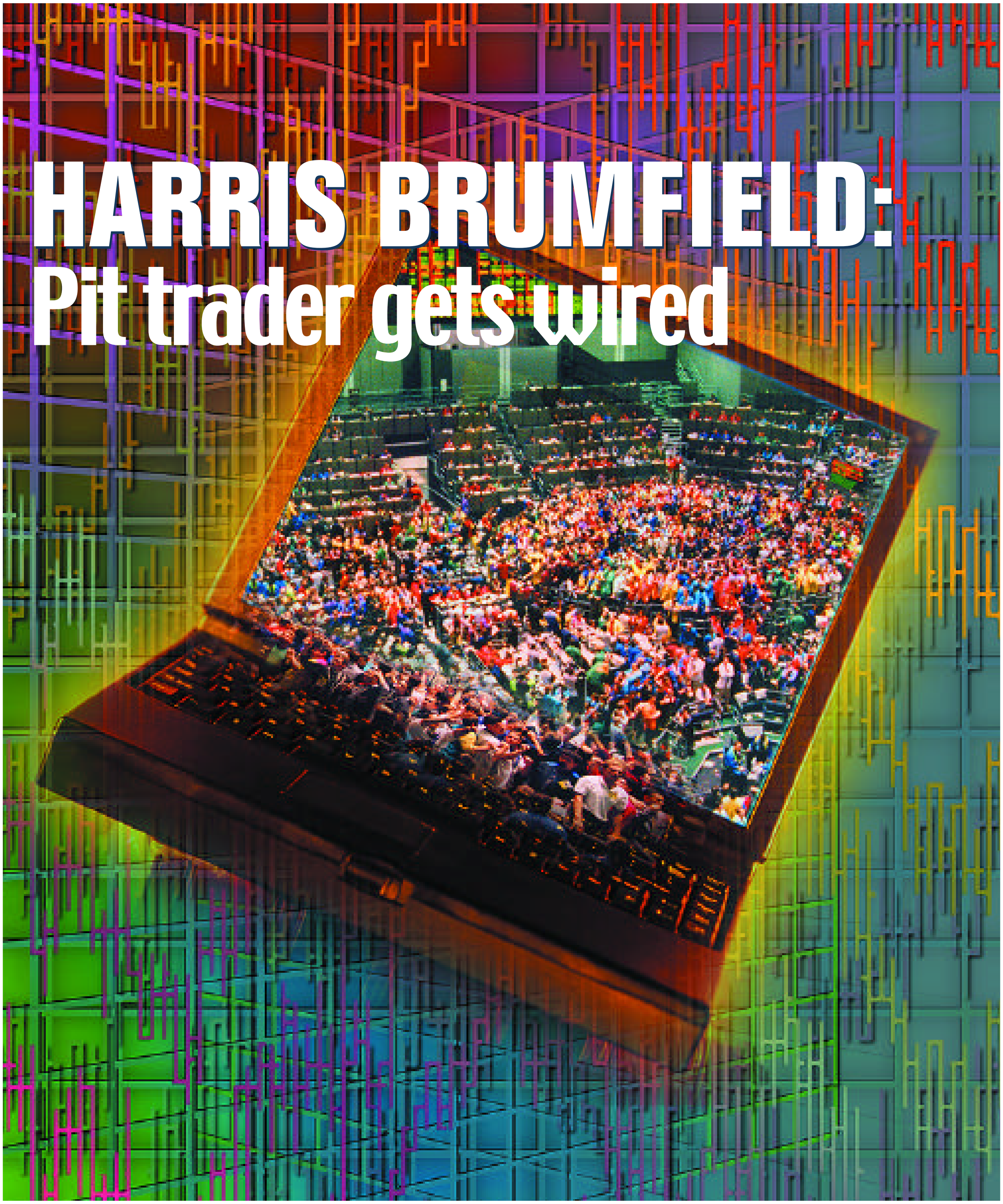
HARRIS BRUMFIELD:
Pit trader gets wired

Harris Brumfield, a pit trader turned screen trader turned technology entrepreneur, talks about pushing the volume envelope and the future of electronic trading.

BY MARK ETZKORN

In some ways, Harris Brumfield embodies the popular perception of a futures floor trader — he's won big and lost big, taking huge chances and relying in part on his "gut" while frenetically trading thousands of contracts per day.

But that was then and this is now. Brumfield retired from the pits a few years ago, and although he still trades regularly from his office, his main job these days is as CEO of Chicago-based Trading Technologies (www.tradingtechnologies.com), a firm that makes a high-end electronic futures trading platform. To borrow a line from former Remington CEO Victor Kiam, Brumfield liked the company so much, he bought it — which he was able to do having made millions as a trader.

It may sound incongruous for a former floor trader to champion electronic trading technology, but Brumfield, 39, was an early backer of screen-based trading in the futures markets — even when he was arguably the biggest trader in the Chicago Board of Trade's (CBOT) 10-year T-note pit. (His two brothers, Hardy and Frank, are successful T-note and yield curve traders, respectively.) He says it wasn't easy to leave the floor behind.

"I loved it," Brumfield says. "[When I left], I pretty much had to go cold turkey — almost like quitting drinking. I couldn't even get near it."

As Brumfield sees it, the future of futures is electronic — an inevitable reality because of the larger volume and bottom-line efficiencies offered by computer networks that trading floors cannot match. Nonetheless, he first made a name for himself in what might be known someday as the last great age of floor trading.

Brumfield, who is married and has three daughters, grew up in Inverness, Miss., a couple of hours south of Memphis and 30 minutes east of the big river. A finance major at Mississippi State University, he was first tipped off to the presence of the futures markets by a friend who was trying to launch a career on the Chicago trading floors.

"He was a phone clerk at the Chicago Mercantile Exchange," Brumfield says. "He was a little older than me, and he'd come back to Mississippi — where I was still in school — to go to a football game. He didn't know what kind of job I'd be able to get, but he said I'd be able to get *something* — there was a lot of opportunity. He thought the business would fit my personality."

By that, one assumes his friend meant Brumfield's friendly nature and breakneck energy (he can talk a mile a minute, even with his down-home Mississippi accent) would serve him well in the face-to-face, think-on-your-feet environment of the trading floor.

After graduating, Brumfield drove up to Chicago and embarked upon the career path tread by many hopeful souls who for years have gravitated to the trading floors in search of success: He started out as a "runner" — carrying orders from trading desks to pit brokers — and tried to move his way up the ladder to broker or trader.

His first job was with Paine Webber in the CBOT's grain room. But he frequently walked past the financial room (where the exchange's popular T-bond and T-note contracts, among others, are traded) and knew that was where the action was. It wasn't long before he made the switch to the financial markets.

"In early 1987, after about three months I got a job as a broker assistant in the financial room, in the Municipal bond pit," he says. [The broker I worked for] would also trade some MOB spreads (*municipal bonds/T-bonds*) and T-note spreads."

Many runners and clerks leave after a few months, if not weeks, of experiencing the barely controlled mayhem of the floor. Others linger for years, waiting for a shot at a better job. Things got rolling for Brumfield in short order.

"We got along pretty good, and I guess I did a decent job for him," Brumfield says of his relationship with his boss. "He was running around a lot to do trades in different markets, so he gave me his garbage business — orders of 10 or fewer contracts — in the middle of 1987, after I'd worked for him three or four months. That was a huge break for me, because he had a huge business — he filled orders for all the big [clearing] houses. I leased a badge (*a seat on the exchange*) and started using those commissions to fund my trading. I was making as much as 10 times what I was making as an assistant."

continued on p. 74

But the income was coming from filling orders, not from trading.

"Working as a broker really helped me during that period, because the commissions were pretty steady and I was able to lean on that income as I learned how to trade," Brumfield explains. "It allowed me to try different things and

make mistakes. I really wasn't making money as a trader, but the key was that my brokerage commissions paid my way. I was basically spending my commissions learning how to trade."

After six months or so, he felt he was ready to trade for himself full time, so he gave back the brokerage business to his old boss and took the plunge. He started out in the municipal bond pit, but quickly switched over to the 10-year T-note, occasionally trading bonds.

Early on, Brumfield swung for the fences, and experienced the financial rollercoaster that goes hand in hand with aggressive scalping. ("I went up and down quite a bit — I'd make a lot of money and go back to zero," he says.) Interestingly, though, he seems not to have suffered much from the *emotional* rollercoaster that usually attends repeatedly seeing your account equity soar to new heights and fall to the depths in short order.

Brumfield claims the overwhelming majority of trading strategies or ideas he has conceived haven't work. He used to compile extensive notes about market behavior, even jotting down observations while in the pit. He would periodically review his notes, sifting through them for trading ideas, 95 percent of which he'd toss in the garbage. Three or four might be useful in the future.

As his career progressed, one factor that made many of his trading ideas obsolete was the increased size he traded. Brumfield says he has old trading techniques that might still work if traded on, say, a 50-contract basis, but which could not be executed efficiently when applied to large (e.g., 1,000-contract) position sizes.

Brumfield is a unique case, because while the risks he took could not be recommended as a prudent example for the vast majority of aspiring traders, those risks have paid off handsomely for him. As a trader, he operates outside the norm, like a baseball player who consistently bats over .300 using an unconventional stance that would sabotage any other batter.

AT: ***What kind of trading were you doing when you started on the floor?***

HB: A combination of scalping and position trading. I would always have an idea — a basic position — and then I'd trade around it. I still trade like that, even though I don't have quite as much time as I used for scalping.

AT: ***Did your trading style change over the 10 years you were on the floor?***

HB: Well, I changed stuff all the time, but the style itself — being very active, putting on position trades and scalping around them — never has changed.

Trying to come up with techniques — that's a full-time job, even today.

AT: ***What did you base your trading on?***

HB: I'm much more a fundamental trader than a technical one. I liked to record the markets — I've watched the markets for 15 years — and I'd just observe the interaction of everything that was going on in the world. A large part of what I accomplished was that I was just able to react really fast. And there was a lot of discretion in what I did.

AT: ***You weren't just shooting from the hip each day, were you?***

HB: You need to have *some* kind of game plan. But things evolve so quickly in the market you have to be able to adapt. Combining some kind of systematic foundation with the ability to change things on the fly probably gives you the best of both worlds.

I would read a lot before the trading day, and even during the day, to find a theme, have a direction and develop a trading bias. No market pattern repeats exactly the same, but you can see a lot of things developing [like they did in] the past if your memory is good enough and you remember things that have happened repeatedly.

But you have to mix things up and adjust for the time. One of the problems I saw is that technical ideas eventually get caught and you have to be able to shift real fast. Approaching things the way I did, I figured if I ever found anything [that was really good], it would be harder for people to discover and copy.

Also, my trading approach played to my strengths, as far as experimenting and trying different things. On the floor, I was exposed to many different things — different from the things an [online] trader would be exposed to. I actually developed a lot of ideas on the floor and was able to bring them over to the electronic trading environment. And I could

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trade them to an even greater degree, because I didn't have to spend time doing things like carding up orders.

I was basically trading as big as you can trade on the floor, but I was still limited. When you trade large, there can be 20 people on the other side when you take out a bid or offer, and you have to write up all those orders and have them checked.

On the computer, you can just keep hitting bid after bid after bid. You don't have to slacken your pace.

AT: ***Would you say your returns were volatile?***

HB: Oh yeah — extremely. I kept expanding my knowledge by pushing the envelope pretty hard in terms of the volume I was trading. It's much harder to trade larger, so any kinks in your system or approach are exposed that much faster. If I was doing well, I would just keep trading larger and larger.

Doing that is controversial. From a money point of view sometimes it wasn't very smart, because sooner or later the market would crack me. But from a knowledge point of view, I accumulated a great deal. It's like anything: You lose and you learn a little bit more.

But the goal was to keep learning. I really enjoyed the [challenge of trading]. I was trying to see how good I could get at it, and the best way to do that is to push the volume envelope. I wanted to see if I could trade unlimited size and still make it. I knew then I'd have something amazing. I probably was fortunate to develop a couple of things along the way, and it definitely took years to do this.

The clearing people would sometimes tell me, "Are you nuts? Don't you know what you could make if you just limited yourself to trading 1,000 contracts or so at a time?" But they could see I could handle what I was doing.

AT: ***Do any trades stick out in your mind?***

HB: On one unemployment number day, I went into the release long a couple hundred T-notes. Right before the number came out the market was trading 12 bid at 13. The number came out moderately to seriously bearish.

A few small sales stops were triggered and several brokers were peppering another broker who was bidding at even (*the whole number — i.e., 98.00*).The even-bid broker looked like he had size (*a large order*), and I started howling "Sold!" over and over. He was across the pit, but my voice was fairly loud and he recognized it. He immediately started yelling "Balance!" at me, which meant once he figured out how many contracts he had left to fill, he would tell me the exact number.

Yelling "Sold!" like that means you want the entire order and you're stuck with it all. But I didn't have a clue how many contracts he had, except I could tell by his eyes that it was large. The whole time he was trying to figure out his balance, the market was sheer pandemonium.

Usually the broker will give you a ballpark figure of how many contracts he has left. In this case, though, he didn't give me an indication. By the time he gave me the number, around 90 seconds had passed and the market was 20 ticks lower. He had 2,200 contracts and, well, you can do the math. *(Each tick in the T-note was worth $31.25.)*

On the flip side, one day I was bullish and the Notes rallied about three-quarters of a point. I was long 1,300 to 1,400 contracts the whole way. I cut my position down to 800 contracts and went out to lunch. At the time, I was up right around seven digits.

By the time I got back to the pit, the market had fallen to unchanged on the day and was dropping fast. I jumped into the pit and immediately doubled-up my position. Eventually, I tripled up when the market dropped further.

It wasn't until near the end of the day — after the market had dropped even more — I decided I was wrong. Let me tell you, it was *u-g-l-y*, you ain't got no alibi. By the time I had wiggled out of most of my position, the loss was double the size of my profit from earlier in the day.

I knew I'd missed *something*, so later I scrolled through all the news for that day, and sure enough, there was a serious tax-cut comment around noon that I didn't hear.

AT: ***Was that typical size for you?***

HB: In the 10-year T-note pit, I probably participated in about 20 percent of the volume, on average. With the Bund *(the German bond contract)*, I would trade as many as 130,000 sides in four hours.

AT: ***So, if I may ask, what were you making as a floor trader?***

HB: Well, as much as eight digits in a good year. But of course, you have years when you lose a bunch, too. As I explained, I went down to zero at least two, maybe three times — and from very high equity points, too.

But it didn't really bother me. I can't describe it. It hurts your feelings for a day, but once you sleep on it, you're OK.

AT: ***I don't think most people would react that way.***

HB: As long as I thought I could make a living for my family, I was like, "So what?" I was driven more by the challenge of doing it at an extreme level. You're just pushing your brain, and it can be very fun — and yes, chasing solutions can be very addictive. Don't get me wrong, I will fight to the death to get a "W," its just that my approach is different than most.

AT: ***Have you ever thought much about the personality traits or characteristics that make traders successful — even traders who don't share your style?***

HB: One way to look at it is, if you were doing the kinds of things I was doing — experimenting and knowing you were going to get your butt kicked from time to time — you better be able to [put it behind you] and not let it worry you. That's an ability I luckily have. And I don't think you can train yourself for that. I was more into trying to figure out the problem than worrying about how sad it was I got my butt kicked.

Of course, at some point you have to stop. But the thing is, if you're developing an extreme style and pushing the volume you trade, you have to cut that size way down [when you have a big equity reversal]. But it requires less knowledge to trade smaller, because it is much more efficient than trading larger, so you're able to march back up the mountain pretty quickly if your approach is good.

I guess I just had the confidence I

continued on p. 76

could do that, so I didn't worry. That helps.

AT: ***Do you think, then, it really boils down to basic confidence?***

HB: Confidence is a huge part of it — and you need to have that confidence all the time. Extremely smart people have a very tough time unless they trade technically. They can't do it fundamentally inside me, it's time to bail.

I think the hardest thing about trading, by the way, is where to take profits. You got in because your expertise told you it made sense to buy or sell — you believe in that direction, so what's going to make you go the other direction and flatten out?

AT: ***So how did you do it?***

Part of confidence comes from developing your own trading ideas, rather than using someone else's approach or acting randomly on tips.

because none of this stuff is factual. It's just opinion, and from what I've seen, the smartest people deal in factual, statistical terms. It's not in their nature to go with something calculated on the fly and think, "My gut tells me that's a winner." It's really hard for extremely bright people to do that. They're so smart they're thinking about all the things that are *wrong* with [the trade]. Some of the smartest people I've seen have never made it scalping or position trading — you know, pit-style trading, or even just very active day trading.

Another part of confidence comes from developing your own trading ideas, rather than using someone else's approach or acting randomly on tips and things like that. You've got to do the work yourself. It may mean banging your head against the wall a thousand times to do it, but that's what it takes.

AT: ***Did you use any risk-control measures? Did you ever use traditional stop points, for example?***

HB: I mostly did things by instinct. But I do think, subconsciously, I had spots where I'd get out because the reason I put on the trade in the first place no longer existed. When that bell goes off

HB: I don't have a great answer — I'm still working on it. One way to approach it is that at some point, maybe you think, "It's getting to fair value. I *did* believe in this [move], but I think it's come far enough. I was long, I'm not really bearish, I've just lost my bullishness."

You end up leaving a lot of money on the table sometimes, but that's how it goes.

AT: ***How did you start trading electronically?***

HB: Eurex (*the German all-electronic futures exchange*) put a screen in front of me in '97. I'd played around with Globex and Project A (*the electronic trading platforms of the Chicago Mercantile Exchange and Chicago Board of Trade, respectively*), but it was immediately obvious to me that Eurex had done it right with their FIFO (first in, first out) mechanism. It was simple, fast and anonymous.

I wanted to be the best in the world, and to do that, you have to go where the most volume is. And I could see, no matter what, the Bund was going to have the most volume shortly. I was probably a big part of how fast that market went all electronic, because when I started trading it, it was traded maybe only 40-percent electronically. I was the first large local (*market maker*) to say, "Listen, I'll just trade it all electronically." The other locals were arbing it between the LIFFE pit and Eurex, so the contract was receiving equal volume between the pit and the electronic market.

AT: ***Were you still on the floor at this point, working at a terminal?***

HB: No, I left the floor to trade on the screen. I only did it because I tried the equipment and saw that it was going to blow out Project A and Globex.

Prior to that, I never saw Project A and Globex ever being able to beat the floor, which was a better mechanism at the time. When I saw Eurex, I knew they were going to beat the trading floor. Electronic was just faster, and you don't have to worry about anything except your trades.

Also, the funds could be anonymous on the system, which allowed them to sell 30,000 and buy 20,000 instead of just selling 10,000 — they could bluff and get away with it. They can't do that through the phone clerks and the pits — you can pick them off all day long.

AT: ***Did it take you a while to adjust to trading electronically?***

HB: It probably took a few months. I lost at first — pretty big, too. I've had worse periods, though, because the risk management is so much easier electronically.

When I was trading a lot on the floor sometimes I wouldn't know within a thousand contracts what my position was. It was pandemonium during fast markets — I don't have the words to describe it to you. Electronically, you don't end up taking a 30-minute timeout to sort out your position. You can just go to war the whole day.

AT: ***Does the fundamental element of your trading include things like studying what happens around report releases and trading around those kinds of events?***

HB: Yes, and I kept up with the numbers. You would see an article in the newspaper about this or that number and how it impacts the market. And I always watched treasury auctions.

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