

Scroll down to 'Short of the Year' for the Hold Brothers mention

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The Trader Monthly Awards

Oil was up, the dollar was down, most everything else seemed flat. No matter: It was another memorable year in trading, and we're here to chronicle it all. Without further ado, we present 2004's best, worst and most bizarre

Nothing came easy in 2004 -- unless you were long oil futures, of course. Beyond that, it was a tough slog for securities traders, buy-side and sell-side alike. Stocks slacked off or moved sideways, interest-rate spreads became as tight as one of those extra-inning Yankees-Red Sox playoff games and the strength of the U.S. dollar kept even the best global macro guys guessing. Trading ranges were narrow and dogged by U.S. presidential uncertainty, which seemed to exacerbate the flat-line effect. Against this backdrop, some traders stood out. Some were heroes, others goats, but they all played a unique game over the past year, and we at Trader Monthly are going to recognize them. Here's to all those who really put themselves out there in 2004.

TRADE OF THE YEAR

Citigroup Floods the Zone

Talk about rocking the boat. One morning in early August, Citigroup's London-based bond desk pulled off a trade that would, in less than two minutes, send loud shockwaves around the globe. Not only did the trade make a huge profit, but it also infuriated European governments, created a near-riot among competitors, sparked a regulatory tizzy and humiliated the electronic trading platform on which it was orchestrated.

The hearty bunch, led by Spiros Skordos, Citi's head European-government-bond trader, unloaded about \$13.5 billion worth of those bonds -- roughly 100 kinds in 11 different markets -- mostly via an electronic platform set up by European-government-debt issuers. Prices instantly tumbled across the board on the massive sell orders. The traders then turned right around and -- before anyone could cry "Bollocks!" -- bought back, by way of the same electronic platform, some \$5 billion of the same paper, only at slightly lower prices, for an estimated profit of about \$20 million. They would have bought back more, but swamped market-makers quickly halted trading.

Every good trade, of course, is a bad trade for someone else. Burned rivals included ABN AMRO, Deutsche Bank, Barclays Capital, JP Morgan Chase and UBS, all of which found themselves on the other side, suffering losses of as much as \$900,000 apiece. The trade happened so quickly that Goldman Sachs survived relatively unscathed only because one of its traders had been in the bathroom at the time. Many accused Citi of breaking a "gentleman's agreement" not to flood the market. Others privately admitted that they wished they had thought of the trade first.

How could this have happened? Thank the quirky rules of the electronic trading platform, the MTS system, over which it was mostly executed. MTS was developed by European governments to bolster the tradability of their debt. The platform requires that its market-makers post price quotes for bonds at restricted bid-and-offer spreads for at least five hours every day -- forced liquidity. The upshot is that market-makers have to buy bonds they probably do not want. In practice, it's rare for a bank to trade more than 10 different bonds at any given time. But Citi turned around and sold some 100 types of issues at once. No one saw it coming.

Mightily pissed off, a host of European government authorities reportedly began muttering about the possibility of striking banks who didn't play by the unwritten rule as primary dealers. As various regulators began poking around, Citi CEO Chuck Prince and his lieutenants circled the wagons in New York. Tom Maheras, Citi's head of global capital markets, sent an e-mail memo to staffers that quickly and conveniently made its way into the press. "As an industry leader," Maheras wrote, "Citigroup is committed to holding itself to the highest standard in its business practices. However, we did not meet our standards in this instance and, as a result, we regret having executed this transaction. Unfortunately, we failed to fully consider its impact on our clients, other market participants and our regulators."

Privately, though, Citi's position seemed to be: Don't hate the player, hate the game. "It's kind of hard to feel bad for having outsmarted a bunch of traders who spend their days trying to outsmart us," one Citi insider tells us.

For sheer balls, Citi's action is our 2004 Trade of the Year.

MARK OF THE YEAR

Biggs Over a Barrel

Ok, so maybe it wasn't the best year to be bearish on the price of oil, but somebody had to be on the other side of all that money being made going long. Who better than that loveable curmudgeon Barton Biggs, whose \$2 billion hedge fund, Traxis Partners, has been taking a beating of late?

The 71-year-old former global strategist at Morgan Stanley (who stayed bearish on stocks throughout the mid-1990s) said in an investment letter this summer that he considered crude oil overpriced. In fact, Biggs said he thought the price of oil should be closer to around \$32 a barrel. By July, he was increasing his short position. As of press time, the December 2004 crude-oil futures contract was trading at around \$49, down from its \$55 high in October. "When the price of an investment goes against us, unless the fundamentals have changed, our inclination is to buy more," he wrote in a letter to clients this past summer. At an age when he should be golfing his life away in West Palm Beach, Biggs is showing that his contrarian fires still burn bright -- and a lot of energy traders are grateful to him.

BEST INTEREST-RATE PLAY Dresdner's 10-Figure Trade

It's a trading-world truism that for every winner there must be a loser. With so many managers striking out with interest-rate bets over the summer, it stands to reason that someone made out.

According to a reliable source in London, a senior prop trader at Dresdner Bank Group made a profit "in the 10-figure range" -- that's \$1 billion, for the numerically challenged -- for the German bank. In a move that went against what most investors were anticipating, the trader, whose details we were given on condition we keep his identity anonymous, reportedly was long the high end of the yield curve and short the low end. A Dresdner spokeswoman would not confirm or deny this trading bonanza. We salute Dresdner's stealth trader for the sheer stunning arrogance it must have taken to make that move and rake in so much money while so many of those around him were losing their shirts.

WORST INTEREST-RATE PLAY Viva Loss Vega

It's one thing to say you think rates are going to rise, but it's another to expose yourself to the tune of a few hundred million. Spanish hedge fund Vega Asset Management got caught betting the rancho on rising interest rates over the summer, shorting the 10-year Treasury note. But when the yield curve failed to flatten out as expected, Vega, which reportedly had taken on significant leverage to make the play, took a hit in at least two of its largest funds.

According to industry reports, in September alone the firm lost 9.5 percent in its Select Opportunities Fund and 4.9 percent in its Relative Value Fund. The funds also experienced losses in August. Their performance has since stabilized, but industry sources say the experience has been humbling for the \$12 billion hedge fund, which prides itself on steady returns. In a seven-page letter to investors dated October 6, Vega CEO Jon Berg took great pains to stress that the firm was going to be cutting back on risk. ¡Ay caramba!

SHORT OF THE YEAR Marthamania

The instant news broke that the jury for Martha Stewart's obstruction-of-justice trial had reached a decision, prop traders at Hold Brothers moved into action, shorting Martha Stewart Omnimedia.

In hindsight, that was a no-brainer, but the prevailing opinion that day, Friday, March 5, was that the homemaker and media icon was going to be found not guilty. After opening at \$14.03, MSO shares rallied to a \$17 high prior to the breaking news. The Big Board halted trading of MSO at 3:02, just moments before the jury handed over its verdict, but 86 seconds was all the Hold traders needed. They shorted Stewart's company heavier than a roomful of cinnamon pound cake, to the tune of 63,800 shares.

When buying and selling resumed 30 minutes later, once the world learned that Stewart would soon be making some federal prison a far neater place, prices plummeted to a close of \$10.86. Hold Brothers honcho Christian O'Gorman estimates that the firm's traders made "a couple of hundred thousand dollars" on the short call. Not bad for a minute and a half's work.

THE HOT AIR AWARD I
Krispy Creamed

When your father is an investment legend, sometimes expectations can be hard to live up to. Just ask 29-year-old Christopher Tsai, whose father, Jerry Tsai, was a momentum-growth pioneer and one of the first true superstar money managers. Chris Tsai invests around \$3 million of family and friends' assets through his Tsai Capital. One of his top 10 positions: Krispy Kreme Doughnuts, which has seen its share price turn stale this year after poor earnings results and a Securities and Exchange Commission investigation into its accounting practices. As of October 12, Tsai had confirmed that around 5.4 percent of his firm's portfolio was invested in the doughnut maker -- which was around \$12 per share at press time, down from a recent peak of \$44. Insists Tsai, "The company should be trading closer to \$20 than to \$10." Perhaps, but dad Jerry would likely have been out of this high flyer while the dough was still hot.

THE HOT AIR AWARD II
Twinkie Raiders

Speaking of carb-laden treats, two big hedge-fund managers developed a taste for Twinkies this autumn -- even as Interstate Bakeries, the makers of those cream-filled yellow tubes of school-lunch lore -- filed for bankruptcy. On September 22, Interstate, which also boasts the similarly delicious and nutrient-deprived Wonder Bread among its foodstuffs, saw its stock drop to \$2 (after having started 2004 at around \$15). Then, in a September 29 filing with the SEC, QVT Financial disclosed that it had bought nearly 3.3 million shares of Interstate -- a 7.3 percent total stake.

Not to be outgunned, Gruss Asset Management announced in early October that it had bought 3.5 million shares -- almost 8 percent -- for two of its hedge funds. For not being afraid of two 2004 no-no's (the c word, carbs, or the b word, bankruptcy), we raise a Twinkie to this gutsy call.

MYSTERY OF THE YEAR
Finding the Flipper

It has been a source of great debate among traders on the Eurex all year: Who is the Flipper? Is there a Flipper? Is there in fact more than one Flipper? Could there be a whole organized army of Flippers? How many Flippers does it take to screw in a light bulb?

In April, the Eurex announced a rule change after a number of participants petitioned the exchange with complaints about a trader, or traders, known only as the Flipper. The ranting mob was convinced that the Flipper, suspected to be a Dublin-based trader specializing in the German two-year government bond known as the Schatz, was "gaming" the market. The accusation: This trader would offer to buy or sell a large volume at a particular price. The offer would attract other traders, who would post their own buy or sell offers at the same price. The trader would then withdraw his offer and reverse his position, from sell to buy or vice-versa, to take advantage of the price he had created. According to reports at the time, this mysterious trader might have been making as much as \$5.5 million a month.

Does the Flipper truly exist? One Dublin-based prop trader's name is commonly bandied about -- he was unavailable for comment -- but London market-movers say that it is probably not possible for someone to game the market the way the Flipper has been accused of doing. Put simply, they say no one trader or trading group has the financial clout required for the type of price swings associated with flipping the market. Instead, they suggest, fluctuations are caused simply by the ebb and flow of pre-programmed system trading. Reluctant to let healthy skepticism get in the way of a good conspiracy theory, we honor the Flipper for the havoc he has caused and the money he is making. Here's to you, Flipper, whoever you are. Your legend keeps growing.

Pick up the magazine to read THE POLITICAL CAPITAL AWARD, FLAYING OF THE YEAR and AND THE MURPHY'S LAW AWARD GOES TO . . .