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Solo Acts: Who's Yahoo's CEO? Who Cares! Surely Not One-Stock Swappers --- Messrs. Ratner and **Easton** Trade a Single Company Hundreds of Times Daily --- Of Stuck Mice and `Sick' Men By **Bryan Gruley** Staff Reporter of The Wall Street Journal 12/07/1999 The Wall Street Journal A1 NEW YORK -- At 9:45 on a Thursday morning, Gary Ratner is trading the same stock he has been trading hour after hour, day after day, week after week for the past five months. The stock is CMGI Inc. and, even though this day trader doesn't know the name of the company's chief executive, he already has made $2,000 today buying and selling its stock.

One computer screen to Mr. Ratner's left, Jeff **Easton** is trading shares of Yahoo! Inc. -- and nothing but Yahoo, as he has for the past nine months. And who is Yahoo's CEO? "Ted Koogle," Mr. **Easton** blurts. Actually it's Tim Koogle, but no matter; Mr. **Easton** has netted nearly $2,000 himself, with plenty more to be made before the closing bell. Messrs. Ratner and **Easton** are rarities in a rarefied world: day traders who trade one stock and one stock only. On this Thursday in September, while other traders flit among the day's hottest dot-com stocks, Mr. Ratner will trade more than 130,000 shares of CMGI -- accounting, by himself, for nearly 2% of the company's total daily volume. And Mr. **Easton** will swap almost as many shares of Yahoo, or nearly 1% of that company's volume.

They'll do so in blithe ignorance of these companies' revenues, profits, news developments and strategies. Instead, the traders will engage in a tricky duel with Goldman Sachs Group, Morgan Stanley Dean Witter, Credit Suisse First Boston and other Wall Street firms that make markets in CMGI and Yahoo. The traders' aim: determine when the big players are buying or selling stock in volume, and get ahead of them.

They're the only single-stock specialists among the roughly 50 day traders who toil in rows of personal computers in an L-shaped room half a block from the New York Stock Exchange. But they share a common craving to make as much money as they can, as fast as they can, in a place where everyone is keenly aware of who's winning -- and who's not.

By 10 a.m. on Sept. 23, the din of clacking keys fills the 20th-floor trading room of Broadway Trading in Manhattan's financial district. CNBC flickers soundlessly on overhead television screens, where an Internet company CEO details plans to merge with a rival.

The day traders couldn't care less. In chin stubble and earrings, T-shirts and baggy shorts, they've ascended in a rickety elevator to a workplace that is equal parts video arcade and locker room. Traders cry out with the symbols of stocks that are flying up -- "R-back is ripping!" exclaims one, referring to Redback Networks Inc. -- and bark obscenities at stocks that don't behave as expected. They talk to their tubes as much as each other. Sometimes they just babble to themselves. "So dumb," one trader mutters repeatedly. "So f--- dumb."

Messrs. Ratner and **Easton** hunch side-by-side, fingers poised over keyboards, eyes fixed on the bottom of their PC screens, where a hot-pink rectangle frames two blinking columns of acronyms and numbers in white. The symbols signify the investment firms, or market makers, and electronic-communications networks, or ECNs, trading CMGI and Yahoo, and the ever-changing prices at which they're willing to buy or sell.

Mr. Ratner, a trim 24-year-old in jeans and a button-down shirt, started the day buying CMGI -- "sim-gee," as he pronounces it -- and quickly selling it off as the price climbed. He's following the lead of Instinet, an ECN that keeps showing up on his screen as a high bidder. A blood-red stripe that splits the screen says Mr. Ratner has traded 32,000 shares of CMGI, which invests in and manages Internet ventures. He has netted $2,159, after deducting Broadway Trading's commissions and other fees.

He hopes to rebound from a miserable Wednesday that cost him $2,800 and, so far, he says, "It's trading better than yesterday." So far.

Mr. **Easton**, the Yahoo trader, also hopes for a breakthrough. A good-natured man of 27 in a thin goatee and droopy jeans, he was enjoying a strong September until he lost $10,000 over two days the previous week. He has reclaimed some since, but feels gun-shy. "Losing days are such a cancer," he says.

He's in the black this morning, but timidity is costing him. At one point, he closes out a trade that's moving in his favor, and swiftly decides he could've done better if he had hung in. He stabs both middle fingers at his screen. "I just don't have the patience," he groans.

A hammering sound suddenly reverberates in the floor -- carpenters working downstairs. "Will we get them to stop that?" Mr. **Easton** snaps. Another trader shouts: "We're trying to make a living!"

Messrs. Ratner and **Easton** began making a living in June 1998 as day traders, who trade rapidly in and out of stocks, hoping to profit from small price movements. Before that, Mr. Ratner had briefly solicited clients for two stock-brokerage firms. Mr. **Easton** had worked as an assistant buyer at two retail chains and made a little money trading through a stock broker.

Now, they each trade with about $300,000 in their Broadway accounts, making 300 to 400 trades a day each. One session, Mr. Ratner executed 855 trades involving 223,000 shares of CMGI -- more than two swaps per minute -- and netted $12,000. Trading records show that Mr. Ratner and Mr. **Easton**, so far at least, have a knack for this game: They routinely make more than $2,000 a day, and losing days are infrequent. In their best months this year, each has made more than $70,000.

But they don't make money by studying their companies' product-development plans or analyzing price-to-earnings ratios. Mr. Ratner, asked to identify CMGI's chief executive, grins and says, "I don't have a clue." (It's David Wetherell). He does know that CMGI "invests in some big Internet companies," but can remember only one or two, and really doesn't care anyway. (CMGI, Andover, Mass., owns or holds major stakes in Web stars AltaVista, Lycos Inc. and many others.)

Unlike day traders who scour Internet chat rooms for news tips or scrutinize fancy stock-movement charts, Broadway traders are taught that knowing too much can hurt them if they focus on where a stock ought to move, instead of where it is moving. Many take a one-week, $1,695 seminar taught by one of Broadway's biggest stars, trader George West, and by the firm's owner, Marc

Friedfertig.
The gambits they teach aren't revolutionary; speculators have long employed "momentum trading" techniques that seek to predict market movements. Broadway traders play what they call the "market-maker game." They try to determine which big players are moving a stock in which direction at a given moment. It's like a hitter in baseball trying to figure out whether a pitcher will throw a change-up with a runner on third, one out and a two-and-two count -- except the hitter doesn't owe a penny if he strikes out.
On a Broadway trading screen, traders see which market makers and ECNs are buying and selling a stock, the price tags they've attached, and how much they want to trade. If Morgan Stanley, for example, keeps showing higher and higher bids for 5,000 to 10,000 shares of CMGI, chances are it's a committed buyer, at least for a while, and the stock's price is likely to move higher, with brief, intermittent declines. On the other hand, if Morgan Stanley shows lower and lower prices at which it would sell, it's probably a seller, and CMGI's price may be heading south. But it's rarely so cut-and-dried. For one thing, market makers increasingly try to mask their true intentions by trading anonymously via the ECNs.
For instance, Mr. **Easton** notices that the share price of Yahoo, the Internet search firm based in Santa Clara, Calif., tends to climb whenever Goldman Sachs appears on his screen as a seller. He theorizes that Goldman is merely pretending to be a seller so as to weaken the price while it surreptitiously buys the stock through Instinet, an ECN. "If Goldman's here," he says, pointing to the selling column on his terminal, "Instinet's here," indicating the buying column.
He doesn't really know. Goldman Sachs declines to comment. But whenever he sees the Goldman-Instinet duo, Mr. **Easton** buys Yahoo, and -- time and again -- snags a profit when the stock subsequently bounces up.
The traders also measure market makers' behavior against broader trends. On his losing Wednesday, Mr. Ratner saw that the overall market was weak, so he was "shorting" CMGI -- that is, selling borrowed stock and hoping to profit by buying the stock, or "covering" the short, after the price fell. But CMGI's price defied the trend and stayed strong most of the day. Finally, Mr. Ratner increasingly went "long," buying stock in the expectation that its price would rise. Then, four minutes before the 4 p.m. market close, "FBCO," symbol of Credit Suisse First Boston, started flashing in the right column of his CMGI rectangle, meaning the market maker was selling. Mr. Ratner had seen First Boston sell off CMGI at the close on several previous days, but didn't expect it when the stock seemed so strong. CMGI fell so fast that he couldn't unload his shares until regular trading was done.
"F--- you, First Boston," he shouted at his tube as his loss mounted to $2,800. When other traders came around to see how he had done, he offered a sheepish smile. "Got crushed," he said.
Market makers say they're focused on making money for their clients, not messing with day traders. An official at one firm says day traders "are really no different than mosquitoes at a cookout."
Mr. Friedfertig, Broadway's owner, won't argue with that. He says the firm's methods don't guarantee success, but give his day traders an edge over others.

Through Nov. 30, 67% of Broadway's 400 active traders -- those who trade at least 3,000 shares a day -- were profitable for 1999, and 78% of those who've traded for more than a year made money, he says. This week in September, 61% of Broadway traders will be profitable, netting an average of $3,713 a day. Losers will lose an average of $3,832 a day. "This isn't easy," Mr. Friedfertig says.

Which is essentially why Messrs. Ratner and **Easton** chose to swap only a single stock: It's easier to follow the market makers -- and to escape a bad trade -- with one stock than with many. The traders say they don't recall any particular reason for choosing CMGI and Yahoo, except that the stocks were moving up and down in a healthy range each day.

Sometimes they accidentally trade other stocks by hitting the wrong keys.

Occasionally, they try other stocks. One day, Mr. Ratner took a stab at trading Exodus Communications Inc. Of course, he knew nothing about the Internet company. By 11 a.m., he had lost $8,000 and soon went back to trading CMGI only.

But don't they get bored trading the same stock all the time?

Not this Thursday. At 10:15, Mr. Ratner decides it's again time to short CMGI. The market makers pushed its price up for the morning's first 45 minutes, maybe because they were filling customer orders to buy stock. He expects them to start selling, which should force the price down. So he builds a short position of 2,000 shares and waits for the price to drop.

The stock keeps climbing. Mr. Ratner raps out a flurry of "buy" orders to cover the short, but gets more stock than he wanted, and winds up long with 2,500 shares as the price reverses and veers downward. Minutes ago, he was ahead of the trend; now he's chasing it.

Crack! Mr. Ratner slams his keyboard against the table and leaps up from his chair. "This is pathetic!" he yells. Heads turn, but no one says a word. A minus sign appears in front of his profit-and-loss number and, just like that, Mr. Ratner is down $7,100 -- already more than twice what he lost yesterday.

"I'm going home," he announces. He paces by his chair, runs a hand through his close-cropped hair, then sits back down at the keyboard and expels a long, forlorn sigh.

Broadway traders learn something else that influences how they work: envy. It's as much a part of life here as the mice that traders find wriggling on glue traps scattered about the floor. Each day after the market closes, traders scurry around the room comparing results. It's mostly friendly, but there's a powerful undercurrent of competition. "You know, you're up one [thousand dollars] and you ought to be satisfied with one, because it's good money," Mr. Ratner says. "But you know you made three yesterday, and you made two the day before, so you press it and you wind up down two."

One day, a trader explodes. Neck veins bulging, he punches the PC and screams, "Oh my God, I've never been so p--- in my life!" He's not trading, though; he's getting whipped at Internet backgammon. Fifteen feet away, his trading screen shows he's up $5,500.

Broadway warns novices repeatedly that they'll lose money in their first months of trading, and instructs them to minimize losses by trading no more than 100 shares at a time and by avoiding volatile Internet stocks while they learn. Then they see veteran traders making $10,000, $50,000, $100,000 a day. And they quickly learn that those traders are the celebrities of this tiny world, exalted not just for making big money, but for taking big risks.

These "sick" traders, as admiring colleagues call them, will maintain stock positions overnight -- anathema to the typical day trader. They aren't afraid to "hold through pain," meaning they'll wait out a trade that goes against them, sometimes for hours, in the belief it'll turn around. And they'll shrug off losing $50,000 to $100,000 in a day.

One of the sickest Broadway traders is Mr. West, the seminar teacher. His colleagues delight in telling of the day he shorted 5,000 shares each of Yahoo and Amazon.com, then went down to the street to smoke a cigar. Moments later, the Federal Reserve Board lowered interest rates. Stock prices shot up, and traders scrambled to find Mr. West so he could cover his positions. Finally, one yelled out a second-story window: "George, you're getting f---!" (Mr. West confirms the story. "I never was much good at the interest-rate thing," he shrugs.)

This week in September, he will make more than $40,000 trading more than a dozen stocks. In one blur of keystrokes, he buys 1,500 to 2,700 shares each of Yahoo, eBay, Qualcomm and five other tech stocks. "Come on, eBay, run like you stole something," he goads. In 14 minutes he sells it all off, netting $6,000.

He's also a father figure at Broadway at 30 years old. One morning, he orders a rookie who is up $2,000 to leave, because the trader is prone to blowing profits after lunch. "Go catch Oprah," he says.

Another day, Mr. West assembles veteran traders for an impromptu strategy session and reprimands them for "too much discipline." Encircled by men in sneakers and baseball caps, he says, "At some point in your career, you've got to ramp it up a little. If you're making money three days out of five, it's time to take a little more risk."

A recent study from the North American Securities Administrators Association said 70% of day traders lose money. The study analyzed 30 trader accounts from a Massachusetts day-trading shop that isn't affiliated with Broadway. Philip Feigin, the association's executive director, says the group believes that most day traders "are going to lose money and a lot of it."

Whether its traders win or lose, Broadway gets commissions of 1.6 cents to two cents a share traded. Mr. Friedfertig won't say how much that amounts to, but this week in September, Messrs. Ratner and **Easton** alone pay the firm a total of $20,000. Critics say day-trading shops don't care if traders lose because the firm profits anyway. Mr. Friedfertig says Broadway fares better by nurturing successful traders -- "annuities," he calls them -- who keep trading and generating fees.

"I'm not going to tell you we don't churn and people lose money and we make money," he says. "But we also have a lot of guys who make millions, and we make a fortune."

At 3:21 p.m. Thursday, Mr. Ratner is hoping not to lose one.

All around him, traders curse at their computers, damning stocks and market makers alike. Around noon, Microsoft President Steve Ballmer told reporters in Seattle that tech stocks are overvalued. The market has been collapsing since shortly thereafter. By day's end, the Dow Jones Industrial Average will have plummeted 205 points and the Nasdaq will have fallen 108. While six of every 10 Broadway traders will post profits today, the losers will lose big -- $5,500 on average.

Mr. Ratner, trading CMGI, is losing big. Uninterested as he is in news, he pays little mind to Mr. Ballmer's remarks. Amid the clamor, he sits transfixed, hungry, looking like he might lean forward and eat the glass in his monitor. His right hand rests at the edge of his keyboard, his left hand juggles a bottle of eyewash. "Come on, sim-gee," he whispers.

He's down more than $5,000 and waiting on a short of 2,150 shares. The stock's price is hanging tough, below $86 a share, just above where Mr. Ratner got short. He's tempted to cover before the price goes against him any more, just swallow the loss and come back fresh tomorrow.

"No, I'm gonna hold it," he thinks. Remembering how he got burned the day before, he's counting on First Boston to again show up and sell off CMGI just before the close. And when First Boston does, Mr. Ratner is thinking, "I'll take back what he took from me yesterday."

Instead of covering, he shorts another 1,150 shares at $84.75. The price immediately moves up -- against him -- and his loss number clicks higher. He's holding through a lot of pain here. He leans on his left elbow and glowers at the tube. "CMGI's now ripping" upward, he tells Mr. **Easton**. "It makes no sense."

Mr. **Easton** is too busy to listen. He had a good morning trading Yahoo, going long as Morgan Stanley and Instinet repeatedly refreshed high bids for the stock. But after lunch, Morgan Stanley stopped showing up as high bidder as frequently, and Mr. **Easton** lost a chunk of his morning profits. Later -- too late -- he'll conclude that Morgan Stanley wasn't a buyer today, but a seller. In other words, he got faked out.

Now, with the market weak and Yahoo dropping, he lucks into a 1,000-share short and quickly covers it for a $575 profit. "Yes!" he says. His exuberance lasts about 30 seconds. Yahoo keeps falling and Mr. **Easton** would love to get short again, but can't; federal law bars shorting on a downtick. His smile disappears.

At 3:45, he hits his F7 key, revealing a black screen that displays each of his trades in red and green. "What did I short that original 1,000 at?" he asks himself. The green line shows he got it at $177.0125. Yahoo's price now has dropped below $173. Mr. **Easton** slumps in his chair and pulls his V-neck sweater up on his chin. "Four thousand dollars," he says, tallying the profit he missed by covering so fast.

To Mr. **Easton**'s right, a thing of beauty has appeared before Mr. Ratner's eyes -- the brilliant white letters "FBCO" atop the selling column for CMGI. First Boston is back for its afternoon sell-off, and CMGI's price is dying. With each downward price tick, Mr. Ratner's loss number shrinks. At 3:48, it changes to $2,791 -- putting him in the black by about $250. He allows himself a nervous chuckle. "I knew I had to hold it," he says.

Mr. **Easton**, watching Mr. Ratner's rebound, leans into his screen for a final trade. He shorts another 1,000 Yahoo shares -- and the stock suddenly rallies. "I got killed," he says, and covers the short for a $750 loss. Grimacing, he pushes back from his keyboard. "I'm done," he says. "No patience."

Mr. Ratner isn't done, though. At 3:54, he begins to cover his big short, buying chunks of CMGI at about $82. With First Boston selling, the stock has dropped four points. One minute and 36 seconds before the close, Mr. Ratner is out of CMGI and his net profit is $3,455 -- for a 37-minute turnaround of more than

$8,000.
He stands up, and a smile of delicious relief washes over his face. "I can't believe it," he says. A fellow trader slaps him a high-five, wailing, "Ratdoooooooog!" Others crowd around Mr. Ratner's tube and punch the F7 key to replay his last halfhour. "Sick trading," one says.

Mr. **Easton** regards the celebration with a grin that's harder to read than a market maker's bluff. After making $2,000 in the first half hour, he wound up netting $1,350 for the day. Still, he says, "I'm grateful for every penny I have."

Mr. Ratner heads downstairs for a quick beer. Since that September day, he has tried trading the stocks of a few other companies. He can't name their CEOs either. The dalliance didn't go so well, and last week he went back to CMGI exclusively. INCLUDEPICTURE \d \z "http://ptg.djnr.com/images/wsj/1/J9934100161.thc.p3.1.GIF"INCLUDEPICTURE \d \z "http://ptg.djnr.com/images/wsj/1/J9934100161.thc.p6.2.GIF"