

TRADER MONTHLY

HALL
OF
FAME

TRANSCENDING MARKETS, STYLES, CYCLES AND INSTRUMENTS,
VICTOR SPERANDEO
HAS EARNED A REPUTATION AS A TRADER'S TRADER

BY MICHAEL MARTIN

TO THE VICTOR



streak, Bill Miller's 15-year string (through 2005) of besting the S&P 500, was marred by some down years. Sperandeo documented his streak (publishing audited returns) in his classic 1993 book *Methods of a Wall Street Master*, but he has never rested on his achievements. Now 63, he's still managing money and finding new ways to trade.

Entirely self-taught, Sperandeo is an unassuming hero in an industry filled with icons and self-promoters. He has traded all over the map. He has managed money for George Soros and Leon Cooperman. For a time, he ran the largest OTC options dealer on earth. Over four decades, through several busts and booms, he's made markets, owned seats, traded his own money, traded client money, patented financial models, written books, taught traders and seeded traders — all while exhaustively researching nearly every facet of the financial markets. He claims to have read more than 1,000 books about trading. "Victor is a trader's trader," says Cooperman, whose Omega Advisors remains one of the industry's largest hedge-fund operations.

"What is most impressive is that despite his intelligence and talent, despite having seen it all during his career, he still gets excited about learning new things," says Ingo Heinen, a PM for Japanese bank Nomura, who has \$300 million currently placed with Sperandeo's \$1.9 billion commodities-management platform. "He's the total package."

Sperandeo is not without blemish. He lost 15 percent in 1991 to end his positive-annual-gain streak. The following year, he lost 15 percent again. Yet those two negative postings remain, to this day, the only annual losses he has registered in 42 years.

For that — and for numerous other feats of market mastery — we hereby raise a stiff mai tai to Trader Vic, the newest member of the *Trader Monthly* Hall of Fame.

"It all came from reading books, and trial and error," Sperandeo says of his prowess, which extends to stocks, govies, munis, preferreds, options, currencies and his specialty, futures. His vast experience and insatiable hunger for information has given him not only an encyclopedic memory of trading history but a heightened "emotional intelligence" — that is, he doesn't spook easily.

"I was reared in bear markets, so this is very natural for me," he says of the pervasive sense

of gloom and turbulence roiling today's markets. "In every other business you learn more and more as you practice your craft — except trading, because markets are like bacteria: always mutating and looking to kill you."

Sperandeo got his start on Wall Street out of high school in 1966 as a quote boy at Pershing, and has since witnessed many monumental industry changes, notably the rise of options. A native of Jackson Heights, Queens, the son of an olive-oil importer, Sperandeo acquired financial experience principally by winning pots in neighborhood card games before landing at Pershing after answering a classified newspaper ad. In August 1966, he found better-paying grunt work in Lehman Brothers' private tax department, where he personally handled partners' books. "Morris Natelson sold straddles, and no one knew the tax implications," Sperandeo recalls of the heavyweight Lehman partner. "So they gave me the job of researching it. I came to love the sheer complexity of options."

So intense was Sperandeo's newfound passion that he talked his way into a job as an options trader at Filer Schmidt & Co., where he slogged through the bear market of 1969. A year later, he landed at U.S. Options. He was soon executing big client trades for banks and trust companies, and in just his first six months generated \$50,000 in commissions — more than twice what the CEO of U.S. Options was making at the time. Sperandeo's bosses swiftly moved to restructure the young trader's compensation arrangement, so just as quickly he left to join a firm called Marsh, Block & Lieber as a portfolio manager. That stint was brief; Sperandeo realized that he needed to be the one dictating the terms of his compensation.

In April 1971, Sperandeo, then 26, found a backer (an acquaintance had just inherited \$500,000) and launched his firm, Ragnar, named

IF, BY CHANCE, you were looking for the best mai tai in Dallas, you might try Trader Vic's, Vic Bergeron's chain restaurant. But if you were looking to find the best trader in Dallas, you might (with all due respect to T. Boone Pickens and his long, profitable ride on the crude wagon) look no further than "Trader Vic" Sperandeo.

To fully appreciate Sperandeo's skills, it's best to start with his dizzying trading streak of 18 consecutive positive years (through 1990), during which he notched annualized returns of 72 percent. Even the most famous investing

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for a character in Ayn Rand's *Atlas Shrugged*. It became, for a short time, the largest OTC options dealer in the world. "When I started, my firm was ranked No. 27, and we were No. 1 in six months," he says. Volume flowed his way because he had figured out that the market, accustomed to premium-steep workout quotes, wanted liquidity. He provided it, even if he had to write the option himself.

Weeden & Co. acquired Ragnar in 1977. Sperandeo continued to trade options, but he also was facilitating huge blocks of glamour blue-chips, such as IBM and XRX, single-handedly making markets alongside the biggest banks of that time. "It was nerve-wracking, to say the least," he says, remembering facilitating monster orders. "Try making a market in IBM when it was trading in the \$500s, 10 up."

In 1979, he founded Hugo Securities (Hugo is his middle name) and hired, taught and seeded other traders. He trained 39 traders, but only five made him money. The experience left him convinced — unlike the famous Turtle breeder Richard Dennis — that traders can't be trained. "The difference between successful traders and unsuccessful traders, at least in my experience, was not IQ but what I call 'emotional intelligence.' The ones who did well were the ones who did not let ego and pride get in their way."

In late 1981, during the early stages of the Reagan bull market, Sperandeo received a phone call from George Soros. Soros knew of Sperandeo's reputation as a prescient short seller who could thrive in bear markets — the Dow, after all, was down in '69, '70, '73 and '74, while Sperandeo was up each year. "If you couldn't short, you were gone," he says of trading in those years.

Soros, whose \$1 billion Quantum Fund would end up losing 33 percent in 1981, needed a short seller to hedge. With the Dow at 800, the Hungarian gave the bearish Sperandeo a chunk of assets and instructed him not to lose more than 5 percent or he'd be fired. Sperandeo ran the money between December 1981 and the end of July 1982. He stayed flat; the Dow lost 5 percent. "I had just turned bullish, so I told Soros I wanted to give the allocation back to him," he says. "I asked if I could run a long allocation. Soros told me no thanks, he had plenty of long traders." The Dow hit a low on August 12, 1982.

Roughly five years later, in an extensive

ON OCTOBER 16, 1987, ONE SESSION PRIOR TO BLACK MONDAY, SPERANDEO SHORTED THE S&P 500. HIS ACCOUNT SWELLED 300 PERCENT.

interview in the September 21, 1987, issue of *Barron's*, Sperandeo made a prediction: The stock market was in perilous territory. "There is a good chance the market has topped," Sperandeo said. "The only thing I'd own now are T-bills and gold. Program trading will exaggerate the move to such a degree that the sell-off could be the steepest on record."

On Friday, October 16 — one trading session prior to Black Monday — Sperandeo backed up his words by taking a short Dow position. Shorting S&P 500 futures, Sperandeo began the day with a nearly instantaneous \$250,000 score; his account swelled 300 percent that day. (His prescience also paid off two years later, when he called — and, naturally, cashed in on — the lesser-known "mini-crash" of October 1989.)

He enjoyed a 35 percent gain in 1990, but hit a rough patch in 1991-'92 when he was bearish as the market rallied. Still, he was able to main-

tain an even keel throughout — the triumph of his own emotional intelligence. "Winning and losing," he says, "should carry equal emotion."

In 1998, Sperandeo attracted the attention of a not-so-secret admirer, Leon Cooperman, who gave him a chunk of Omega money to manage. Although he did quite well, in the end the two men's styles (Cooperman typically takes a more long-term view) didn't mesh. Yet the respect between the two men remains palpable. "Vic is unique not only because he's achieved success throughout his career," Cooperman says, "but because he keeps moving forward. He is totally about creating alpha. He's a good role model for aspiring traders."

These days, Sperandeo still trades. He's also busy working on his newest creation, a quantitative trading system based on patented models. He oversees two Dallas-based companies: EAM Partners, his discretionary trading arm, and Alpha Financial Technologies, which creates computerized, investible commodities algorithms based on his systems. Simultaneously, then, he's working at opposite ends of the trading spectrum while managing more than \$1 billion: running disciplined quant models and doing discretionary trading based on his prime-aged seasoning.

Throughout his four-decade career, he has maintained his commitment to understanding — to the extent it's even possible — the nature of markets: "You use a lot of indicators to measure the markets — as guides, per se, to see reversals or consistency of trends," he says. "You try to understand the fundamentals along with the technicals. But you have to be open-minded to see things beyond the indicators."

As for the current commodities bubble (inflated in part, some say, by large allocations such as those made via Sperandeo's quant system), the man who called all those previous crashes sees no end in sight: "A bull market in crude will persist until the population demands reality instead of [Al] Gore gospel." He scoffs at the notion that traders are to blame for the spike in oil. "Speculators follow trends; they don't make them," he insists.

With crude at around \$120 as of mid-August, and his asset base nearing \$2 billion, it seems clear that Trader Vic is due for yet another positive year — which will make 15 in a row. Still three shy of his record, yes, but pretty darn good nonetheless. ■

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