Heeten Doshi Reaching Heights with his Market Timing Fund

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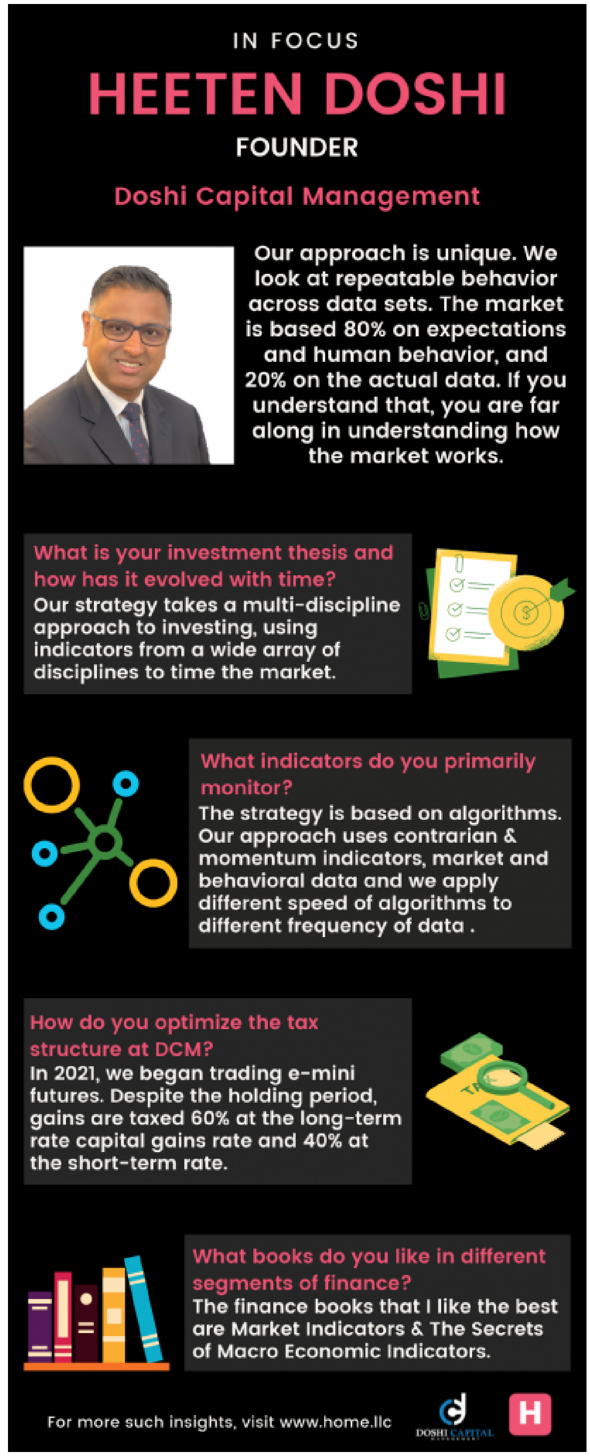
Heeten H. Doshi, CFA is the founder of Doshi Capital Management, a private investment management firm, where he manages the Doshi Systematic Strategy Fund. He also worked as a senior equity strategist in Brown Brothers Harriman's Portfolio Strategy team, where he focused on the US economy, equity market and sector/industry investment recommendations. Before that he worked at Morgan Stanley as a research analyst where he conducted bottom-up fundamental analysis covering the transportation industry and at Lehman Brothers where he was a fixed income trader, managing Lehman's loan risk exposure through the use of loan sales and derivative products. Heeten received an MS in Accounting from the University of Illinois and an MS in Management from Babson F.W. Olin Graduate School of Business and has obtained the CFA designation.



Q.1 Tell us your life story, how did you go from Rutgers to BBH to founding Doshi Capital Management?

At Rutgers, I had the privilege of co-managing a small portfolio with other top finance students. It was a mere $60k, but it was the first taste of stock picking, conducting research, and at that time calling in trades to the brokerage firm.

At that point, I knew I wanted to have a career that entailed investing, trading, or research. My first job out of undergrad was at a leadership program with Lucent Technologies. There we rotated departments every year and completed an

Executive Master's degree at Babson College. From there I went to work in the risk management department at NRG when I got a lucky break at Lehman Brothers. I say lucky, because I didn't have the pedigree of graduating from an ivy league school, but I worked hard. My favorite quote is 'Luck Happens When Hard Work Meets Opportunity'. I think my strength came from interviewing. I think face to face you can tell how smart and driven someone is, that doesn't show up on paper. After Lehman, I moved on to Morgan Stanley covering the transportation sector in equities. I think that was my first taste of macro. Transportation companies are very macro-driven by global demand. From there I went to BBH where I worked in the strategy team and became a portfolio strategist traveling around the US and Europe discussing macro themes and ideas with the largest asset management teams and firms. It was that research and knowledge that lead me to launch Doshi Capital Management, where we manage a fund based on the changes in the macro-environment. After spending years at BBH, learning and researching indicators, market and economic cycles, earnings revisions, that I decided there has to be a way to utilize all this knowledge to invest in the market. This is what led me to start my own shop. To create a strategy that actively times the market.

Q.2 What is your investment thesis and how has it evolved with time?

Our investment thesis focuses on a macro view, that different asset classes have different return drivers. Our strategy takes a multi-discipline approach to invest, using indicators from a wide array of disciplines to time the market. Our goal is to provide investors with a strategy that performs in any market environment. After living through two recessions with 50% drawdowns, I believed there was a smarter way to invest in the market without passively accepting market drawdowns. Our initial focus was on returns, however, over time we have focused more on return with capital preservation in mind. Our strategy has evolved to ensure that capital preservation is first and foremost while maximizing risk-adjusted returns. We started the fund with a significant amount of leverage and over time have cut back to reduce the volatility in the strategy. We have implemented a systematic stop-loss strategy that automatically gets triggered to protect investors.

Q.3. How does DCM react to weekly changes in the market? What indicators do you primarily monitor? How did you do in March 2020?

The strategy is based on an algorithm. While we don't talk about the exact indicators we use, we look at various indicators that have been proven over time to predict the direction of the market. Our approach uses contrarian and momentum indicators, market and behavioral data and we apply different speeds of algorithms to a different frequency of data (i.e daily, weekly and monthly data). Some of the broad categories of data we look at are earnings revisions, economic data, fixed income, volatility, commodity prices, sentiment, and trader positioning. In March of 2020, the fund was 25.3% and 47.8% ytd.

Q.4. How do you optimize the tax structure at DCM?

We initially executed the strategy using ETFs. We used SPY and TLT the two most liquid ETFs to implement the risk-on and risk-off view of the strategy. We began raising capital in 2020 and quickly needed more liquid instruments. In addition, clients were asking about the tax structure of the fund. In 2021, we began trading e-mini futures which are 1256 contracts. By IRS code, any instrument under 1256 receives a tax-efficient capital gains tax rate. Despite the holding period, gains are taxed 60% at the long-term rate capital gains rate and 40% at the short-term rate. This provides a significant advantage to our clients.

Q.5. What headline will the WSJ write about Doshi Capital Management in 2025?

I think in 2025, the headline will be, “Doshi Capital Management achieves the impossible with market timing fund”. Many investors are doubtful that someone can time the market. It goes against conventional wisdom and what we learn academically (i.e random walk theory or efficient market theory). However, our approach is unique. We look at repeatable behavior across a range of data sets. In my opinion, the market is based 80% on expectations and human behavior, and 20% on the actual data. If you understand that, you are far along in understanding how the market works.

Q.6. How was your experience at Lehman before 2008? How was the transition to Morgan Stanley?

At Lehman, I worked as a trader in high-grade credit, trading derivatives. To be honest, it was actually quite boring. At that time, pre-2008, the credit markets were very stable. Especially in high-grade credit, there was no volatility. The days became monotonous. Eventually, I switched to Morgan Stanley in their institutional equities department. It was an easy transition from fixed income to equities because I had spent most of my time learning about equities. In sell-side research, it all comes down to modeling companies and trying to gain insights from company executives and touchpoints along the supply chain. Usually, the models are already built, so it’s just a matter of understanding the company in-depth and the drivers that impact revenue and cost.

Q.7. What books do you like in different segments of finance?

So I try to read as many books as I can. I am a firm believer that knowledge is power. The best thing you can do is arm yourself with knowledge. I try to learn about as many things as I can, not just investing. I pride myself on being able to discuss almost any topic at a basic to intermediate level. The finance books that I like the best are Market Indicators and The Secrets of Macro-Economic Indicators. They give a great concise view of macro. I also like The Man Who Solved the Market, Shoe Dog, and Originals. I like learning about people's backgrounds and how they came to be where they are.

Q.8. How did your experience at the trading floor shape the culture at DCM?

I think in general, my experience working on wall street, not just the trading floor, really shaped DCM. When you work for an investment bank, there is a certain mentality that is ingrained in you. There is really zero tolerance for error. The hours you put in, the 18 hour work days become normal. When I started DCM, I put in a lot of hours, staying up until all hours of the night working on the algorithm. Even the people we hire, we have high expectations and expect them to work hard and be at their best.

Q.9. How have the equity markets evolved in the past decade?

What changes do you expect in the future? Over the past decade, equity markets have become driven by computers and algos. I think some 80% of all volume is computer-driven. Gone are the days of human traders and small shops with analysts covering stocks. Now so much is based on math, statistics, AI, and ML. In my opinion, the move to algo and computer trading has really changed the way the market reacts to news and data. The pullbacks and rallies are much shorter in duration and sharper in magnitude. I think this is due to the programmed nature of trading. I think AI and ML will continue to grow and push the boundaries of investing and how decisions are made. Even now we see AI-driven financial advising, such as Robo-advisors. Time will tell if these new approaches are better at investing and predicting markets.

Q.10. What should family offices expect when they reach out to you? How should they reach out to you?

Family offices and all investors should expect an honest firm. Our integrity is the most important thing to us. Our goal is to generate substantial returns, not accumulate AUM to charge fees. I think any investor will recognize that our approach is very unique and well thought out. We spent 7.5 years incubating the strategy, which is a long time but in the end serves our investors better and gives us that much more confidence that we can achieve our return goal of 30% annualized returns over time. Investors can always call or email me directly. They can visit our website to learn more about our firm and team.

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