Trading's Ins and Outs

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When hedge fund manager Dan Zanger looks to build a position, he likes his trader to pick at the quote to see how the market reacts. Based on the impact, he'll adjust block sizes--and the rate at which the blocks are handled--to fill the order.

Dan Zanger

That's how Zanger, a momentum trader, operates. His investment style at Westwood Capital, a $40 million hedge fund, favors liquid, large-cap stocks. From his offices in Miami Beach and Woodland Hills, Calif., Zanger typically holds stocks from four days to two weeks--and never longer than 30 days. Zanger's looking for stocks that have some measurable rate of change.

He pays close attention to a stock's volume, most importantly the 20-day average volume. He also watches trading volume during the day. He breaks the trading day into 13 periods and monitors the volume in each of them, looking at buying and selling pressure. After the trading day, Zanger will review the day's trades and various charts, so he can plot his strategy for the next day.

Westwood typically trades between 300,000 and 800,000 shares a day in about a half-dozen stocks. His trader, Tom Sawyer, is a former software engineer in medical research. Sawyer's been working for Zanger for 12 years.

Zanger's trading philosophy hasn't changed much, Sawyer said. But technology has made it easier to get into and out of positions with little impact. Sawyer started trading in-house with algos around 2005. With a background in embedded systems programming and statistical analysis, Sawyer learned the ropes of algo trading quickly. He uses Goldman Sachs' liquidity-seeking algo, Sonar, to trade in dark pools.

Westwood Capital
Equity AUM: $40 million
Desk: One trader
Brokerage List: Four firms
Avg. Commission Rate: 1 cent
EMS: Goldman Sachs REDIPlus

Zanger uses just four brokers--for trading and market color. They can also be a big help when he wants out of a name that's tanking. He won't use capital, but he'll give his order to all of them to get out fast. In fact, he's more interested in liquidity and certainty than in price for getting into or out of a name.

"Certainly, you always want a good price," Zanger said. "But I'm swinging stocks that are making $3, $6, $10 moves in a single day; I'm not going to worry about 50 cents."

Zanger's been trading actively for more than 20 years. And for almost 15 years, he's published an investment advisory letter for paid subscribers. It began as a fax and moved to a Web site format as the Internet's popularity exploded.

Zanger has adjusted his investment strategy throughout the market's ups and downs. For example, his lesson from the 2001-2002 bear market was: "Long or short, you lose. The market whipsawed so heavily, it chewed up strategies."

When that happens, Zanger abandons ship altogether and converts his slightly leveraged portfolio to cash. He did that from May 3 through June 13 to ride out the most recent volatility. He tiptoed back in on June 14, but then decided a bear market rally was on and hurried to the sidelines 10 days later. Time will tell if Zanger's strategy is the right one.