

RANDY DuRIE  
Plimsoll Capital,  
LLC

JOHN CAIAZZO  
President of  
Acuvest Inc.

JOHN HILL  
Commodity Research  
Institute & FuturesTruth

JOHN GILBERT  
Meridian Fund  
Management

JERAMIE CONCKLIN  
Allied Commodities  
Group, LLC



# Brokers' Round Table Discusses Online Trading

BY RUSSELL WASENDORF, SR.

*SFO* Magazine's publisher, Russell Wasendorf, Sr. sat down with five introducing brokers to discuss how electronic trading has changed the world for brokers and their customers. The five IBs are:

- Jeramie Concklin, head trader at Allied Commodities Group LLC
- John Hill, Commodity Research Institute and FuturesTruth
- John Caiazza, President of Acuvest Inc.
- John Gilbert, Meridian Fund Management
- Randy DuRie, Plimsoll Capital, LLC

**RW:** You, gentlemen, are our pulse of our industry. What trends do you see? What are your customers looking for today?

**JERAMIE:** I've noticed this trend over the past three or four years, investors are becoming more and more educated and they're not necessarily relying on brokers to call their shots. They want to have their hand in it a lot more actively than they have in the past. That's what I've experience.



**JOHN HILL:** I'm John Hill with Futures Truth Company. We track publicly offered trading systems. I've been trading all my life. I had a thousand dollars, three kids and a big mortgage, and I was trading five and ten shares of Weston House and one day somebody mentioned futures. I took that thousand dollars and in three months, I had eighty-five thousand. I took it back to five thousand in two days, but I was hooked.

**RW:** So online trading has caused them to start doing their own thing?

**JERAMIE:** I think the numbers speak for themselves. A lot of people frankly don't have the patience to go ahead and learn everything, but they want some education, and that right there is going to be easier for us to open newer accounts.

**JOHN GILBERT:** I'm in managed futures and I agree with Jeramie that we are seeing a more educated populous. We are seeing a big interest in investing in general, and maybe that's due to the hedge funds coming aboard in the last ten or fifteen years. They knew about alternative investments, and now managed futures and futures trading is not this scary Wild West of people losing money in pork bellies. People are realizing that this is an investment in a portfolio and they're coming to us and we are putting together a product available to fill that niche.

**RANDY DURIE:** I see more and more interest from the retail investors in foreign exchange in the last two years. It's the part of the business that I see exploding and from an investor base for me, exploding dramatically.

**JOHN GILBERT:** The advent of electronic trading has taken a big burden off the brokers. In my case, I have institutional clients I spend time with on the phone. If someone were to call me and want to know what pork bellies are doing or what I think of soybeans, I really don't have the time for it. The idea that they can go online themselves and do this takes the burden off me and gives me the opportunity to develop more of a relationship with the institutional accounts.

**JOHN HILL:** It's been my experience that most of the investors we are in contact with are looking for systematic assistance, and that's based on a couple of things. Most of the managed money in the world is done by systematic trading, where they don't depend on your judgment, because what if you get sick one day? Mechanical trading systems and electronic trading are ideal for that. Put your algorithms in there and the computer does the rest. That's one reason why I started Futures Truth, because there was so much garbage out

there. I got mad one day and said I'm going to show the truth to these guys, and then people with the good stuff started coming to us.

**JOHN CAIAZZO:** One of the problems with systematic trading, or technical trading, is that some people imagine that they are the only ones using the system, but what they don't realize is that because of the volume created by the technical trading, that a fundamental makes a market move and then the technicals exacerbate the directional move created by that fundamental. You get contrarian traders who are probably doing much better than technical traders, because you can only go out so far with your parameters. You can put your buy stop here with everybody else, or you can add another five percent. You're zigging when you should be zagging. You're paying at a high and selling at the low. So you have a built-in loss if you trade solely technical without taking into consideration that Bernanke may speak on Monday, so you're going to hedge up on Friday, and you'll have a loss on one side and a profit on the other, but you'll be basically flat. I talk to my clients about hedging risk on launch portfolios by virtue of either the S&P, the Russell 1000 or the Russell 2000 for small cap. At least they have a way of not having to dump half their IBM, half their General Dynamics, when they can actually just go in and put in a futures contract as a hedge.

**JOHN GILBERT:** It's true, I tracked all the managed money and we have seen a change in long-term trend following CTAs and managers of the old school whose performances over the last 20 years had really been lacking. That may be due to the informational flow of the internet; information flows quicker, traders are put on faster... We still want trends, but there are so many people aboard them so quickly that it has made it difficult for them to make money in the long run. People are still making money, it's just that you have to be a lot more creative with the trading systems. They have to be flexible.

**JOHN HILL:** You have long-term and short-term systems. Your opinion to my opinion is what makes the market.

**RW:** Let me go back to something that you've all brought



**RANDY DURIE:** I run DuRie-Plimsoll Capital, LLC. We do foreign exchange investment management. I worked for a global macro hedge fund straight out of college in the back office and worked my way up to the trading desk. I was trading some fixed income and from there I went to a foreign-exchange-only hedge fund. I was there for another four years and then got together with two partners about five years ago and we started Plimsoll Capital. Since then, my two partners have left the company, and now the company is ready to explode.



**JERAMIE CONCKLIN:** My name is Jeramie Concklin and I'm from Allied Commodities Group LLC, in Tampa, Florida. I started my company about five and a half years ago. I worked for an IT company that went public, then I got bored after nine months of being retired at age 22, so I answered an ad in the paper for a commodities firm. I learned the business for about nine months. The people there were very good at their jobs but very bad at running a business, so I opened up my own firm, waited for them to flounder, and then I hired them.

up, that essentially flies in the face of the popular belief of about six or seven years ago. Many brokers felt that online trading was going to put them out of business. Online trading is going to cause the floors to go away and your careers to go away. It is interesting is that you all seem to agree to the contrary, that online trading has been a godsend.

**JOHN CAIAZZO:** Again, it removes an obstacle. You are no longer dealing with a multitude of small accounts where you become a jack-of-all-trades and a master of none, because you basically have to deal with a lot of people and they all have different motives.

**JERAMIE CONCKLIN:** I found that dealing with intelligent customers is a lot easier than dealing with someone who has no idea, who is just stuck on the idea of wanting to make a profit, but doesn't know how. Getting someone to take a look at a chart and you explain two minutes of what you see, it's done. And you move on to the next client.

**JOHN GILBERT:** You're right; in the beginning we were all a little bit concerned that we'd be cut out. But what's happened is that a lot more people have come in to be involved in commodities, because the margins have come down for everybody. Our costs have come down because of technology. Online trading is doing it in stocks, commodities, and now we are seeing it in ETFs. We are seeing it in some foreign markets too. Now, anybody can open up an online foreign exchange trading platform and speculate on the direction of a foreign currency against other foreign currencies and have very tight margins and spreads, like institutions used to have to do.

**RANDY DURIE:** And now, retail investors are trading

spreads that institutional investors traded three or five years ago.

**RANDY DURIE:** Ironically, about three or four years ago, I was interviewed by Futures Magazine and they asked me what I thought of online trading. I said I really liked calling up--I liked the interaction. I don't call anybody anymore. The ease of having Currenex and spreads means that ultimately, the customer is winning.

**JOHN HILL:** Now you're winning too, because if the customer makes money, you make money.

**RW:** When I ordered the creation of an online trading system I asked that it replicate the super-broker. What does the super broker do? He doesn't let his customers trade unless they have enough margin in their account. He lets them optimize their trading based on equity that they build up in their account, and of course he doesn't make unauthorized trades in the customer's account. If you can eliminate those things, or add those dimensions to an online system you eliminate the single most expensive unknown items in a brokerage firm's budget errors and litigation. Also, of course, you gain straight through processing further reducing the firm's costs.

**JOHN GILBERT:** On top of that, you can add quotes, charts, and free up the broker who doesn't have to say, "What's the price?" You've already got it. "What was it doing three months ago?" The customer can look at his own charts. And they can test it on a simulated platform before they actually put it to use. That has empowered people to become more productive.

**JOHN HILL:** People say that with systematic trading



**JOHN CAIAZZO:** My name John Caiazzo and I started Acuvest Inc. in 1999, but I started my career in 1959 as a clerk on the floor of the New York Stock Exchange (NYSE). I was a trader on the floor of the World Trade Center, and I had a seat on the New York Coffee, Sugar and Cocoa Exchange. Every night after the close, I was up with other brokers at the Windows on the World restaurant. I would probably have been at the Trade Center with my car down in the garage on September 11th had I stayed in New York. I came out to California and in 1998, a former client called me and insisted that I start running a market commentary again. He told me that the brokers that I switched him to didn't know what they were doing and cost him a lot of money. I started Acuvest on a shoestring, and that's where I've been ever since.

you are eventually going to get one good system and everybody is going to trade it.

**JOHN GILBERT:** I do think you get some saturation after a while, but when I started in this business, we had programmers that we paid a lot of money to develop models to test, and we had to buy data and the process was very expensive. Now, individuals can do it for a song, which means that the money can be put into the market, and now the margins are down.

**RW:** I sit on the FCM Advisory Board at the NFA, so I see a lot of regulations before they become regulations. One of the things that has become a serious concern for the regulators during the last year and half has been the foreign exchange business. The regulators are going to do their best job to clean things up, I'm sure. Certainly, they're vigorous about it. I think that the industry is cleaning itself up. Do you agree?

**JOHN CAIAZZO:** First of all, the client has become more knowledgeable about what he's allowed to do, what he's not allowed to do, what the broker's allowed to do and what the broker shouldn't be doing. As far as public advertising and marketing, it sometimes rings a bell with people, that gee, I think he's telling me, "We buy low and sell high," without talking about the risk involved. I mean these are violations that even the layman can understand. The brokers have come to understand that they need to be careful or they will be shut down.

**RANDY DURIE:** I think we are cleaning up. There are still going to be bad people out there. People will always skirt regulation and they should be caught and dealt with accordingly.

**RW:** What's our industry going to look like in five years?

**JOHN CAIAZZO:** Automated, unfortunately, because I

really like the idea of once in a while of talking to a floor broker, just to ask, "What's going on over there?" In precious metals, I ended up telling one client, "Don't bother charting gold. Gold moves where the dollar tells it to move, and the dollar moves based on U.S. industries." I said the tail does not wag the dog. He got a little upset, because he was a pure technician, but unless an inordinate event takes place, gold will do what the dollar tells it to do. Dollar up, gold down; dollar down, gold up. In most cases.

**JOHN GILBERT:** I think we will see more people coming into managed futures, because it's becoming more and more transparent. And people want the transparency to see their account value daily rather than monthly. I'm trying to work on a process right now where people can search the whole internet for managed money and make the decisions and invest without having to be sold. That's how my business has been, we call nobody. Everybody calls us and we just open accounts.

**JOHN CAIAZZO:** I think clients are looking at the commodity markets because I think what Michael Douglas's character said in the movie Wall Street, "Greed, for a lack of a better word, works."

**JERAMIE CONKLIN:** There was a glut in business about three years ago, and now we're in an upswing again. In any business, my father told me this a long time ago, you have to picture it as a wave. I think what we are going to see over the next four or five years is an influx of business. Tons of money flying across the board in all different kinds of commodities, and then after that—maybe in five years, nobody has a crystal ball—we'll see it peak down, and people will start taking their money out of the commodities and whiz back over to the equities and maybe to the housing market.

**JOHN HILL:** What I've seen is exponential growth. I think Mr. Hightower had it right, I think five years from now we'll see exponential growth in demand for fuel

and other commodities.

**JOHN CAIAZZO:** Well, think of someone who doesn't trade commodities, and over the past few months they've been hearing about crude oil. They think, How do I take advantage of this? Who do I call? The material is out there.

**JOHN HILL:** Overall, I think Mr. Hightower is right on. I think there are tremendous opportunities for the little guy and the big guy, because the big institutions cannot move money as easily as the small guy.

**JOHN CAIAZZO:** There are more little guys every day that wake up in the morning and say "I heard about these managed futures...People are making money like this and here I am sitting with 500 shares of IBM. What do I do?" They go on the internet, they plug in the word "commodity," and there's about a thousand pages.

**JOHN GILBERT:** I was just going to make a comment on oil. I think the economy is in a world of change. We're pulling in more oil worldwide. China's middle class is growing, they want more products, plastic requires oil and what's happening is that we are going to get used to paying higher prices for gas...We're used to it. These high prices are going to stay, which may lead to alternative energy. Corn is huge right now. Ethanol is being used for energy and the corn prices are reflecting that. Is that going to go away? Not if world demand continues.

**JERAMIE CONKLIN:** [to Russ Wasendorf, Sr.] I'm curious to see what you think will happen in the next five years. I understand this is our interview, but...

**RW:** I think you'll have to have some very special features to satisfy the trader five years from now. First of all, the online trading platform is going to have to have all the market quotes distributed through them. That is, the online systems will also be quote and data vendors. The exchanges are working very hard to figure out better ways to charge customers for market price quotes. What they are going to end up doing is charging quotes on a per unit basis rather than a screen basis. That'll free up things a great deal.

Now that we have trading 24 hours a day, we have customers demanding that they have online access 24 hours a day. Eventually they will want their trades posted in their time zone. Right now we have customers from 88 countries. A customer in Saudi Arabia has banking and financial hours based in his time zone. We could actually create custom posting of his trades to correspond



**JOHN GILBERT:** I'm John Gilbert with Managed Account Research, based in Santa Barbara, California. I've been in this business for about 25 years. I started out with options at a derivatives trading house, back when exchange-traded options were just getting back online. It was pretty much like Cowboys and Indians with high commission rates. We've changed a lot and since then I've owned about four or five IBs. I work in Chicago; I'm from Chicago originally. I strictly manage money with CTAs and I maintain a CTA database on commodity trading advisors. We sell and represent traders and raise money from managed money.

to that time zone. We already have live equity updates, if customer wants to have his posting done at 3 o'clock in his time zone we can do it.

Time for one last question. I'm going to put a little pressure on you. What is the best trade of the year??

**JOHN CAIAZZO:** I'll take it. Short copper.

**RW:** Elaborate on that.

**JOHN CAIAZZO:** I like soybeans for the long.

**RW:** Elaborate on the short copper.

**JOHN CAIAZZO:** Copper exploded because of the supposed demand from China and from the developing countries for copper, but there is also the offset to that. There is the declining demand from the housing and auto industries. That was just sort of forgotten. The technicians grabbed hold of copper for a dollar twenty or a dollar forty and fixed it up to almost three dollars a pound. It's completely technical. It had nothing to do with fundamentals. That confounded me, and we started selling copper at \$2.10, \$2.50, \$2.70 and that didn't work out too well. We ended up getting stopped out at \$2.78 or \$2.80 and right back in again at \$2.95 on the way back down from almost \$2.97 or something like that. And we only did half of what we had the original position at. Now if it continues to go down from here...we're making money. But that was the trade of the year, buying the copper first and then finding out where the stop should be.

**JOHN GILBERT:** I've got one. I'm going to say that the

interest rates are going to start to fall. I just think the economy is starting to slow. We are starting to see housing have a little more impact on people, more foreclosures, starting to ride. People who were living on credit—this debt bubble here, they're running into a soft landing. But things have slowed down a lot, people have gotten smarter and they're not spending this economy, and they need to go. I think we are keeping it tight right now because there are still some inflationary pressures, but that's starting to subside. We are starting to see copper come off of some of these items, energy has come up a little bit, and I think interest rates are going to start to click down, and the bottom market is going to start to move up again.

**JOHN CAIAZZO:** I think I agree 100 percent.

**JOHN GILBERT:** Energy? That's a flip of the coin, how the world economy draws on it.

**JOHN HILL:** I think the agricultural commodities could explode. Top pick: Corn has already had a good move, but you look at the offshoots of corn. They're planting more corn and less soybeans and less cotton. I don't make much money on fundamentals, but the world grain stocks are at record lows. So I think there's going to be a tremendous amount of money in agriculture. That's my one trade of the year.

**JERAMIE CONKLIN:** Short the DOW.

**RW:** Short the DOW? You have to give a reason, you can't just throw it out there.

**JOHN CAIAZZO:** We are going into recession, how's that for a reason?

**JERAMIE CONKLIN:** It's way up there right now. I know that may not be the sexiest answer that everybody's ever heard. I'm thinking, it goes under what you were saying about the bonds. Bonds go higher, DOW should go lower. They tend to work inversely of each other. Your argument for the bonds going down is...

**JOHN GILBERT:** I don't know if there's going to be a massive exodus of the stocks; they may just stabilize here. Just look to the whole pace they've been going for the last six months of the year, I mean they'll just stabilize. People will come into this long term investing mentality, we aren't going to see this big shift out of the stocks into something else. They may move from small cap international maybe into just large cap, just to protect their portfolios, scale back on stocks, maybe more bonds, that's why I think bonds are going to lose.

**JOHN CAIAZZO:** In '87 the equity markets kept going up and I had one institutional client that was selling into it, selling into the S&P, and he ended up almost getting wiped out. He pulled everything out in September and then in October of course the market collapsed. And I feel that's what is going to happen. The market is going to have a big decline and then level off and then slowly cool, and the market will do the same thing it did in '87-'88.

**JERAMIE CONKLIN:** So you concur?

**JOHN CAIAZZO:** Oh yes, absolutely.

**RANDY DURIE:** I'm not going to pick a foreign exchange trade, because I am a short term trader and we don't really try to predict where the euro is going to be at in 6 months, let alone a year. I actually disagree with you guys a little bit. I'm not sure where I think the ten year bond is going, but I think the economy is actually moving along at a pretty nice pace. I think it's going to continue to go up and down a little bit here, but I think the Fed is going to stay on hold for a year and then the market will adjust interest rates using the five and ten year bonds. I would say to me the best trade is short the December 3-month Euro dollar interest rate futures.

**JOHN GILBERT:** Maybe there's a point, because the election isn't till next year, so maybe you're right. They keep rates up there so we can start pulling them down next year.

**RANDY DURIE:** There are so many Fed officials coming out and saying we're still wary of inflation.

**JOHN CAIAZZO:** They have got the ostrich syndrome; they have their head in the sand. When they come up with these consumer confidence figures they must be asking people walking out of Tiffany's with little blue bags what they think about the economy. I don't see it.

**RW:** Gentlemen, thank you so much for speaking with *SFO*. It has been a pleasure. ●

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