

Bloomberg MARKETS

MARCH 2009

A man with dark hair, wearing a white long-sleeved shirt and blue jeans, stands in a grassy field. He is looking towards the camera with a serious expression. His right hand is resting on the head of a brown horse in the foreground. In the background, another brown horse and a white horse are visible. The sky is blue with light clouds, suggesting a bright, sunny day.

COWBOY CAPITALISM

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.



Salem Abraham's hedge fund firm defied the 2008 market crash with a 30 percent return. He did it from the Texas town where his family has done business for generations.

By **KAMBIZ FOROZHAR**

Photographs by **CHARLES FORD**

IT'S LATE ON A SUNDAY evening in October, and Salem Abraham is the last diner at the Cattle Exchange steakhouse in Canadian, Texas. Abraham is a local businessman and lifelong resident of this tiny oasis of a town—population 2,277—nestled among cattle ranches in the desolate Texas Panhandle, its green hills watered by the Canadian River. Wearing jeans and a white shirt, Abraham takes his time finishing his peach cobbler. Then he moseys upstairs to his office, in the same building, to check on the market.

Salem Abraham visits the family's 27,000-acre ranch when he isn't managing his hedge fund firm.

It's not the local cattle auction he

looks into. It's the Asian commodities and currency markets. Abraham is the president of Abraham Trading Co.—a \$300 million hedge fund firm that buys and sells futures contracts in 60 markets around the world. Abraham, 42, owns the 99-year-old Moody Building the steakhouse is located in. In fact, he owns nine buildings along Canadian's Main Street, including the old movie theater, which he spent \$1 million renovating.

Abraham doesn't need to be in Chicago or New York to make money. His Abraham Trading Diversified Program, which uses mathematical models to track trends in the markets, was up 30 percent in 2008. The program determines trades in four ATC hedge funds. Just a third of hedge funds with assets of more than \$100 million had positive returns in 2008, according to data compiled by Bloomberg. The Standard & Poor's 500 Index fell 41 percent last year.

New investors are pouring into ATC, and the

fund firm is on course to grow to \$500 million by June. Abraham has also made millions of dollars over the years selling the water beneath his and his neighbors' land and in a series of lucrative real estate transactions.

"He's the only money manager who's made me any money this year," oilman T. Boone Pickens said in November. "And that includes myself." Abraham and Pickens are sometime business partners and, by Texas standards, neighbors. Pickens's 68,000-acre (27,500-hectare) ranch is 20 miles (32 kilometers) from the Abraham family's 27,000-acre spread. Pickens, a longtime oil tycoon, says he lost \$2 billion in 2008 by making bad bets on the direction of oil and gas prices. He declines to say how much he has invested in ATC funds.

Abraham has been making money for his investors consistently for two decades. His firm posted a 21.8 percent average annual return for

Abraham chats with ATC staff in the trading room above the Cattle Exchange steakhouse.



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the 21 years ended in 2008. One thousand dollars invested in January 1988 was worth \$82,000 at the end of last year.

“They are different from the crowd,” says Grant Jaffarian, chief investment officer at Naperville, Illinois-based Efficient Capital Management LLC, a hedge fund firm with \$1.2 billion under management, who has invested in ATC. “They spend a lot on research and are passionate about what they do.”

A

TC AND ITS seven traders are known in the hedge fund world as commodity trading advisers, or CTAs, though CTAs don't invest only in commodities. The firm is about 60 percent invested in metals, oil, gas, orange juice, milk and live cattle. Abraham also bets on the movement of currencies, interest rates and stock market indexes.

“Trends can last a few hours or days,” says Barry Sims, 51, director of operations. “On some trades, it can last a few months.” The firm makes as many as 50 trades a day. Three times a day, its computers churn out 100-page reports describing the firm's positions and saying what new actions it should take.

CTA firms in London and New York typically hire Ph.D.'s in mathematics, economics and physics to do the computer programming behind their trades. Abraham's traders are local hires who are trained on the job. “We don't have people with fancy resumes,” Abraham says. ATC trader Shane Sawyer was an assistant manager at a feedlot in Kansas before taking a job with Abraham. “At a feedlot, you're working from sunup to sundown,” says Sawyer, 35, who has an agriculture degree from Abilene Christian University. “It was an easy choice to make, and it smells better.”

Abraham, a father of eight children who has a finance degree from the University of Notre Dame in South Bend, Indiana, wrote the original ATC trading program himself and does most of the firm's research. He gets assistance from his first cousin, Mark Abraham, and Larry Smith, a former mortgage and debt broker in Las Vegas. The trio search for patterns and correlations that

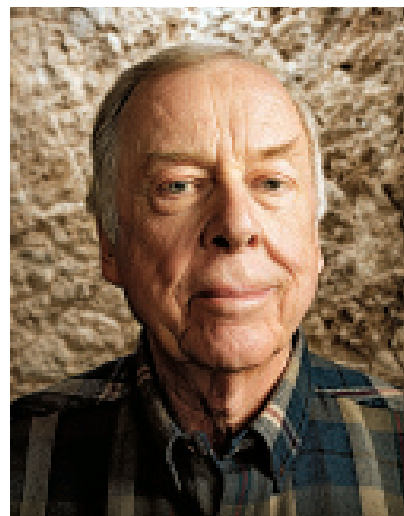
can divine a market's direction.

ATC profited in 2008 when its computer models predicted that the price of metals, particularly zinc and nickel, would sink as industrial production in China, India and the West declined. The zinc price fell 49 percent for 2008, while nickel declined 55 percent. Abraham also bet that the British pound would lose value against the dollar—it sank 26 percent—and that the yen would grow stronger, another winning trade, as the yen carry trade wound down. In the carry trade, investors borrow yen at low interest rates and then invest in assets where yields are higher.

This year, Abraham predicts—without benefit of computer models—that base metals and crude oil will double in price as the world's economies begin to grow again. Another trend he sees is a rise in inflation triggered by the U.S. government's decision to pour new money into the financial system to spur that growth. “It's to everyone's advantage to believe the dollar has some value and isn't just paper and ink,” Abraham says. He's buying Treasury inflation-protected securities, or TIPS, to guard the value of his assets. “It's like putting on a car seat belt; it's insurance,” he says.

The Abrahams have been traders for generations. Salem's great-grandfather emigrated from Lebanon and settled in Canadian in 1913. It was then a bustling cattle center, and the immigrant sold jeans and other clothing to the cowboys.

Abraham's grandfather, Malouf “Oofie”



Boone Pickens said Abraham was the only money manager who made him any money in 2008.



Abraham, took the family business up a notch. After World War II, he started trading cattle and real estate. Then, in the 1970s, natural gas drilling activity took off in Hemphill County, of which Canadian is part, as prices rose. So Oofie began trading oil and gas leases and grew wealthy. He also was elected mayor and a state senator.

The trading impulse skipped a generation with Salem's father, also named Malouf, a retired physician who has no interest in finance, his son says.

When Salem headed off to Notre Dame in 1984, he knew he would emerge as a businessman. He didn't know what kind until a chance encounter at a party in 1987 with Jerry Parker, founder of Richmond, Virginia-based hedge fund firm Chesapeake Capital Corp. Parker—who still runs Chesapeake—introduced Abraham to the concept of “managed futures,” buying

commodity futures contracts based on the recommendations of trend-following models. He invited the student to visit him sometime to discuss the concept further; Abraham showed up in Virginia three weeks later.

SALEM'S GRANDFATHER HAD given him and his two brothers, Eddie and Jason, \$50,000 each to do with what they wished when they graduated from college. In his senior year in college, Salem asked for access to his cash early so he could trade futures. He would rise at 7 a.m. to do research and then trade until 10, before heading off to class. “He was always more together than the rest of us,” says Mike Nelligan, a college friend. “He had high expectations for himself and knew he was going to be successful.”

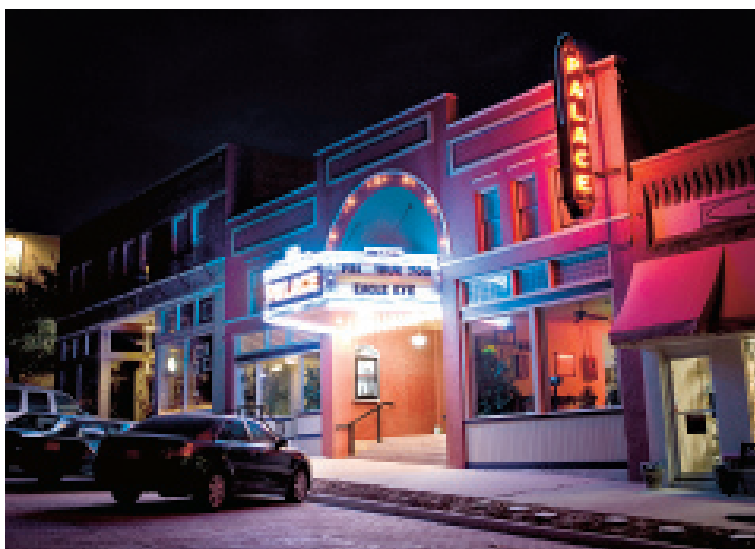
By mid-October 1987, Abraham's \$50,000 had grown to \$66,000. Then on Oct. 19, the stock market crashed, falling 22 percent that day. Abraham lost half of his money on bad currency trades. “That was a great lesson: Don't trust what they teach you in statistics class,” Abraham says. “The things they say can never happen, can happen.”

After school, Abraham returned to Canadian, as he had always intended to. “I like the quality of life here,” he says. “I don't have to worry about traffic.” He married his high school sweetheart, Ruth Anne, and their eight kids range in age from 16 to 5. “I wanted four kids, my wife wanted six and we just kept going,” Abraham says. He takes the time to attend his kids' sporting events and other activities and sits on the school board. “When your kids are 1 percent of the school, you get a seat on the board,” he jokes.

In 1988, Oofie Abraham set up his three grandsons in a new business. Abraham Investment Co. bought and sold oil and gas leases and ranch land. “We would buy a ranch, fix it up and sell it,” Eddie Abraham says. “If we couldn't sell it, we'd operate it for a while and run cattle on it.” Eddie, 44, is the real cowboy of the family. He loves ranching and used to compete in “cowboy action shooting”—a quick-draw and target-shooting contest. He won the 2004 world championship in the derringer class.

Even while he worked in the company his grandfather set up, Salem remained transfixed by managed-futures trading. So he started a business on the side, writing his own program on his home computer—a Tandy 1000—and drawing up charts

Abraham's house in Canadian, below. He renovated the **Palace Theatre**, bottom, at a cost of \$1 million.





by hand. His two brothers together put in \$25,000, and his grandfather added \$30,000, to bring his trading account to \$100,000. Oofie's contribution came with a proviso: If Salem lost half of the money, "we close the business and throw the quote machine out the window," in Salem's words. The elder Abraham died in 1994.

Losses piled up. By mid-May 1988, Abraham was down to \$68,000. "My grandfather would rub his hands and say, 'It won't be long now,'" Abraham says. By the end of May, the grain markets turned, and Abraham's positions in soybean, wheat and corn futures took off. He finished the year up 142 percent.

His courage buttressed by his success, the 23-year-old made a cold call to Commodities Corp., a Princeton, New Jersey, trading firm. A long list of well-known hedge fund managers, including Louis Bacon, Paul Tudor Jones and Bruce Kovner, were funded by Commodities Corp., which was bought by Goldman, Sachs & Co. in 1997. Abraham got through to Elaine Crocker, then an executive vice president. That 10-minute conversation led to a meeting in Houston.

Abraham had a one-year track record. So

Crocker and her colleagues subjected him to a lengthy interrogation and asked to see a 10-year simulation of his computerized trading system. He passed the test, and Crocker sent him a \$200,000 check. "He's an extraordinary negotiator," says Crocker, now president of Bacon's New York-based hedge fund firm, Moore Capital Management LLC. "He did a nice job of getting us to fund him."

Crocker's bet paid off. Abraham posted returns of 90 percent in 1990 and 24 percent in '91. Although he lost 10 percent in '92, he came back with gains of 34 percent and 24 percent in the following two years. New investors poured in, and Abraham ended 1995 with \$132 million under management.

Then he hit a dry patch. As tech and Internet stocks soared in the late '90s, commodities lagged. Oil prices climbed 38 percent from '96 to '99, while the tech-heavy Nasdaq Composite Index rose 277 percent. Abraham's main fund was averaging 5 percent gains a year—a return that was about average for CTAs in the period. "Our investors never lost any money," Abraham says. With so much money being made in tech, they didn't

Jason, Salem and Eddie Abraham, left to right, ride the range in the Texas Panhandle.

AFTER MEETING WITH COMMODITIES CORP. EXECS, 23-YEAR-OLD ABRAHAM PERSUADED THEM TO SEND HIM A \$200,000 CHECK.

Salem, front, with his parents and brothers in a 1975 photo



stick around either. In 1999, Commodities Corp. pulled out \$90 million; other institutional investors followed. By November 1999, Abraham had only \$3.7 million under management, and that was mostly family money.

Abraham spent the next several years tweaking his formulas. While he did that, he launched a whole new enterprise: selling water to Amarillo. Hemphill County and neighboring Roberts County sit atop part of the Ogallala Aquifer, an underground river that flows across 174,000 square miles (450,000 square kilometers) beneath South Dakota, Wyoming, Nebraska, Colorado, Kansas, Oklahoma, New Mexico and the Texas Panhandle. Panhandle land owners have rights to much more Ogallala water than they need: Roberts County, which is 30 times the size of Manhattan, has only 950 residents.

So Abraham, after establishing that parched Amarillo would pay for a new water source, approached other ranchers and offered to buy their water rights. "We paid to be their broker," Abraham says. "We couldn't sell our part unless we sold their part." He and six neighbors assembled a 72,000-acre block of land, and in 1999, Amarillo paid \$20 million to share rights to the water under it. Abraham walked away with a \$9 million profit.

"Salem's better than a money tree," says his younger brother Jason, 39, whose own business

is leasing out mares for embryo transfer on the family ranch. "It doesn't matter what kind of business we get into, he makes money."

The water deal was the envy of Abraham's neighbor Pickens, whose Mesa Water Inc. has amassed rights to the water under 440,000 acres in the Panhandle. Pickens's plan to sell it to cities as distant as Dallas, 250 miles away from the source, has generated local opposition. He says he's put the water deal on hold to concentrate on another pet project: building wind turbines across the Panhandle.

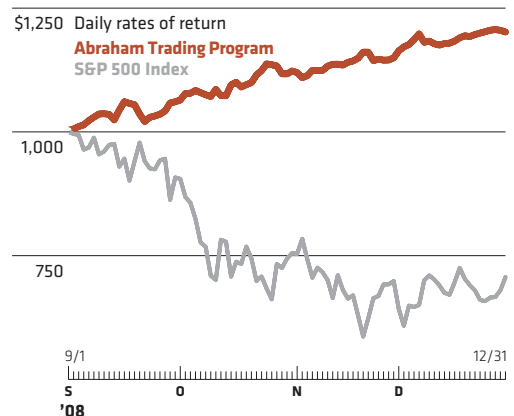
The water deal didn't distract Abraham from his hedge funds, which, after the tech bubble burst in 2000, posted three years of double-digit gains. Investors started coming back, and by the end of '05, he had \$136 million under management. Returns were 9.2 percent for 2006, 20 percent for '07 and 30 percent for '08.

One advantage Abraham has over his CTA competitors is that he's willing and able to take physical delivery of commodities he buys if he can't sell them at a good price. In April 2006, he bought \$6 million worth of ethanol futures contracts on the Chicago Mercantile Exchange, expecting the market for the gasoline substitute to take off as oil prices rose. Ethanol prices did rise 54 percent by mid-June. Yet when Abraham tried to sell, he found no buyers because, he says, ethanol contracts are thinly traded and short sellers were trying to drive down the price. "It became a game of chicken," Abraham says.

One short seller even called to warn Abraham that other traders wanted to force him to sell at a loss. "I told him this game of chicken is going to go longer than you think," Abraham says. "Being

OUTPERFORMING

As the S&P 500 cratered in the fourth quarter, Abraham Trading took off.



Start value = \$1,000. Source: Abraham Trading

'SALEM'S BETTER THAN A MONEY TREE,' HIS BROTHER JASON SAYS.

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ABOUT
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country boys, we are not afraid of dealing with physical commodities." ATC had 3,000 tons of ethanol delivered to railroad cars in various locations. Abraham says he then found buyers and sold it for a profit he declines to disclose.

In the wake of today's financial crisis, ATC is attracting money from institutional investors. To keep the money coming, Salem has revised his trading system to smooth out performance, which for commodities funds can swing 25 percent in a single month. "Most fund managers are ready to quit when a trader is down 25-30 percent," says Joe Wade, president of Centennial Partners LLC, a \$750 million fund of funds based in Memphis, Tennessee, that's an ATC investor.

Abraham has added several new trading programs that reduce volatility, including a trend-following program that looks for price movements over a span of as little as five days.

For most citizens of Canadian, Salem's complex mathematical models are a mystery. They know him and his family better as involved neighbors. In addition to sitting on the school board, Salem coaches local flag football and peewee baseball teams. "As successful as Salem has been, he didn't have to come back to Canadian," says Jackie McPherson, head of the town's

chamber of commerce. "He's given so much back to the community."

His biggest project was the rescue of the Palace Theatre, built in 1909, where he and his wife used to go on dates. Abraham bought it and hired a San Antonio architect to restore it to its original glory. He found replacement seats in an abandoned movie house in Ajo, Arizona. The restored theater is one of only four in Texas with a high-fidelity THX digital sound system.



ABRAHAM GETS OUT of town as often as he can to spend time at the ranch. He takes guests—including visiting investors—wild turkey shooting and fishing for bass on a small

lake on the property. When the turkey shoots are over, Abraham returns to the trading room above the steakhouse in his little Texas town, where every day he deploys his formulas against some of history's most volatile markets. **B**

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Metals Watch

Hedge fund manager Salem Abraham profited last year by betting on declines in zinc and other metals. You can use the Commodity Price Forecast (CPFC) function to track analysts' forecasts for commodities such as zinc. Type CPFC <Go> and click on the Metals tab at the bottom of the screen for a listing of estimates for base and precious metals. Press <Page Fwd> and click on Zinc cents/lb to view forecasts for zinc prices per pound or on Zinc \$/mt to track estimates for prices per metric ton, as shown at right.

Type CTOP for the top commodities-related news stories and MNI CMD <Go> for the most-read commodities stories during a specified period. Type METT <Go> for the top metals-related stories.

You can use indexes compiled by Barclay Group to gauge the performance of commodity trading advisers, or CTAs, such as Abraham Trading Co. Type BGIX <Go> for a list of CTA indexes. Click on Composite and then type GPO <Go> to graph the Barclay CTA Index, a benchmark designed to match the representative performance of CTAs.

Type HFND <Go> for the Bloomberg Hedge

Fund Home Page, through which you can access information on hedge fund filings, rankings, performance and news. Type STNI HEDGEREG <Go> for news on hedge fund regulations.

BETH WILLIAMS

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|----------------------------|-------------|-----------------------|-------|---------------|-------|------|
| Zinc cents/lb | | As Of | | 01/20/09 | | |
| Current Price | | Median | | Q1 09 | Q2 09 | |
| 89.4 | | Mean | | 59.00 | 60.00 | |
| | | Bloomberg Wgt Avg | | 58.14 | 60.29 | |
| | | High | | 56.04 | 59.35 | |
| | | Low | | 75.00 | 80.00 | |
| | | Current Fwd | | 47.00 | 50.00 | |
| Firm | Analyst(s) | As Of ↑ | Q1 09 | Q2 09 | | |
| 1) BMO Capital Markets... | B. Melek | 01/13/09 | 60.00 | 65.00 | | |
| 2) Deutsche Bank AG | J. Crane | 01/09/09 | 47.00 | 51.00 | | |
| 3) Commerzbank AG | E. Weinberg | 01/07/09 | 59.00 | 61.00 | | |
| 4) Merrill Lynch & Co Inc | T. Price | 12/05/08 | 55.00 | 55.00 | | |
| 5) ANZ Banking Group L... | M. Pervan | 11/18/08 | 48.00 | 50.00 | | |
| 6) UBS Securities LLC | D. Brebner | 10/27/08 | 75.00 | 80.00 | | |
| 7) Economist Intelligen... | C. Bain | 10/01/08 | 63.00 | 60.00 | | |