Reprinted From

The New York Times

SUNDAY, DECEMBER 28, 2003

A Homespun Hedge Fund, Tucked Away in Texas

By SIMON ROMERO

Salem Abraham on a ranch in texas that he owns with his brothers. His firm has made money seeking out tiny price fluctuations in the market for futures contracts.

CANADIAN, Tex.

IF you are looking for signs of the extraordinary influence that this Texas Panhandle town wields in some of the most competitive and arcane areas of international finance, you are apt to miss them. In most regards, Canadian — population, 2,000 — appears no different from other communities on the road north of Amarillo, where the West Texas Panhandle drawl wraps itself around the names of places like Pampa and Miami (pronounced my-AM-uh).

A photograph of the high school football team hangs in nearly every shop window. Victorian mansions, the remnants of faded ranching dynasties, stand near brick buildings, one bearing the name of the Women's Christian Temperance Union and another that houses the Cattle Exchange, a restaurant where customers are drawn by the smell of steaks grilled over burning mesquite wood.

Those small-town qualities, though, are what Salem Abraham hopes will distinguish his hedge fund and stock-index arbitrage operation, based in a 1,000-square-foot office above the steakhouse, from his competitors. At a time when another hedge fund, Canary Capital Partners of New York, is at the heart of the current mutual fund scandal because of its after-market trading activities, Mr. Abraham is betting that his firm's homespun image will be a plus even for his wealthy investors.

It would be hard to find a financial firm in the United States as removed from Wall Street, geographically and culturally, as the Abraham Trading Company. Housed in the same building where his grandfather, Malouf Abraham, once chewed the fat with local politicians and ranchers while building a sizable land-speculation business, the company has evolved into one of the nation's most unusual trading operations.

Yet on some days, the firm's unit that specializes in electronic trading of stock index futures accounts for an astounding 1 percent or more of the trading volume on the Chicago Mercantile Exchange. All of the trading is conducted through a system of 60 computers connected to the rest of the world through a dozen high-capacity telephone lines.

Mr. Abraham's hedge fund, a separate operation with about $30 million of assets, is not doing so poorly, either. It says it was up more than 86 percent in the 12 months through November, after placing successful bets on the direction of cattle futures and the value of the dollar against other major currencies. Mr. Abraham devises the fund's strategies with a team of eight associates, almost all of whom also grew up in Canadian.

NO one at the company has an Ivy League degree. Most of the employees at Abraham Trading have backgrounds working at the area's feedlots or natural-gas drilling and pipeline companies. Their training in the complexities of trading and arbitrage is provided on the job by Mr. Abraham, 37, who graduated from the University of Notre Dame in 1987 with a degree in finance.

"This beats shoveling manure at 6 in the morning," said Geoff Dockray, who was hired as a clerk for Mr. Abraham after working at a feedlot near Canadian. "The financial markets are complicated but they're not as relentless as dealing with livestock all the time."

The emergence of a sophisticated hedge fund in a town where Ford F-150 and Dodge Ram pickup trucks remain the vehicles of

choice may come as a surprise. But as much as Texas seeks to retain its mythical attachment to commodities like cotton, cattle and oil, it is increasingly becoming a state controlled by people who buy and sell financial products.

This trend is best witnessed in large cities like Houston, Dallas and Austin, but perhaps no one exemplifies the state's transition into 21st-century capitalism better than Mr. Abraham, the scion of a family of Lebanese traders that settled in Canadian a century ago.

The Abrahams came to the far north reaches of the Texas Panhandle as the town was developing into a hub and railroad depot for surrounding cattle ranching operations. Nestled in an area of hills and mesas near the Canadian River that little resembles the flat expanses of the region, the town has never had more than a few thousand residents.

Mr. Abraham grew up in Canadian and returned after college to marry his high school sweetheart, Ruth Ann. They have eight children, ranging in age from 8 months to 11 years, and live in a sprawling mansion near the center of town that was once the home of Mr. Abraham's grandparents. A mural with writing in Arabic recalls the family's roots in Lebanon.

Mr. Abraham often takes potential investors in his hedge fund to his office; to his 20,000-acre ranch, which he owns with two brothers; and to his home to meet his wife and children before retiring to the Cattle Exchange to hash out details over a steak. The meal proceeds without wine or other alcoholic beverages because Hemphill County, of which Canadian is the seat, remains dry.

"We've got our rules to stick to," Mr. Abraham said one recent evening over dinner at the steakhouse.

His sales pitch worked exceptionally well in the early to mid-1990's, when Mr. Abraham lured investors like the Commodities Corporation, a futures and commodities investment firm acquired by Goldman Sachs in 1997, to invest in his fund, increasing its assets to more than $130 million.

Investors from as far as New York, Chicago and Abu Dhabi made the trip to Canadian, which involves flying to Dallas, catching a connecting flight to Amarillo and driving 90 minutes to Mr. Abraham's office.

But his down-home approach suffered a setback when his hedge fund had a few years of single-digit returns during the stock market bubble of the late 1990's. His focus on trading a diverse basket of currencies and hedging contracts looked lackluster compared with the soaring valuations of technology stocks. Investors pulled more than $100 million from the fund, causing its assets to shrink by more than 90 percent.

Salem Abraham runs his firm from Canadian, Tex., where his Lebanese ancestors settled a century ago.

Mr. Abraham continued to pursue a parallel business of trading stock index futures and acquired a seat on the Chicago Mercantile Exchange, which lowers his cost of trading there. At the essence of Mr. Abraham's arbitrage strategy is seeking out minute price fluctuations in the market for futures contracts linked to the Nasdaq composite index and the Standard & Poor's 500-stock index.

Even some of the most sophisticated investors in Texas, like T. Boone Pickens, whose West Texas ranch is near one owned by Mr. Abraham, are struck by the complexity of Mr. Abraham's

Mr. Abraham bought and refurbished Canadian's movie theatre, the Palace, which he had feared would close.

arbitrage strategy.

"It is beyond me; I can't understand it," said Mr. Pickens, the former corporate raider and futures trader. "I admire Salem and I consider him a great deal maker, but there are some things he does that I can't fathom."

Like Mr. Pickens, Mr. Abraham savors the details of business and financial transactions, a quality that Mr. Abraham said he inherited from his grandfather, who cobbled together an extensive network of land holdings and natural-gas leasing agreements. In addition to finance, Mr. Abraham has been involved in land and water deals throughout the Panhandle and in northern New Mexico.

Part of the challenge of doing business in rural Texas, Mr. Abraham said, was related to his family originally being perceived as outsiders by the segregationist Panhandle establishment of the time. For instance, Mr. Abraham and his brothers grew up hearing stories about the town's public facilities, which had signs proclaiming "No Mexicans or Syrians Allowed." (Syrian was a blanket term used in the region to describe immigrants from the Middle East, including Christian Lebanese.)

After college, Mr. Abraham went to work for his grandfather instead of pursuing his interest in becoming a commodities trader in Chicago. After observing his grandfather's talent at persuading Panhandle ranchers to accept his proposals, Mr. Abraham persuaded him to invest $30,000 of his holdings in futures contracts.

Early investors in Mr. Abraham's fund, which says it has had an annualized return of 24.8 percent since its inception, have done well; $1,000 invested in the fund in 1988 would have grown to about $34,000 today. Not everyone, of course, can invest in the fund because it is limited to individuals or institutions with net worth of more than $1 million.

"Sometimes people have a tendency to resent a young guy who's making so much money," said Jerry Parker, himself a hedge fund manager from Richmond, Va., who has been an investor in Mr. Abraham's fund for the last five years. "I just think he has a lot of guts."

RECENTLY, Mr. Abraham has gauged local intelligence in addition to more cosmopolitan analysis for his investment strategies. For example, he made his bullish bet on cattle futures after witnessing the skittishness of local ranchers when the contract reached a record high over the summer — and, of course, before the tumble last week that was related to concern over mad cow disease in the United States. After deciding that the ranchers were too conservative and too skeptical about beef prices, Mr. Abraham took a contrary position and rode the trend to its recent peak before selling most of his contracts.

He said on Friday that he was largely unscathed by the week's decline, calling it an overreaction by the market that could translate into a buying opportunity.

He still considers himself a niche player in a world of giants. Many hedge funds are much larger, with assets of $1 billion or more, and often engage in short-selling and derivatives trading, making them less than transparent to investors.

By contrast, Mr. Abraham trades only listed futures contracts for products like cattle, corn and crude oil, allowing investors to gauge his performance more easily. He does not dabble in any stocks. "At a time when the stink is getting bad in some parts of the business, it's been helpful to be in an area that stands up to a healthy amount of scrutiny," he said.

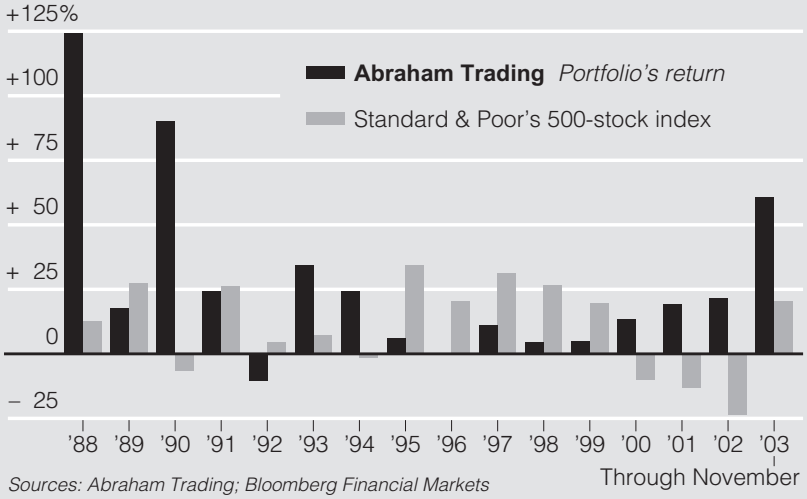
Perhaps inevitably, Mr. Abraham's growing fortune has led to a few changes in Canadian. Unhappy with the possibility that its only movie theater, the Palace, could close, he bought it and invested $1 million to refurbish its interior and install a digital sound system.

Then there is the tiny airstrip outside of town, where Mr. Abraham sometimes parks the small jet he uses to travel to meetings in Chicago or New York, where his company often draws curiosity.

"I've seen guys mount a sophisticated trading operation in a place like Milwaukee but Canadian, Texas, is another matter," said William Rainer, a former chairman of the Commodity Futures Trading Commission and currently chairman and chief executive of OneChicago, an electronic futures exchange, who recently visited Mr. Abraham's office. "It's something to ponder in a business where success is measured in milliseconds, really less than the blink of an eye."

On a Winning Streak

Abraham Trading, which invests in listed futures contracts, has outperformed the overall stock market in the last four years.



Sources: Abraham Trading; Bloomberg Financial Markets

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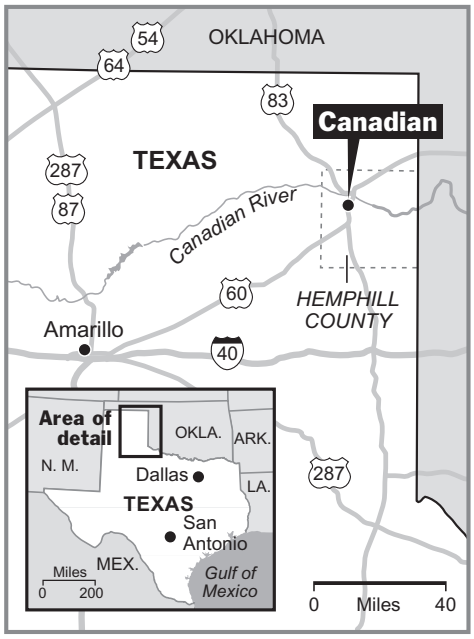

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.