



Profiles in Forex

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Hanson: Quick profits

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By Christine Birkner

Peter Hanson's career in forex trading started with a journey to Stockholm, Sweden. "It was the opportunity to go to Sweden that was more appealing than any of the other options. At that time, I didn't even know how to spell FX, let alone realize the scope of its importance. I totally stumbled in to it," he says, referring to an internship he earned sponsored by AIESEC (an association of students in international economics and commerce) and the University of Wisconsin, where he earned a Bachelor's of Business Administration degree.

He got his start working on a trading floor with a Swedish bank, Wermlandsbanken, in Stockholm after college in 1982. "At that time, the traders' equipment consisted of a blotter to write down all trades, net positions and P/L, two phones, broker boxes and a large telex. The trading strategy was all discretionary based on technical and fundamentals," he says.

After a year in Sweden, he worked as a runner at the old Chicago Mercantile Exchange floor in the old Marsh & McLennan building. From there, he held sales and trading positions with Continental Bank, Bear Stearns, Manufacturers Hanover Trust, Citibank, and Merrill Lynch. He then worked as a managing director with Bank of America and as a managing director with ABN AMRO. In 2008, he joined his current partners at Astor Capital Management, a commodity trading advisor (CTA) formed in 2007.

"When I started out in the foreign exchange business, the trading approach was very discretionary. There was a fundamental approach and a technical approach and you could make and lose money with either. In today's world, the discretionary trading approach still exists and is relevant, but the true integration of technology has allowed old school traders and the new breed of trader to express their styles with trading algorithms," Hanson says.

When Hanson set up his CTA he wanted to trade the most active and liquid markets, which led him back to forex. "There is such liquidity and so many players that one person or group of people can't manipulate the system," Hanson says.

Astor's approach is 95% systematic, 5% discretionary, and its trading methodology is based around algorithms. "[We] built a library of algorithms and we periodically look at different currency pairs, apply various algorithms to multiple currency pairs [and] backtest the performance of the algorithms over our recent data," he says. "If the trading model provides an appropriate return in the backtesting stage, we will generally go with it."

The small amount of discretion has to do with the amount of leverage applied to a specific trading model. "If we have a reasonable confidence in that model, we'll start it at a base line, and if we have a whole lot of confidence, run it a little bit higher. As the trading model performs well, we will consider increasing the leverage a bit (up to a maximum internally set level), and if a model isn't performing well, we may look to dial down the leverage."

Hanson says it's difficult to point out one of his best trades because of the short-term nature of their methodology. "We're in and out so quickly, three minutes from an open position to a closed position." But the method has worked well, with Astor generating positive returns in 2007, 2008 and thus far in 2009.

However, he notes that trading can be humbling. "You do analytics, you do backtesting, and yet you can be humbled. You talk to the brightest minds out there and try to come up with an edge, but it's always a challenge to take all of that information and weave it into something that makes you money," he says.

Hanson was happy in his 27-year career on trading floors, but now enjoys his current place in the CTA world. "The trading floor [was] a very comfortable place to be: you are provided with information, tools to analyze it and bright colleagues to challenge your views. When you got it right, it translated into profits for the group. As a partner of a CTA, there's the added stress that goes along with the ownership," Hanson says.

"We've designed a product that we think is really appropriate for investors in today's marketplace. Investors are getting into FX managed accounts because of the low correlation with traditional assets such as stocks and bonds. That helps dampen the volatility in their total investment portfolio. We like what we're offering to the investor and we like the education aspect of working with investors new to this asset sector," he says.

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