Leveraging 15 Minutes

Day-trading entrepreneur Adam “Average Joe” Mesh became one of reality TV’s biggest stars a few years ago and he’s still cashing in on his 15 minutes of fame. Mesh’s company, Adam Mesh Trading Group, trades off his Average Joe days, offering one-on-one tutorials for would-be Wall Streeters via its Web site, adammesh.com. He sends his free newsletter to 30,000 readers, he says.

Mesh got his start as an online mentor last summer after he sold his interest in day-trading firm Chimera Capital and focused solely on trading for himself. A friend produced how-to books, a vocation that inspired Mesh to assist novice traders.

“My goal is to build a personal trading community,” he says.

His search for true love, meanwhile, seems to have gone pretty well: Mesh got married last spring to a woman he met in the lobby of his apartment building. Sometimes, apparently, it pays to be average.

Bubble Watch

Might the art market be the next bubble to pop?

Art-investment adviser Richard Rabbito thinks so. He identifies the alternative-investment community as the cause of the inflating bubble, blaming it for pushing both prices and deal flow higher. Hedge-fund managers, in particular, are pouring money into art, accounting for much of the activity involving the work of the masters. “I see the same faces at every auction,” Rabbito says of the hedge-fund managers. He explains that their appetite for art and lack of education about it is a dangerous combination, leading ignorant buyers to drive prices to artificial heights. “It can’t last forever,” he notes.

New York artist Julio Aguilera concurs. “What are you going to do with a $72 million painting?” he asks. “Sell it? To whom? Do you think you’re going to get $144 million for it?”

Because art is a relatively illiquid asset, comparing its performance to that of the major securities markets can be rather difficult. While it’s easy to find up-to-the-minute stock prices on the Internet, art prices update irregularly, mostly in galleries and at auctions.

Several years ago, to help alleviate this problem, Michael Moses and Jianping Mei, professors at New York University’s Stern School of Business, developed the Mei Moses All Art Index using sales data from various art auctions to measure the historical performance of this unique market.

According to that index, the art market, broadly defined, has outperformed the S&P 500 soundly over five- and 10-year periods. While the S&P 500 was good for only 6.2 percent average annual growth from 2001 to 2006, the Mei Moses index shows that art delivered an average return of 11.6 percent over the same period. Data from Moses’s artasanasset.com show that during the last art bubble – from roughly 1985 to 1990 – the Mei Moses Index performed well above the S&P 500, with an average annual growth rate of more than 30 percent. Says Moses: “We’re not near that level yet, but another year like the last 18 months, and we’ll be close.”

In Praise of Poppy Dock

Unlike some NYMEX seat owners, Arthur Dock didn’t rush out and splurge on himself after the exchange’s IPO last year. After all, the Queens resident already had four watches. Their cost: $8 apiece. Some of the exchange crowd may have acquired their dream homes post-IPO, but Dock kept his apartment in Floral Park. “My wife, Shirley, still clips coupons,” he says.
Dock, who is known to friends and family as "Poppy" (and who is not to be confused with former Haitian dictator "Papa Doc" Duvalier), is 81 and lived through the Great Depression. "Growing up in Flatbush, Brooklyn, we were very poor," he says. "I never forget that."

A Navy veteran who survived kamikaze attacks in the Pacific off Iwo Jima, Dock later endured the dissolution of a lamp-business partnership, which left him, at age 50, in a fix. His brother's brother-in-law suggested he take up potato trading at the New York Merc. Dock bought his first seat in 1976 for $9,200. To this day, some claim that his regular Friday-morning bagel feasts helped ease tensions among board members, paving the way for an era of energy-trading growth (he also penned a must-read daily commodities newsletter).

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On the day in 1991 that Dock snap-retired from the NYMEX trading pits, he had gone to work as if it were any other day. "I'd never given it much thought," he recalls. "Out of the blue I asked myself, 'How many millions does a man need to retire?' I started doing the math. I suddenly realized I could retire. So I did."

Dock, it turns out, does treat himself to one big-ticket indulgence, however. "I was a Buick man my whole life," he says with a laugh. "Now I drive a Caddy."

Leased, of course.

Ghost in the Machine

The "repricing of credit," as it's being called, continues to send reverberations throughout markets worldwide. Spooky quant activity seems to have abated, for the most part, but what exactly happened in late summer?

Los Angeles-based trader Mike Martin offers his take: "Primes couldn't price the instruments used as collateral adequately," he speculates. "In order to raise the cash, funds offset positions in the most liquid markets -- trades that they otherwise would not have been offsetting, because they had to reduce margin balances -- thereby raising cash. Programmers of these computer-quant models did not consider this outlier event."

The de-leveraging may not be over. If client redemption letters show up in greater quantity than buy/sell orders, Martin says, the markets may be in for another bout of volatility. "Funds will need to liquidate securities to meet the redemptions," he says.

Taming Spot Forex

It's all fun and games until someone loses an eye. Or, in the case of many industries, it's all fun and games until the government demands its vig. Like Las Vegas prior to corporate legitimization, forex trading at the retail level has seen explosive growth with little regulatory oversight over the last decade. By offering clients seemingly unlimited liquidity and leverage, these new market makers turned into de facto online casinos.

Once the exclusive domain of institutions and wealthy individuals who essentially regulated themselves, forex trading became available to the little guy in the late 1990s. As the business moved downmarket, pioneers exploited a niche for traders fleeing a tanking equities market. With leverage levels defaulting at 100-to-1, and with more buying power available upon request, amateur traders frequently blew their loads.

While the house is still way up, the party looks to be over. The National Futures Association and the Commodity Futures Trading Commission have begun a crackdown reminiscent of the Nevada State Gaming Commission in the Bugsy Siegel era.

Fraud remains rampant, meanwhile; the CFTC has prosecuted many more forex-related cases since 2001.

In addition to the increased scrutiny being applied by the feds, the NFA has begun weeding out amateur brokers. Three of its registered Forex Dealer Members (FDMs) have closed in 2007 due to failure to meet the NFA's net capital requirement, soon to rise to $5 million from $1 million.

Bernstein Pulls Some Strings
Former Citigroup honcho Steve Bernstein, owner and publisher of Relix magazine, has been known to shred on the mandolin with his jam band, Hell or Highwater, but of late he has an even better jam going: taking actual guitar strings from rock legends such as Pete Townshend and Keith Richards, then turning them into bracelets for a good cause. His Wear Your Music campaign (noted designer Hannah Garrison, of Azu Studio, is his collaborator) has raised $250,000 over the past year for a variety of music-related charities. There is nothing cooler than wearing a guitar string that was once played by your favorite musician, says Bernstein, whose trading roots trace back to the Salomon Brothers glory years. We just added some made from Jimmy Buffett’s strings.

The bracelets are available at wearyourmusic.org.

Have an interesting tidbit? E-mail it to us at insiderinfo@tradermonthly.com.