Green Street
Hedge Fund Alert
THE WEEKLY UPDATE ON FUND MANAGEMENT INTELLIGENCE

Quantitative Vet Touting Growth Strategy

After a long layoff from managing client capital, quantitative-investment pioneer **Robert Zuccaro** is staging a comeback.

The effort is taking place through a vehicle called Golden Eagle Growth Fund that Zuccaro's **Target QR Strategies** started trading May 1 and that had $34 million of assets under management by Aug. 31, sources said. The entity is opening to outside investors this month, according to sources, with a marketing campaign that is set to emphasize strong early returns.

Zuccaro started building quantitative algorithms in 1977 at **Axe-Houghton Management,** where from 1978 to 1983 he managed a mutual fund called Axe-Houghton Stock Fund that beat the S&P 500 Index in each of those years. That work made him among the first money managers to employ a quantitative approach, long before **Morgan Stanley** built what industry participants consider the first quant-trading desk in 1988.

Zuccaro then started **Target Investors,** running up to $1.6 billion for institutional clients before unwinding the operation in 2005. He since has been running family money under the Target QR name while refining his quantitative models and studying stock-price movements.

Along the way, Zuccaro has honed his strategy to focus on aggressive growth plays in which he turns over his positions frequently while eschewing fundamental research in favor of momentum-based trades. For Golden Eagle Growth Fund, sources said, the approach led to a four-month gross return of 63.2%, easily topping a 21% gain the S&P 500 posted over the same period as the market bounced back from this year's coronavirus-induced lows.

The fund invests primarily in the shares of mid- and large-cap U.S. companies with annual profit growth of at least 30%.

In pitching the vehicle, Zuccaro has signaled that he sees outsized opportunities for growth stocks in today's market. Key among his considerations on that front is what he calls a "new-high stock discipline."

Zuccaro's research has found that a stock that hits its price pinnacle will progress to further highs 99% of the time, often several times in the following weeks and months. "We are very impatient as a money manager, and we don't want to sit around and wait for our ship to come home," Zuccaro said. "We want our ship to be traveling to its destination right away, which means immediate performance."

Zuccaro sells any stocks that do not hit new highs in 90 days. He also unloads positions in companies whose earnings growth slows substantially. "In the past, high earnings growth led to high returns, which was our mantra," Zuccaro said. "The new mantra is, 'Highest earnings growth leads to highest returns.' "

While Target QR doesn't limit its holdings to certain sectors, the Delray Beach, Fla., firm's recent winners have included bets on software-as-a-service and biotechnology companies, both of which have high growth ceilings.

Perhaps cognizant of pitfalls other quantitative managers have encountered amid this year's financial-market volatility and government liquidity injections, Zuccaro intends to modify his models as he spots macroeconomic events that could be disruptive. During the primary elections for the 2020 Democratic presidential nomination, for example, he adjusted his approach to reflect the possibility of a securities-trading tax that might greatly reduce the appeal of momentum trades.

Zuccaro does not engage in short sales. "Intellectually, everyone loves the idea of hedge funds shorting stocks," he said. "But the record on shorting is quite abysmal."

That stance is in line with a growing sentiment among limited partners that long/short managers often fail to derive meaningful alpha from their short positions. A move away from shorting also can help ease the relatively higher fees that long/short specialists typically charge. "We've grumbled about the lack of alpha on the short side for years," one hedge fund investor said. "But this idea that I can write a check to a long-only guy and pay less, it's a good one. Especially when I can separately short an index and more or less hedge myself."

Zuccaro takes 1% of assets and 15% of profits.

Target QR has assembled a team of eight professionals, although the bulk of them are consultants rather than in-house employees. The plan is to add some permanent staff in the coming months.

Assisting in that effort and on the marketing front is Target QR chief operating officer **Marc Zuccaro,** Robert Zuccaro's son. He took his post in 2013 after leaving his job as head of **RBC's** electronic-trading business for Europe, the Middle East and Africa.

Marc Zuccaro also has worked at **Lehman Brothers** and at **PaineWebber.** ❖

HEDGE FUND ALERT: September 23, 2020