total equity risk. "

Geneva Opportunity Fund capitalizes on the power of advances in computer modeling using proprietary algorithms in our market models to identify superior performing investment choices. Because our investment decisions are made by our objective linear models, No emotion is involved in the investment decision making process. I believe, for us, that this gives better performance without the emotion involved in a subjective decision making process.



What is the name of your fund, and can you explain in layman's terms what your strategy seeks to accomplish for its investors?



The name of our fund is Geneva Opportunity Fund. Using objective linear market modeling, our strategy seeks to achieve positive returns in any given 12 month period. We are primarily a maximum total return fund. We use the S&P 500 as our benchmark and our target is to out perform the S&P 500 every quarter.



What motivated you to launch your fund in this ongoing turbulent market?



The market is always in transition from one phase to another. If you wait until it is clear that making money in the market is easy then you probably have missed the big move. In the past I have managed money as a securities broker and investment adviser. The idea of a hedge fund, where I was in a partnership with other investors and our interests were the same, has appealed to me for years. In 2001 I left the retail brokerage industry to help launch a direct access trading firm. The experience was very educational as I learned the pros and cons of new cutting edge technology. However, I quickly discovered that I missed the process

of building trading systems and watching money grow. The thing that I enjoy most professionally is managing money. When I made the decision to get back to managing money, I decided to launch a hedge fund for reasons such as · The manager and the partners have the same interest · More freedom and fewer restrictions in investment decisions allowing the manager to potentially get higher returns with less risk. The fact that we have been in a turbulent market works to our funds advantage. The trading models that I build are designed to out perform the markets in good markets and turbulent markets.



What unique experiences have you found very useful in running your fund, and how has your fund benefited from such experiences?



In my university days as a senior, I did a special assignment for the chairman of the economics department. The assignment was to study the relationship between fed interest rate policy and stock market performance. That year I also did an internship for Northwestern Financial Services where I ended up one of the top 10 interns in the Nation for Northwestern. A few years later I found myself doing venture capital and private placement work. In the mid 80's I spent a lot of time traveling between Asia and the United states. This really helped me broaden my understandings and get a global perspective on investments. When the first doss-based technical analyst programs started to emerge, I was quick to start writing systems and studies. Over the years I have written hundreds of trading systems as well as proprietary indicators. I discussed a few of these in my first book, "Light gains greater profits". I am a strong believer in objective logic based trading systems, where emotion is removed from the investment decisions. By the mid 90's I was the publisher of "The Sweet Forecast" a monthly investment newsletter, and founder of Classic Asset Management, an investment advisor. All of the above mentioned experiences have helped to give me a thorough understanding of the investment world that I bring to every day management of the fund.



As you know hedge fund investors are seeking for profits as well as preservation of their investment capital. What kind of risk controls do you have in place? How do you balance the risks?



First, all investment decisions are generated by our proprietary objective linear market models. This takes the emotion out of the investment decision making process. Using our proprietary algorithms, we apply several risk control strategies to our models throughout the entrance, holding, and exit phase of each position. A few examples are listed below. 1. Diversification · A: By style. Bellow is an example of recent style diversification for one of our models. · Small Cap: Value 29.09% · Micro Cap: Value 26.94% · Large Cap: Growth 17.48% · Micro Cap: Growth 7.02% · Small Cap: Blend 6.69% · Mid Cap: Growth 5.04% · Micro Cap: Blend 4.75% · Small Cap: Growth 3.00% · B: By Sector and industries. Bellow is an example of recent sector diversification for the above model. · Health Care: 28.19% · Industrials: 24.07% · Information Technology: 12.47% · Unclassified: 10.11% · Energy: 5.05% · Consumer Staples: 4.49% · Telecommunications: 4.45% · Financials: 2.77% 2. Monitor and control individual position risk. 3. Monitor and control total portfolio risk 4. Dynamic stops. 5. Position sizing. We have 4 primary market systems running concurrently. Each system is built on a different market theory. Each system has different holding periods from long term to short term.



Can you explain your investment process to potential investors?

✓ Sure, in a nut shell, I started by studying past markets and past successful investments. I look for identifiable factors in those successes. Once I developed a theory, I programmed that theory into a large computer and tested it for validity. If it passes our acceptability test, (I look for factors such as average 20 year return of over 30% per year, consistency of returns, draw downs, robustness, etc.) I then make a market model out of it for programmed trading. Having several different market models running concurrently and knowing the theories and long term histories of each model, promotes peace of mind as the market does whatever it is going to do. Because our investment decisions are made by our objective linear models, No emotion is involved in the investment decision making process. I believe, for us, that this gives better performance with out the emotion involved in a subjective decision making process.

? Does your fund employ leverage in trading? If so what levels of leverage are employed?

✓ Yes, our fund uses leverage at times in trading. The level is based on market conditions. Maximum leverage would be 50%, currently we have no leverage and a high cash position.

? As you know transparency issues have dominated the headlines lately. Many hedge fund investors think transparency issues have not been adequately addressed. How is your fund dealing with the issue of transparency?

✓ We send out weekly email updates. In these updates we often discuss investment style and theory. We never reveal actual current positions or Buy/Sell decisions. By year end each fund partner will be able to check on their investment 24 hours a day by going to a secure website.

? Recently, many hedge fund industry analysts have raised concerns about the issue of capacity constraints. What are your views on this issue?

✓ This can be a serious issue. Over the years, I have seen countless examples of an investor or a fund becoming the market. Actually creating the move rather than riding the move. This works against you if everyone is trying to get into or out of the trade at the same time. Therefore, I have developed methods to address the issue. I recently saw an example of a very successful strategy producing impressive steady returns for a micro fund. Unfortunately, the strategy stopped working once the fund got over the 3 million dollar mark, and the returns suffered. Because we are still a very small fund, this is not a current problem for us; however all of our models were designed with this issue in mind. We have successfully tested our models at a billion dollar portfolio level. As the fund grows we will continue to address this issue looking for creative solutions.



Please explain to potential investors why they should choose your fund instead of other funds using similar strategies?



Geneva Opportunity Fund uses objective linear models for all of its investment decisions. This is different from the average fund where managers do research on long and short decisions based on their knowledge, understanding, and intuition of the markets. Many fund managers make decisions intuitively. Intuition is fine for small decisions—where to eat lunch, how to organize your filing cabinet, or whether to email instead of telephoning someone. But hundreds of studies have led to an important conclusion about making choices or predictions: You can develop procedures that will make your decision better than your own unaided intuition. If you follow sound procedures, you'll have a better chance of achieving your goals than if you just make a choice because it "feels right." When you rely on intuition or "gut feel" to make a decision, your mind processes part or all of the information you possess, automatically, quickly, and without awareness of any details. But intuitive, seat-of-the-pants decisions seldom take proper account of all the information available. They suffer from inconsistency. (On different days, the same expert will decide differently) Intuitive decisions are affected not only by the evidence that should affect your choice, but also by factors such as fatigue, boredom, distractions, and recollection of a fight with your spouse at breakfast. The disadvantages of intuitive decision-making are more profound than most people realize. People who make decisions intuitively achieve much less consistency than they generally suspect. Considerable research suggests that you will maximize your chances of making the best choice if you find a systematic way to evaluate all the statistical evidence favorable or unfavorable from actual past results to each possible investment decision, compare the strength of evidence on each side rigorously, then implement the choice that your system indicates. Decision theorists call this kind of choice system an objective linear model. It is objective because the importance assigned to each pro and con are generated statistically from actual past results. Linear is simply a mathematical term for combining the separate pieces of evidence through addition and subtraction. In their book "Decision Traps" J. Edward Russo and Paul J.H. Schoemaker summarized the findings of nine studies on intuitive versus objective decision making models. In the area of changes in stock prices they found the degree of correlation with the true outcomes to be .23 in intuitive prediction versus a correlation with the true outcome of .80 using an objective model. Investing is a psychological endeavor. Keeping extreme emotions at bay is paramount to success. The more you can stay logical and objective, the more you'll invest profitably. That is why we develop and use objective linear models to run our investment programs. The models are built on logic, optimized, back tested in multiple time frames, and then forward tested. The models are built for robustness and they have no emotion, therefore our task becomes one of following our models. This implements an investment program void of emotional influence that is both objective and logical.



Can you project the level of returns which your fund may achieve in 2005?



As a rule we do not try to predict future returns. I can tell you that the proprietary models we use to manage the fund have had average returns from 35% to 140% annualized. I will also tell you that a criterion for a model to be used in the fund is an average annualized return of greater than 30% over a 20 year history. What that has to do with 2005 returns is nothing. It should however give an investor confidence that we are doing and will continue to do our homework.

Geneva Opportunity Fund, LP

Manager Biography

Kenneth Sweet's fascination with the stock market was given a great boost when in 1985 while in his senior year at Washington State University; Ken did a study for the Economic department chair on the relationship between Fed interest rate policy and the securities markets. That same year Ken was ranked one of the top 10 interns in the nation for North Western Financial services. Later while working for Prudential Ken was asked to raise venture capital for a small oil company.

Around 1990 the first computer based investment software was becoming available for testing investment theories. Having a love for logic Ken started writing systems first in doss and later in windows applications, always trying to improve on the accuracy of his market simulations. Ken has used these systems for managed client funds from 1990 to 2001. Ken has written several thousand custom systems and indicators and continues developing new more advanced systems as his knowledge and technology improves. Between 1990 and 1995 Ken published the Sweet Forecast a newsletter using technical analysis to recommend individual security buys and sells. He also founded Classic Asset Management a Registered Investment Advisor and the web site MoneyManagement.com.

In 2003 Ken published a book titled "Light Gains...Greater Profits" In 2004 Ken co founded Dover Management Group, LLC and launched Geneva Opportunity Fund, LP.

Disclaimer

Kenneth W Sweet is managing member at Dover Management Group LLC.

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