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BUSINESS DAY

# Stock Markets Are Scary. Suddenly, It's a Good Time to be a Trader.

By LANDON THOMAS Jr. MARCH 8, 2018

Inflation scares. Trade wars. Rising interest rates.

Suddenly, it is a scary time to be an investor — but a great time to be a trader.

After nearly a decade of calmly climbing stock markets, a period during which algorithms and index-tracking funds reigned supreme, newly volatile markets and the return of a little bit of fear have given new life to an old Wall Street creature: the swaggering risk-taker.

Hedge funds, after years of poor performance and rich fees that led to questions about the viability of the industry's business model, are finally beginning to perform better. Having steered clear of increasingly pricey stocks, so-called value investors, who make long-term wagers on undervalued companies, are getting back into the game. And as the volumes of buying and selling spike, traders at Wall Street banks who were relegated to the sidelines in recent years are hoping for a return to the days of easy profits.

So far, it's unclear which firms have been able to capitalize on the market turmoil and to what degree. But Wall Street firms are licking their chops.

Volatility and uncertainty: “We’re in that business,” said Marty Chavez, the chief financial officer of Goldman Sachs, speaking on a recent conference call with analysts.

After a year in which a 1-percent move, up or down, in the Standard & Poor’s 500 stock index was a rarity, 2018 has featured stomach-churning market swings on a regular basis. Monday was a good example. Stocks plunged initially on news that Gary Cohn, President Trump’s top economic adviser, had resigned, only to recover those losses by the end of the day.

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“We are seeing extreme volatility here [illegible] is business model,” said Adam Sender, the founder of Sender Company & Partners, a hedge fund the specializes in making quick bets in up-and-down markets. “Things are moving around like crazy — the opportunities are tremendous.”

Mr. Sender was so frustrated by the long period of markets grinding higher, absent any sharp moves, that he simply stopped trading last November and took a three-week tour of Sweden, Iceland and Japan.

“It made me sick looking at my screen all day,” he said. “I felt I was wasting time.”

No longer. On a day last week when stocks plunged, Mr. Sender was in and out of the market all day — buying a stock here, betting it would fall there.

Of course, a choppy, fun-to-trade market could easily turn ugly if the economy suddenly slows or a trade war erupts with China, to name just two risks. And these days of roiled markets might not last, or the volatility could grow so severe that traders seeking to profit from the turbulence are instead capsized by it.

After the stock market plunged in early February, Charlie McElligott, a derivatives strategist at Nomura, said that his clients were eager to put on trades that would capitalize on increased volatility.

But by last week, when markets plunged again, many of those same investors had had enough. They sold their shares in a panic, trying to cut their losses. “It is the

second sell-off that scares you — there has been a change in psyche," Mr. McElligott said. "People were burned when they bought the dip."

Investors who make bets on stocks, currencies and bonds based on where they think the overall economy is headed argue that the recent market spasms are healthy, if nerve-rattling, for the financial system.

That is because a stock market that goes up for 15 consecutive months, as the S. & P. 500 did before its streak was broken in February, lulls investors into a false sense of security. When that happens, investors largely remove the prospect of losing money on an investment from their calculations.

Traders say that much of the selling in recent weeks has come from funds that gambled that markets would remain calm. When they instead became volatile, the funds — many of them programmed to automatically buy or sell based on computer-driven strategies — started selling en masse. The clearest manifestation of the heightened volatility is an index known as the VIX, whose levels have doubled in recent months.

"The machines had taken control — now they are selling everything," said Philippe Jabre, founder and chief investment officer of Jabre Capital in Geneva, which manages $1.5 billion in assets.

Mr. Jabre made his name as a hedge fund investor in the 1990s, a time when markets were turbulent and unpredictable. He pointed out that higher volatility does not necessarily mean lower markets; they are just more challenging to navigate. That was why he got into the business in the first place. "We have made our name in these up-and-down cycles," he said. "Things are more interesting today because we are more nimble and we can find great picks."

Over the past several years, there has been a vast migration of investor money — more than $1 trillion, analysts estimate — from funds run by stock pickers to those, such as exchange-traded funds, or E.T.F.s, that are designed to track major market indexes.

Suddenly, funds that have human beings in charge of investment decisions are looking more attractive to anxious investors.

"Last year, people were saying, 'Why am I paying all this money to a hedge fund? I can just buy an E.T.F.,'" said Said Haidar of Haidar Capital, a hedge fund in New York with $440 million under management. "But with all this volatility, you might want someone who can trade around these markets."

In other words, investors are now looking for hedge funds — investment vehicles that engage in a wide range of trading, including making bets that markets will fall — to actually live up to their names and offer protection, or hedges, against falling stock markets. That could mean, for example, buying stocks that didn't benefit from the bull market and thus are less likely to fall as sharply as the broader index.

That is the strategy being followed by Thomas H. Forester, chief investment officer for Forester Capital Management in Chicago.

His fund used to manage $250 million. It's now down to $40 million. When markets seem to go up forever, the very idea of protecting your downside, thus missing out on returns, seems foolish to many — and that was what Mr. Forester was doing.

In the past month, though, Mr. Forester's phone has started ringing. Wary investors want to give him their money, and he is finally seeing stocks that might be cheap enough to buy.

"We are no longer watching reruns," Mr. Forester said, referring to the stock market's regular rise each year. "Your stomach starts churning, it's more dicey — but it is a lot more fun."

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