Friday, June 6. 2008

What is wrong with this picture?

Ad from Craigslist:

Pro Day Trader (Millions_) (Toronto)

Pro Day Trader Looking for venture capital
High return possible (potential Millions)Glad to negotiate
Several years experience in equities,futures
Only serious inquires !200k to do it right
Thank You Don

I've seen ads like this many times. It begs a few obvious questions:

Why seek outside capital to daytrade? The risk premium to the investor would make the cost-of-capital quite prohibitive
If these daytraders are so good, where is their own pile of cash that they've taken out of the market? And why aren't they using that to stake themselves?
What kinds of gains are these guys promising? I've talked to daytraders advertising on craigslist, some of whom claimed consistant, repeatable returns of 20% per month but couldn't explain to me why they weren't several orders of magnitude wealthier than Warren Buffet or George Soros who have managed 15-20% annual returns for decades (and who eschew daytrading like the plague, btw)

I have been following a couple of high-end daytraders (Wall St. Window and The Informed Trader) over the course of this last bear market after the credit markets locked up. They are both saying the same thing: this has been one of the toughest markets to trade that they have ever seen. They've both spent most of their time sitting on the sidelines, in cash watching the market for some feel of where it's going.

As professional daytraders know, "cash is a position" - often the best trade is no trade.

My suspicion when I see ads like this is that I'm reading the ad from a guy who's addicted to daytrading, gone bust and looking for somebody else
to stake him so he can wipe out again.

I've come to the conclusion that the only way to become a successful daytrader is to do it fulltime. You can't run a business and daytrade on the side. So personally I don't daytrade (anymore). But I do highly recommend The Investors Quotient: The Psychology of Successful Investing in Commodities and Stocks - which teaches us that the most important aspects of trading are having a coherent system one sticks to, mental discipline and other psychological factors. In other words, becoming a successful trader is not about conquering the markets, it's about mastering oneself.

In a couple weeks I'm off to the The Search for Value seminar at Western for a week where I hope to hone my acumen at fundamental analysis and value investing.

Posted by Mark Jeftovic in This is not investment advice at 09:33

Wednesday, June 4. 2008

Ontario Energy Savings or Ontario Energy Slamming?

I have known for some time that the practice of "slamming" was not exclusive to the domain name industry. In my business we are well acquainted with outfits like Domain Registry of Canada and others. There are other related "business models" in the online space: trademark monitoring "services" that look like they come from an official source, nebulous business "directories" you're supposed to "renew your listing" in. These often look like invoices, run several hundred dollars and probably bank on the fact that a certain number of accounts payable departments will just treat them as such and remit payment on them.

We almost got stung in an offline counterpart to the domain slam: A company calling themselves Ontario Energy Savings came to our door and nearly slammed us over to their company for a 5-year contract on gas.
The first time it happened I answered the door and I was under the impression he was from my existing gas company and he needed to "check something" but when he asked me for a copy of my gas bill I got irritated and got all crusty on him (note: my grouchy disposition saved me in the end). He had a hard time taking this which further fueled my aggravation, leading me to all but slamming the door on him.

A few days later my wife left some papers on my desk "something about our gas account" she said. They got to her on pass two and she isn't as belligerent as I am. They still needed me to ok the deal since the gas bill is in my name but every time they called me at night to get my confirmation I was in full-on testy mode and told them to call me at my office in the afternoon before hanging up. At this point I still thought this was all legit and was just some extremely tedious beaurocracy I had to deal with. They tried a couple times to get verbal confirmation from me over the phone but since I'm impatient and rude to a fault to anybody I think is a telemarketer (this is a personal character failing of mine, these people are just trying to do their jobs and I should just chill and politely decline, but I tend to be rude and testy and it's nearly cost me a few times over the years when it turned out not to be a salesman on the line, but a reporter...or a customer, etc), I just told them to call me tomorrow - at the office - and hung up.

Fortunately they gave up on that tack and tried mailing me a simple one-pager I just had to sign and mail back. That's when the haunting familiarity between what was going on and my experiences with domain slammers clicked in and I googled Ontario Energy Savings and then looked up my current natural gas price (about 24 cents per cubic meter in January) versus the "energy price protected" price they were offering to me on a five year commitment (42 cents per cubic meter).

The lightbulb finally went on, we were being chumped. At least that's what it felt like, so made sure to call them voice, cancel the process and obtain a cancellation confirmation from their agent.

Natural gas futures are typically traded in British Thermal Units while consumer gas deliveries seem to be priced in cubic meters, finding a conversion between the two was difficult, but according to this Wikipedia entry I think you can guestimate it by saying 1 BTU is about 28 cubic meters.

At first I found myself wishing/wondering if some Black Swan event in natural gas could totally ruin these types of companies but then I doubt it. My guess is these outfits probably go out and buy forward contracts on natural gas which covers their commitments. It's a nice arbitrage scam in fact: sign people up now at 30% - 40% premiums over the current market rate, lock them in for 5-years. When I looked at the natural gas futures 5 years out I found the prices trending slightly lower it would mean their margins only get better over the life of the contract. It's a pretty sweet setup, all it takes are clueless consumers on the front end to lock in at inflated prices.

Posted by Mark Jeftovic in The Sleazemeter at 21:15

Tuesday, June 3. 2008

Newsflash: Some Web 2.0 Companies are Over Valued

I like Techcrunch a lot, and have always been proud that they're an easyDNS DNS hosting client, but sometimes I find myself shaking my head a lot as I scroll through their feed in my bloglines reader. The still pre-revenue Twitter just got something like a Q-round funding giving them a post-money valuation somewhere north of Canada's GDP and some of the A-rounds being announced stand less of a chance succeeding than bluetooth enabled salad forks.

While the current VC's of these deals may succeed in their own business plans (that of achieving subsequent fundings at ever higher valuations, or effecting a liquidation event where some large elephant with too much money takes the entire thing over), whoever ends up ultimately owning these start-ups at the highest valuation will never recoup that "investment" out of earnings from the venture.

With some of these Web 2.0 companies it's like trying to build a business plan and monetize a really hot knock-knock joke. It catches on like wildfire, soon everybody's telling it in the elevator or at the water-cooler. Your cab driver knows it and so did your waiter at lunch. And then some VC firm comes along throws 60 million into the pot thinking eventually people will pay to hear it, or that they can sell advertisements just before the punch line.

I don't see it happening.

Posted by Mark Jeftovic in Venture Crapital at 11:31