

Author Michael Covel on Richard Dennis and the Turtles

By Art Collins

The one thing everyone involved in the Turtle story seems to share is an appreciation of how special, even magical the whole experience was. The Turtles themselves have near-unanimously expressed loyalty and gratitude toward their mentors for providing such a life-altering experience. Michael Covel, the author of the soon-to-be released *The Complete Turtle Trader* candidly admitted that he won't likely ever get a more perfect writing opportunity. Even Dennis himself observed that the Turtle experiment has been the standout achievement of his life which, considering his numerous other accomplishments, is saying a lot.

To recap; in the early 1980s, multi-millionaire commodity traders Richard Dennis and William Eckhardt bet on whether their superior skills could be imparted to others. They advertised for volunteers, selected roughly two dozen from the thousands of applicants, trained them for two weeks and let them trade millions of dollars that they personally funded. The students got to keep a percentage of their profits and several went on to manage megafunds on their own. Richard Dennis' contention that trading could be reduced to rules and therefore exploited by theoretically anyone was proven correct in spectacular fashion.

Thirty-some years later, Covel is assuming the daunting role of Turtle archivist. His book affirms some legends, and debunks others. It also serves as a definitive text for Turtle-type mechanical trading. Covel posts the complete original system, which, granted, has been available on the Internet for a few years now. Perhaps his bigger service is illustrating the general benefits of eschewing traditional information-and-opinion-based trading for a cold statistical approach.

He is a logical candidate for the project, having presided for years over the ultimate trend flowing website, *Turtletrader.com*. His first book, *Trend Following: How Great Traders Make Millions in Up or Down Markets* sold well and received praise throughout the industry. Even Dennis read it and told me that overall, he thought it was good.

I began the Covel interview by suggesting the aforementioned ebullience he seemed to bring to his book. His first response was defensive—"You mean I was excited to where I lost my objectivity?" "No no," I backtracked. "I just mean you weren't afraid to show you're a fan of the subject—as am I and most everyone else who encounters it." From there, our conversation was more like two baseball freaks exchanging stats and anecdotes than actual work. The hour passed quickly.

So you are a fan, right? I was getting that all through your book.

It was a fun project. I know you're a fan as well. I don't think I will ever be thrown a story like this again my way. There are a lot of perfect storm elements that come together to pull this story together.

Such as?

Start with Jack Schwager's books. Jack created mystery and intrigue with "The Silence of the Turtles"— [their chapter head in *The New Market Wizards*]. Jack made them famous for not talking. In the 20 years after that, they didn't talk much more. So that's a big element.

I think another big element is [original Turtle] Jerry Parker's success. Jerry Parker is truly the guy who answered the want ad and became a billionaire. I don't have his brokerage statements, but just looking at his fee structure, the money he has under management and his performance makes it pretty clear that he is one

You've got two Turtles that have been involved in the retail side of things. Russell Sands and Curtis Faith have both been involved in talking about and promoting the Turtles. Russell's been doing it for a long time. Russell caught a lot of heat, perhaps deservedly so, perhaps not. I'm sure it's debatable, but clearly a lot of the Turtles were not happy with him.

Then part of the perfect storm is that Curtis Faith decided to write a book and play off the name "Turtle" and not say much else other than standard-issue trading insights which, to a lot of traders, are pretty well-known. Behavioral finance is not a new subject. So here is [dramatic pause] The Turtle—putting a book out with a major publisher and when it comes to facts, specifics, details, stories—he punted. And he punted hard in my opinion. In fact, I don't really know that there's much more pure Turtle lore, stories or insights in Curtis' book than Schwager's books 20 years before.

Why did he punt? Why did he not mention another Turtle by name?

Why in general did it take the Turtles so long to open up? Their non-disclosure agreements were only for five years.

That's a good question. I got the impression that one of the reasons I was able to close the deal on getting these folks to talk was my first book [*Trend Following: How Great Traders Make Millions in Up or Down Markets*]. I was told flat-out that they liked the tone, and they thought I'd be fair. They thought that I had enough understanding that I wouldn't write some sort of tabloid trash piece. Some of them were very worried about having the story get out there halfway or incomplete or immature. That was part of the perfect storm too, so in that sense, I'm lucky. Here you have some people who haven't talked forever, I write about their general trading strategy [trend following], I mention them a bit in my first book, and they liked it. They maybe were thinking perhaps I could pull it off.

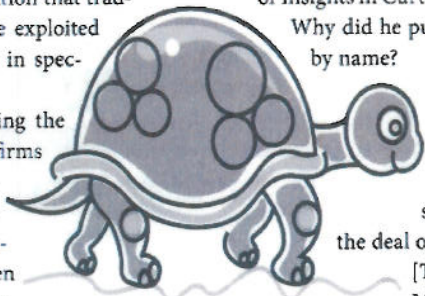
Getting back to Jerry Parker's phenomenal rise...do you think he evolved as time went on? How close do you imagine he has remained to the original Turtle strategies?

Well, as you and I both know, the original Turtle strategy isn't that much different from a lot of trend following strategies. There's never been a great secret. You can look at Parker's performance data. You can look at the performance data of other Turtles. You can run the correlation numbers and say "wow" because their performances correlate pretty highly.

Who is the second most successful Turtle?

I'd have to say Paul Rabar in terms of making money. He was up to managing a little under a billion dollars for awhile.

And somebody has actually done correlation studies on Rabar and Parker and determined the two track pretty closely?



Oh yeah, I discussed some of that in my first book. You can run comparisons on their monthly performance numbers, pick almost any time window and find correlation. It's like point seven to point nine. It's pretty tight. When you start to mix in other trend followers, you find that they don't correlate as well, but the Turtles as a group correlate very strongly. Can I say that Jerry Parker's doing the exact same thing (he did as a Turtle)? Of course not, but does it look like he's still a Turtle? Sure does. I don't think he'd run from the idea that he's a trend following trader. I think he'd admit that that's part of who he is.

How do you account for Dennis' statement that original Turtle methodologies don't work any more, and that for that matter, 90 percent of everything that worked back then has stopped working now?

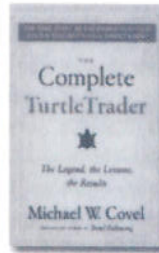
Among the people who really understand this stuff, there's debate over what specifically isn't working. Does the idea of a breakout not work at all, or is it that the parameter values the Turtles were taught don't work? I find the debate gets a little sidetracked.

I also have concluded that in studying Rich and the things he's said over the years that Rich spins sometimes. Rich has said things at various points in time, in my opinion, that haven't always necessarily meshed up with the facts.

Can you elaborate?

If you looked through my book and some of his writings in the late 80s, early 90s, he'd be saying things like trend following doesn't really work anymore, and then you would find he'd have a comeback and be talking about how now he's a systematic trader again. It gets tough to look only at his words in articles including your interview. For me to analyze Rich, you'd have to look at all the stuff that's been in print plus what people say about him and then your own deductions about where things are.

Then there are other things that Rich will say things where you're just kind of going, "wow, that's kind of what my gut was saying, I can't believe he just said that." For example, when he told you that he really didn't think it mattered if the Turtles had any special intellectual gifts. While they were under him, it just didn't make a difference. That's not what the lore has been for the last 20 plus years. The lore was that they passed this rigid screen-



The Complete Turtle Trader by Michael W. Covel Price: \$25.95

What happens when ordinary people are taught a system to make extraordinary money? Richard Dennis made a fortune on Wall Street by investing according to a few simple rules. Convinced that great trading was a skill that could be taught to anyone, he made a bet with his partner and ran a classified ad in the Wall Street Journal looking for novices to train. His recruits, later known as the Turtles, had anything but traditional

Wall Street backgrounds; they included a professional blackjack player, a pianist, and a fantasy game designer. For two weeks, Dennis taught them his investment rules and philosophy, and set them loose to start trading, each with a million dollars of his money. By the time the experiment ended, Dennis had made a hundred million dollars from his Turtles and created one killer Wall Street legend. In *The Complete Turtle Trader*, Michael W. Covel, bestselling author of *Trend Following* and managing editor of *TurtleTrader.com*, the leading website on the Turtles, tells their riveting story with the first ever on the record interviews with individual Turtles. He describes how Dennis interviewed and selected his students, details their education and experiences while working for him, and breaks down the Turtle system and rules in full. He reveals how they made astounding fortunes, and follows their lives from the original experiment to the present day. Some have grown even wealthier than ever, and include some of today's top hedge fund managers. Equally important are those who passed along their approach to a second generation of Turtles, proving that the Turtles' system truly is reproducible, and that anyone with the discipline and the desire to succeed can do as well as—or even better than—Wall Street's top hedge fund wizards. 272 pp. Call 800-288-4266 or go to www.tradersworld.com

ing test and they were all very smart. Then Rich comes out in this 2005 article and says, "eh...not really." [Joint laughter]

But you know, that's how I was looking at it while looking at their performance data. Their performance data shows they were trading the same rules, and they all had very good performance data. So once again, I take Rich's words at face value. I look at the data and say, "Well, Rich's words together with this part of the data make sense." I'm sure you had similar experiences. It's not as easy as just sitting down with Rich Dennis and turning on the microphone and saying "tell me all you know" and then believing that that's everything there is to know.

This gets back to something I've asked a lot, including Rich directly during my interview. But summarize it from your perspective—why was there even a screening process at all?

My deduction is that they probably thought that that was what they should do. I think the whole process was a lot more informal when they started. "Let's put a want ad out and see what happens." They put the ad out and got thousands of resumes. Twenty years later, you and I are looking at it like it was maybe severely planned out. Maybe they came up with the screening process literally because they got so many damned resumes! Maybe it's just down to them having placed the ad before they had

the screening system and they were like, "S—t, what do we do now?"

But I wonder if it went beyond the public face of "we can teach this to anybody." In private, they knew they were risking millions—why not just do whatever they could to nail it all down as tightly as possible? "This guy is more apt to cave in psychologically, this one is probably better wired for following rules", etc.? Maybe it was a fail-safe for protecting their investment as best as possible.

I got the impression in talking to some of these guys that that wasn't really a factor. Mike Shannon seemed like a very bright guy, but he was upfront about the fact that he fudged his resume. [The book implied that that hadn't fooled the mentors and that he was hired possibly because of his moxie]. His achievements leading up to the program weren't great. He admitted "I was working in a nightclub. I was a really bad broker. I connected with Rich because we both played the board game Risk as a kid." So I don't know if they were thinking about [protecting their assets]. There had to be a certain level of intelligence of course. You couldn't just hire a bunch of dummies.

What about other Richard Dennis subtexts. There has been speculation as to how closely he actually followed his systems. He told me that the creative people tend to be bad system followers because

they bore themselves into violation. Is it generally hard for him to stick with his systems—obviously this couldn't be a constant problem—but do you think there are recurring periods where his control gets away?

It looks like he did have a problem following his system. But maybe the fair way to say it was that it was never meant to be 100 percent mechanical. His system always had discretion.

I think it's interesting to look at Bill Eckhardt who started off with far less success, but who has taken the lesson of systemizing things to heart. In these days of easy number crunching, it's hard not to see that Bill has probably made a lot more money than Rich in the long run. Rich had the big wild swings, but it seems that Bill made more money being systematic.

In your new book, you lay out the whole system in a logical accessible fashion, presumably not too different than what the Turtles encountered on Day One. So where, in this comprehensive blueprint, do you imagine the discretionary wiggle room was?

You face it on all fronts. On your leverage. Or say you're supposed to get out at a certain point with no questions asked but you don't because you're hanging in there hoping for the market to turn around. That was one of the reasons that a big silver trade apparently nicked Faith at the end of the Turtle program. Apparently he was long silver and it was going straight down and he just did not get out. I was told that he expressed to people that he had a feel for it. As a trend following trader, he did not get out where you were supposed to cut your losses and get out. He admits he took a big hit. He was trying to finesse it. You see that element creep in. But then you see guys like Parker and Eckhardt who are so literally systematic they're boring.

Which is what systematic trading is supposed to be.

Yeah.

What did you learn about Eckhardt? He's managed to become arguably even more elusive than Dennis.

He is elusive. I did not get a chance to speak with him, but I got a great audio speech he gave. I don't think I would have gotten such great information even if I had sat down with the man. He lays out these scenarios and there's just such efficiency in his mind.

A lot of Turtles told me they would always

learn something when they would talk to Bill. It was like he was the wise soothsayer you'd just want to sit and listen to. I'm listening to his speech marveling at how efficient he is. He's thought it through, not in an arrogant way, but a complete way.

What's your take on some of the dis-sentiment among the Turtles? In your book, some asserted that Dennis played favorites and re-allocated accounts in a way that didn't seem to them to be commensurate with performance results.

I think that speaks more to the fact this was probably more of an informal process when it started out. I'm sure some of the Turtles were looking at it early on like, hey, they were smart guys, they could crunch the math---why the discrepancies? Perhaps an equal allocation of five million each would have been better. But Rich had his hand in so many projects including politics. Perhaps he wasn't focusing on it that much. He wasn't in the office with them every day by any stretch. Maybe he saw that someone had a good month and he figured, "I'm going to back that bull". Who knows?

Did you sense sour grapes in any quarters?

I didn't sense sour grapes at all. There was a rumor out there for years that there was a sour grapes element. Before I got into this story, it was always very general. As I researched it, though, it always came down to the same thing. To a Turtle, it was discussions of Curtis Faith and the favoritism shown toward him. He was working under a different set of rules than they were.

The real kicker for me on the allocation thing and specifically Faith was Mike Covallo. He was one of the favorites. He was given a much larger allocation than a lot of the Turtles. Mike was a brilliant guy. You could blindfold him and turn him around and he could play five simultaneous games of chess against five other Turtles and beat them.

Yipes, are we sure this truly was an experiment concerning a random group of people?

Well hold on--Lucy Wyatt was apparently basically a manicurist. Mike Shannon and Jim Melnick were as basic as they come. Jim Melnick moved to Chicago to become a security guard just to get close to Dennis.

Covallo was the exception, the guy that had off-the-charts Harvard MBA brain power. But they didn't want all Harvard MBAs. IF they'd wanted that, they would have hired more, but they only hired one.

But Cavallo did have a large allocation and he was considered a favorite. At some point in time, Faith started a company in the early 90s that failed, and Covallo actually sat on his board. The fact that Covallo sat on his board, the fact that he was considered a favorite but, according to Cavallo, Rich as giving extra instruction to Faith--that just cut through the whole sour grapes argument. The only one who'd fit the sour grapes argument was probably the person who was being talked about. All the Turtles kept addressing the subject independently saying it the same way in their own words. [The consensus worked one way--against Faith].

Does Dennis harbor bad feeling toward him or any of the Turtles?

[Fellow Midam trader and Dennis' friend] Tom Willis told me that he himself didn't think highly of Russell Sands, but that Rich as such a forgiving guy that he doubts he holds any animosity towards anybody.

Supposedly Sands was ejected early from the program for non-disclosure infractions.

As Russell tells it, he was just talking with people and having conversations about trading systems and rules that were very general. It was his position that he wasn't saying anything that wasn't already public knowledge. Everybody was pretty locked in at the time [via the non-disclosure agreements]. Russell's a pretty aggressive guy. Maybe he was looking for a way to trade outside the program. It's hard to say, but clearly there were a lot of Turtles who were unhappy with Russell and unhappy that he was teaching the Turtle system in the early nineties.

It's a given that Dennis won the nature/nurture bet. Overall though, what percentage of the Turtles actually flourished?

People will say only approximately six of the twenty-something Turtles are still trading today. Only six can produce continuous track records back to 1988. That's a little unfair because Mike Covallo, Phil Lu, Jim Melnick, Jeff Gordon all traded into the early to mid 90s, often with significant amounts of money under management. If you were a Turtle working for Rich for a couple years and then you traded for clients for three or four years and by the early 90s you had three, four five million bucks, let's say you decided to retire at that stage of the game. In the early 90s, I could see a lot of people saying "I'm retiring" with that kind

of money.

I think the majority of Turtles are millionaires. Some of them have spectacularly not done well, but I think the majority have been very successful.

Ultimately, how do the Turtles regard their experience?

I think they're very loyal to Rich and Bill. They think they were handpicked for part of something very special. Jerry Parker was a 25-year old CPA working in the Richmond area. He was destined for a career where you make \$70-\$80,000 a year. He wasn't on the path to becoming a Wall Street legend. He's got that famous quote, that he was a small town guy and Richard Dennis rescued him from having a normal life.

They all know that the Turtle experience has gone down in Wall Street lore as a singularly unique event. There's been nothing else like it. The closest we could maybe get to it is the inner workings of some commodities corporation. It's just one heck of a story.

What do you think the overall message of our book is to would-be system traders?

What pragmatic insights does it offer?

It gives you a comparison. It gives you an opportunity to look at the lives of the Dennises, Eckhardts and Parkers of the world. It gives you the chance to compare them to the folks that were—for lack of better description, loud...boisterous...taking too much risk. Systematic traders can be inspired by the fact that in the long run, the systematic approach, the discipline works. Compare that to a less controlled life. Clearly some of the characters of this book were big personalities that maybe didn't have the same self control as some of the others.

As a budding system trader, you can look at something like this and realize that this isn't "The Silence of the Turtles" anymore, as great as Schwager's books are. This peels back the onion and asks what was really going on. I don't have to add commentary because let's face it, the numbers are there. The guys who were disciplined and stuck with it built fantastic careers.

*Art Collins is the author of **Beating the Financial Futures Market: Combining Small Biases Into Powerful Money Making Strategies***