

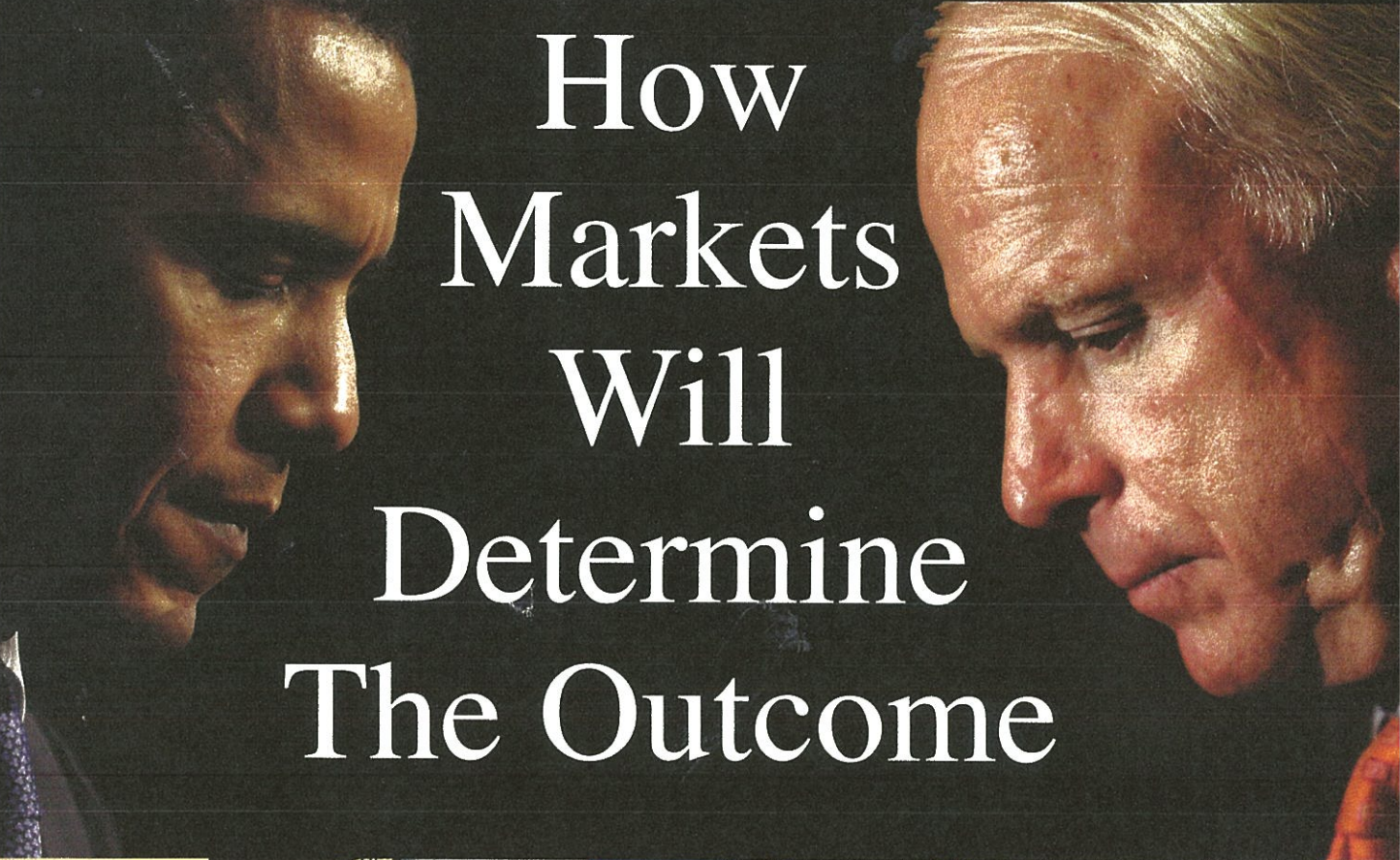
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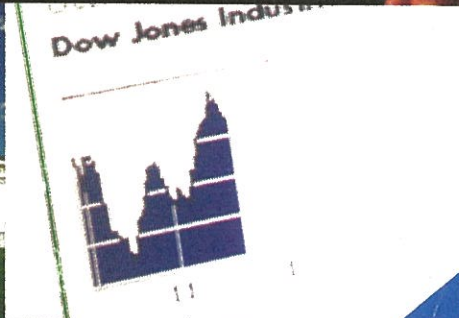
October 2008

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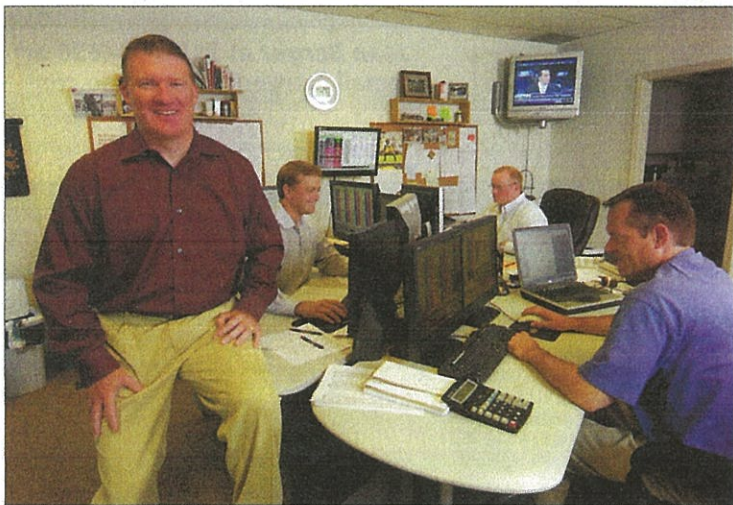
Trader Profile

BY DANIEL P. COLLINS

Powers: Building from the ground up

Pete Powers, CEO of Cranwood Capital Management, was always interested in trading, but when he got what he thought was his big break in the institutional fixed income department at Dean Witter Reynolds, it turned out to be an order desk job. But it was there he met a broker in the 10-year note pit at the Chicago Board of Trade. "He offered me an opportunity to move from Cleveland to Chicago and learn how to trade for him," Powers says.

Powers worked three months as a runner and three months as a clerk before leasing a seat, but it was this early experience he credits for his eventual success. "[When I was on the floor] I made sure that I learned every aspect of [trading]," Powers says. Powers struggled to learn his new craft in 1997 before getting interested in spreads. "I would try to get an edge in the 10-year and then enter an order through a headset to the bonds. That is definitely what caught my eye. There was less risk and I was not overcapitalized," Powers says.



PETE POWERS (LEFT) AND HIS TRADING TEAM

It was an interesting time, the onset of electronic trading, and Powers did not have the ingrained hostility towards electronic trading that the more established floor traders had.

"I wasn't on the floor long enough to get really good or really successful. Some of those guys made a lot of money, but I never got to that point so I embraced electronic trading," Powers says. "That was when electronic trading began to get some traction. I was intrigued because it was an anonymous game, there was no 'who [do] you know' or that kind of stuff." So instead of coming to work five minutes before 7 a.m., Powers started coming in at 3 a.m. to trade the overnight.

"After a while, I was making the bulk of my money overnight instead of in the pit," Powers says and he could trade the night much cheaper than the day. "I was making all my money electronically anyway."

By 1999, he was making a lot of money legging NOB (10-year Treasury notes over 30-year Treasury bonds) spreads in the overnight, so when his wife became pregnant he decided to

move back to Cleveland and trade the overnight from there.

Powers brought in some family members and friends and taught them his strategy for trading NOB spreads. "I have a brother, a cousin, a brother-in-law, high school friends and grammar school friends. Every single guy here, I taught," he says.

But on Halloween 2001, the Treasury announced that it would stop issuing 30-year T-bonds and he feared his livelihood could be in jeopardy.

"I started learning technical analysis from a woman named Robin Mesch. I needed to learn another way to trade."

Then Joe Radostitz, a friend from the pit, moved from Chicago to join Powers' burgeoning trading operation. "When he joined us, we expanded to the FYT (five-year T-notes over 10-year T-notes) spread and then we started doing butterflies; all we did was leg butterflies all day," he recalls. At that point, the two-year T-note became more liquid and Powers and his

team would trade butterflies on the two-five-10; five-10-30 and two-10-30. His strategy is based on mean reversion. "We know what is normal and we know what is not, and when things are not normal we look to initiate and expect it to go back to normal some time during the day." It is a high percentage play. "If you have an edge, you have to play every hand and we have an edge, so we make sure every time one of these spreads goes to a certain level we have to put it on," he says.

He called the proprietary group Elite Trading and it was becoming a large operation. Powers started managing proprietary money in 2002 and the pro forma results of his proprietary trading from July 2005 to present is 170.4% or a compound annual return of 39.33%.

Cranwood offers a fund based on his methodology.

Powers was able to input his spreading knowledge into the software Mesch developed. "We have some proprietary tools that will tell us 'if the relationship between these three products gets down to this level, start buying this butterfly and continue to buy it until it gets to this level,'" Powers says. "I am working bids in the 10-year and one of my colleagues is working offers in the five-years and another is working offers in the 30-year... Every leg is meticulously put on to build that body of the butterfly. It is heavy lifting, but we try and get the edge on every fill," Powers says.

Execution is key. "We are here to make the nickels and dimes every day, and as long as the guys trading 10,000 lots keep dropping crumbs we will be here to pick them up and the good news is that they can add up to a lot," he says.

Powers says he got lucky in terms of timing, trading electronically when it took off. "If I had been making the kind of money some of these guys made I would have been reluctant to learn electronically," he says. "I went from runner to clerk to scalper to spreader to electronic spreads to trying to teach people [my methods] and it evolved into bringing in investors."

Big investors are now interested in his strategy and luck has nothing to do with it.

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