

Hedge Fund ALERT

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Quant Shop Touts High Sharpe Ratio

A quantitative-investment shop whose machine-learning program generates an unusually high Sharpe ratio has begun marketing a hedge fund.

Gammon Capital, led by **Michael Mescher**, runs about \$20 million in separate accounts it began trading in July 2015. Since May, Gammon has relied on an algorithmic-trading system developed by **Iota Technology** — a system that has performed so well that last month Mescher acquired the business and canceled Iota's contracts with other traders. Iota founder **Larry Richards**, who oversaw the development of more than 1 million lines of computer code, is now Gammon's chief technology officer.

Armed with Richards' software, Gammon plans to begin trading a commingled fund in the second quarter. Mescher is telling investors that since adopting Iota's system, his Sharpe ratio — a measure of his accounts' risk-adjusted returns — has been a lofty 3.33, compared to 1.1 previously. Sharpe ratios above 1 generally are considered good.

The Iota system, which took five years to develop, employs multiple approaches to securities analysis across a range of asset classes, along with a machine-learning tool that selects which strategies to deploy under various market scenarios. Through Oct. 31, Gammon was up 14.3% year-to-date. It gained 15.5% during the last six months of 2015.

Before setting up his own shop last year, Mescher was a partner at **Ronin Capital**. He had joined Ronin in 2013 from **Barclays**, where he ran a volatility-trading strategy focused on the stocks of companies involved in merger discussions and other special situations.

Richards founded Iota in 2011. He previously worked at



Alcatel-Lucent in Japan and Taiwan. A third member of Gammon's management team, machine-learning specialist **David Wilt**, also joined from Iota. Gammon has a total staff of about eight. ❖