

OPEN

HIGH/LOW

DIRECTIONS

CLOSE

INSIDE: STALKING WHEAT, BUY-SIDE SHOP TALK, NORWEGIAN TRADERS IN SPACE

“Trade with a trend, ride the winners, cut the losers. How you do it doesn’t matter.”

That's sound advice, offered in spades to the members of the global "Trading Tribe" who eagerly seek the counsel of tech pioneer Ed Seykota. As their de facto shrink, Seykota clears minds — then sits back and picks out a happy tune while the profits roll in. See "Tribal Warrior," page 46



PHOTOGRAPH BY JIMMY NICOL



## TRIBAL WARRIOR

HALL OF FAME

He helped create computerized trading and used technology to notch a staggering track record. Rather than rest easy, Ed Seykota has now emerged as the trading world's shrink BY LIZBETH SCORDO

**ED SEYKOTA IS LEADING** a drum circle in his living room, his back to a large picture window offering a spectacular view of crystal-blue Lake Tahoe. As six others follow his lead, he pounds out a rhythm, tap-tap-tapping on handheld hoop drums. The beats grow louder and louder, then softer, before finally fading away to silence. Another meeting of the "Trading Tribe" has come to order.

Seykota, in a button-down shirt and jeans, checks in with those around the circle. One trader says he watched Google shoot up the day before, just as he knew

it would. He's always missing out, he laments, and he can't stand it.

"I think there's something else that's holding you back," Seykota tells him. "And I want us to figure out what it is. Are you willing to work?"

"Yes," the trader tells him. "I am."

The ritualistic aura and cultlike attentiveness might seem a little bizarre, except the members of this tribe are successful traders who credit their good fortune to Seykota. He speaks plainly, and his disciples hang on every word. "Trade with a trend, ride your winners, cut your losers

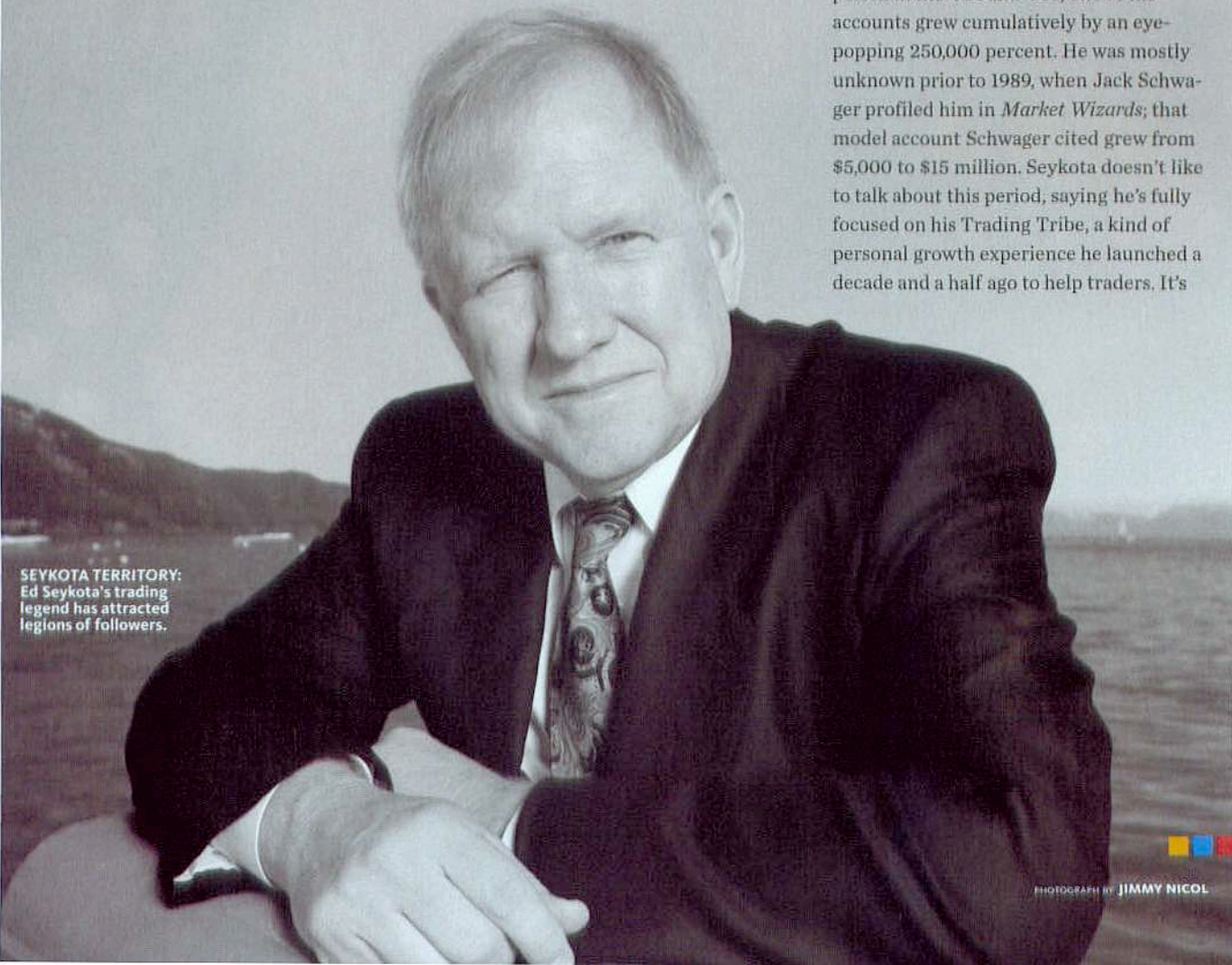
and manage your risk," he says later during a rare sitdown interview.

One of the most formidable traders in the world, Seykota made an immeasurable impact on the industry by developing one of the first — if not *the* first — computerized trading systems more than three decades ago.

"Systematic trading is what the biggest commodities managers do today, but Ed was the first," says David Druz, founder of Haleiwa, Hawaii-based Tactical Investment Management, who was a Seykota apprentice in the early '90s. Seykota, now 60, was also one of the first to use exponential moving averages, which many traders rely on heavily today.

He spent most of his career quietly using his trend-following techniques to trade for himself and a small number of other private accounts. Over a 16-year period in the '70s and '80s, one of his accounts grew cumulatively by an eye-popping 250,000 percent. He was mostly unknown prior to 1989, when Jack Schwager profiled him in *Market Wizards*; that model account Schwager cited grew from \$5,000 to \$15 million. Seykota doesn't like to talk about this period, saying he's fully focused on his Trading Tribe, a kind of personal growth experience he launched a decade and a half ago to help traders. It's

**SEYKOTA TERRITORY:** Ed Seykota's trading legend has attracted legions of followers.





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## HIGH/LOW

his way of giving back, but now he gets his due: For his breakthroughs in computerized trading systems and trend following, *Trader Monthly* hereby inducts Seykota as the thirteenth member of the Trader Hall of Fame.

Thanks to his father's job as a chemical engineer, Seykota moved so often as a child that he can no longer remember the exact sequence of the places he lived, which range from Kansas to Colombia. While he was still at MIT, where he was pursuing electrical-engineering and industrial-management degrees, Seykota landed a job at a plant that manufactured anhydrous ammonia. "My job was to look at the plant, see how it behaved and determine whether computers might help control it better," he says. "I was applying systems thinking."

At just 23, he began analyzing the ammonia price cycle: When the market was up, manufacturers built new plants, driving the price down as soon as the facilities came online. Seykota built a computer-simulation model to help understand these cycles. Plant operations personnel admitted his model made sense, but management refused to use it to help with decision-making.

Seykota next set out to create a model to extract profit from the stock market using technical analysis. Writing his program to rudimentary punch cards, Seykota built a computerized trend-following system.

His first stop was Merrill Lynch, where he landed a job as a broiler-and-egg-market analyst, but he didn't stay long in that position; one of his reports recommended staying out of that market altogether.

### THE TRADER MONTHLY HALL OF FAME

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LEO MELAMED, CHICAGO MERCANTILE EXCHANGE
JIM ROGERS, ROGERS INTERNATIONAL COMMODITIES INDEX
STEVEN SCHONFELD, SCHONFELD GROUP
MARTIN "BUZZY" SCHWARTZ, INDEPENDENT
MICHAEL STEINHARDT, STEINHARDT PARTNERS

"The boss was furious with me," he says.

Luckily, brokerage house Hayden Stone offered him a position as "the math guy," assisting in the research department. His main concern was whether the company had a computer he could use. It did — a mainframe accessible to him only on weekends. For months he spent his weekends on it, scrubbing futures data and running tests. He unveiled his final product to Hayden's management, which agreed to implement it and give him a fraction of the commissions. The system was successful, but not everything went according to plan. "One of my superiors said, 'We can't pay you what we said. You're just a kid out of school, and you'd be making more money than me,'" Seykota recalls. So he struck out on his own, taking on a few clients and investing their modest amounts of cash along with his own.

All the rest — the barely fathomable returns, the big house on the lake, the endless accolades from those who know him — is history. "He is the best there ever was," Druz gushes. "There has never been a trader who has walked this planet as good as Ed."

In 1992, Seykota started a small support group for traders. "We realized that maybe we should find out about our emotions and use them as allies," says Seykota of those initial meetings. "People started doing that and came back saying, 'Hey, my relationship with my wife is improving' or 'I'm feeling better.' We started getting other benefits."

Fourteen years later, the Trading Tribe has grown considerably. There are now tribes in more than a dozen countries, and Seykota's Trading Tribe Web site (trading-tribe.com) gets over a million page hits a year. He often floats new ideas at the meetings he leads at his Lake Tahoe home before sharing them with the other tribes around the world via his site.

Seykota still trades a little bit these days, but leading the tribe, as well as spending time with family and playing the banjo, have become his passions. "People sometimes ask themselves, 'What would I do if I made a lot of money and didn't have to work?'" he says. "Well, I made the money. Now I'm doing what I want." ■

