

Tom Basso: Objective observer

By Mark Etzkorn

While Tom Basso is widely known as one of the most easygoing traders in the futures industry, when he recounts his first futures trade, it's apparent his composure is not a genetic gift, but rather the result of a long apprenticeship in the markets.

"I was sick to my stomach because I didn't really understand what I was doing," he says of losing \$600 (on a \$2,000 account) on two corn contracts. "I hadn't done a really great job of defining my risk. But I used the experience to say, 'Okay, now I understand how that works. How do I deal with it now?' And I just got better and better — that's all you can do."

In charge of nearly \$300 million through his commodity trading advisor, Trendstat Capital Management in Scottsdale, Ariz., Basso, 44, has certainly "gotten better." His penchant for self-analysis, perseverance and risk control carried him through some fruitless periods early in his trading career and helped mold a cool, detached trading persona.

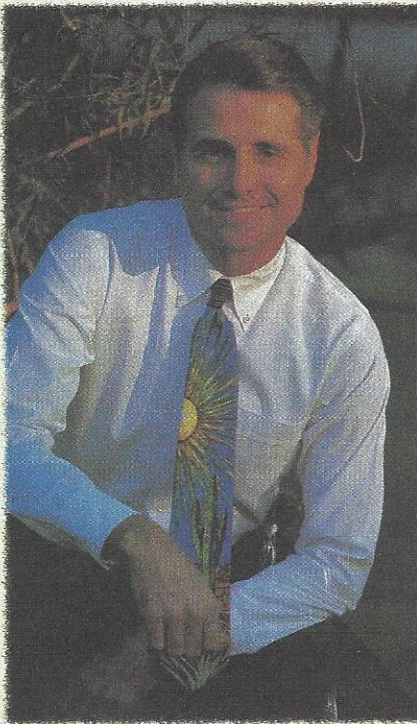
Basso has posted a composite return of 116.7% on his World Currencies Program (since 1991), and 168.5% on his Multi-Trend Futures program (since 1987). These funds were up 9.65% and 15.3%, respectively, in 1996 through November. He hasn't had one losing year in the currency fund and only two in the futures fund since 1988.

While some traders may flaunt gaudier returns, few are as consistent as Basso. His worst 12-month period for the Multi-Trend fund was -19.37%, while the worst period for his currency fund was +.08%.

A successful part-time equity trader and full-time chemical engineer in the 1970s, Basso's first commodity trading efforts definitely were not rewarding: He suffered five consecutive losing years before breaking even, but was determined to at least learn a lesson from every loss — tuition, he says, paid to the "college of trading."

"Little by little, I progressively lost less each year," he recalls. "I became very oriented towards minimizing losses. Finally [in 1980], I turned a small profit on the commodity trading side. I felt like I'd really matured as a trader." He soon turned full-time to the markets.

Also, using a "bit of behavior modification and a bit of awareness," he gradually realized the benefits of "getting



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decaffeinated," as he says, staying in shape, implementing strategies that cover both reward and risk, and managing trade volatility to increase his objectivity and better manage the stress of trading. Basso keeps "copious statistics" on his trade activity, always analyzing the reasons for taking a particular action, to learn from past errors and improve performance.

Basso is an exclusively technical, multiple-system ("largely breakout"), intermediate to long-term trader. He trades approximately 20 futures markets and 20 to 25 interbank currency markets. "We have nothing short-term at all," he says. "We have strategies that add to positions in a long-term trend, which is a little unusual. We're very good at risk and volatility control of our accounts — controlling the drawdowns."

That control comes in the form of limiting risk on a particular trade to around 1% of equity, with Basso managing positions every day as market conditions change. "For initial position sizes," he says, "if you get too much above 1%, you're getting into fast moving territory; if you get up into the 2% to 3% range, you're in dangerous territory, and if you get much above 3% to 5%, you're really putting yourself in harm's way."

Basso designs his systems to adjust for changing market conditions, like volatility swings, so he doesn't have to constantly tinker.

"I looked at a lot of history and tried to decide [which] types of scenarios would require a system modification," he says. "Then I built those algorithms into the systems so they essentially modify themselves. Aside from some minor risk numbers, the

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basic guts of how we buy and sell has stayed the same since about 1987."

Basso believes most traders approach the game from the wrong end of the field, obsessing about entry and exit rules, paying cursory attention to risk control and usually ignoring psychology altogether. It's wise, he says, to address these issues in precisely the opposite order.

"One unusual thing about me compared to many other starting traders is I developed my own view of how I wanted to trade from the start," he says. "I did an inventory of myself, my skills, what I wanted to do, and I designed it all for me, rather than copying someone else and doing something I thought was beyond my capabilities."

Ironically, the entry and exit mechanism is the least important element, Basso says. "Look at all the great traders out there. Was it the buy/sell decision engine that caused them to get in or out of a certain market that important? Being good traders, they all got in the way of a good market, and they all made money. But the details of how they did that didn't make that much difference."

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