



Drobny's Met By Chance And See Markets' Luck

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BORDEAUX, France (Dow Jones)--You are a hedge fund manager paying top dollar for investment research. The last thing you might expect is a lecture on the role of chance in the financial markets.

But that's exactly how Andres Drobny, 48, and his partner, Steve Drobny, 31, plan to kick off a seminar for their clients next week in Barcelona. Sometimes offbeat, often running contrary to conventional wisdom and always looking to provide moneymaking opportunities, Drobny Global Advisors have picked up some ardent followers inside the closed world of hedge funds and global money management since the company's founding in 1999.

"Andres Drobny is the best we know at translating economics into something that is actually tradable," says a U.S.-based manager of a macro-strategy hedge fund. The Drobny's are building a niche business by being at the center of a living dialogue. "Where most research tends to be factual, Andres Drobny's research is a daily thinking piece. He's good at finding inflection points in markets, at identifying risk/reward tradeoffs that make sense," says Jim Leitner, a client and manager of New Jersey-based hedge fund Falcon Family.

For upwards of \$50,000 you can tap the exclusive circle of Drobny Global. As well as receiving the Drobny Global Monitor, a market strategy newsletter authored by Andres Drobny, you get to participate on conference calls and attend investment forums. In this sense, Andres is like an outsourced chief strategist.

And the ideas can be anything but ordinary. Where else would you hear about indexed linked housing bonds from Iceland? This was just one idea that came out of the last Drobny Global Conference, where clients sat around and discussed best trade ideas in an informal setting.

It isn't mainstream, certainly. But real money is often made on the out-of-consensus, the neglected, and the improbable.

The story of Drobny Global itself is improbable, not least because the two Drobny's are unrelated. As Steve Drobny likes to point out, that's already a statistical anomaly. Drobny is the 64,437th most popular surname in the U.S., according to the Web site www.placesnamed.com, meaning people named Drobny account for only 0.0001% of the U.S. population, Steve says.

The two first talked in 1999, after Steve sent Andres an email to find out the story of this "crazy smart guy" for whom he had sometimes been mistaken. Their respective "stories" turned out to be remarkably similar.

Both attended high school in Bethesda, Maryland; both received advanced degrees from the London School of Economics; and both worked at major investment banks in London for long periods.

Andres got his PhD from King's College, Cambridge and taught economics at Cambridge and the University of London until 1987, when he joined Bankers Trust. Eighteen months later he became chief economist and head of research at Bankers Trust. This role also included running a small trading book, marking his introduction to the trading side of the business.

In 1992, he moved to Credit Suisse First Boston to help build a global foreign exchange operation. "Helping build a currency business exposed me to a much wider set of issues and



inputs," says Andres. "I was able to see first hand how clients think and approach the market, and how differently spot and proprietary traders think."

Despite the success of the CSFB currency business, which grew to several hundred million dollars in annual revenues essentially from nothing, Andres was ready for a change in lifestyle. So in early 1998, he retired from Wall Street and moved to the beach in Los Angeles.

Retirement didn't last long. After prodding by some former clients who missed his out-of-consensus market views, Andres began writing a newsletter in 1999. Steve joined in 2000 and handles all operational functions for what is now Drobny Global Advisors, allowing Andres to focus all his time on the markets.

The crux of the business remains the Drobny Global Monitor, the strategy newsletter that contains Andres' musings on world markets, which are always linked to hard trade ideas.

In a business dominated by big brokerages trying to sell their products and services, the Drobny's are viewed as a breath of fresh air. They are independent advisers, offering research that is unbiased by any house view. Their client base is small, concentrated among what is considered "very smart money" in the business of investing. Most clients come via word of mouth.

The Drobny's publish their newsletter only when they have something worth saying. And when they do publish, they're offering trade ideas and probabilities, not merely fact-based economics. Most of all, clients don't have to worry about hidden agendas behind a recommendation.

"I try to approach all issues from a trader's standpoint, and that means looking at risk versus reward," says Andres. "It's like the old adage: Talk is cheap. Everyone has a view, but a good trade is much different, and much more valuable."

Andres likes to point to the recent U.S. Treasury bond move as an example. His bias had been to be long, or positive, on global bond markets since late 2000. But while he laid out an extensive case for deflation that places downward pressure on interest rates, the risk/reward of the trade ceased to be attractive when 10-year U.S. Treasury yields approached 3%.

"Everyone was jumping on the bandwagon and going long bonds," notes Andres. "And after the huge U.S. fiscal stimulus was passed in May, it seemed like suicide to be long bonds at these levels. I was lucky enough to have gone short on Treasuries at this point."

In other words, thinking like a trader and being focused on market prices helped give Andres the signal to sell bonds. Since then, 10-year Treasury yields have increased by over 100 basis points. "This made a lot of money for some of my clients," says Andres.

"Any trade is a multi-variate, multi-equation problem, so one needs to always be cognizant about what isn't working, what part might not work," says Andres. "To make money and have value you have to have risk/reward parameters dominating what you do in markets."

So why not just return to trading directly? "I have often been tempted," Andres remarks, "but I sleep better at night in my current role, despite the fact that I approach my job as a trader would."

Lifestyle seems to have spilled over into the business model as well. "A meeting with the Drobny's is more than likely to take place at the surf club rather than the office," says Adrian Fairbourn of Fund Advisors, a London-based hedge fund investor. "While some of the conversation will revolve around the quality of the waves, you will tend to enter into a debate on global economics and hedge fund manager allocations."



Fairbourn was at last year's conference, held in Santa Monica, California. Some first-time Drobny Conference-goers may have been surprised to see Andres giving a presentation in jeans and Steve wearing thong sandals at the party afterwards, which was a barbecue at Andres' home.

But clients love this accessibility. "I pick up the phone and Andres is always there to talk," notes Jim Leitner. And as Steve Drobny likes to say, "Wearing a suit doesn't make you any smarter."

The next conference will be held in Barcelona on Oct. 2-3. One of the guest speakers will be hedge fund manager Nassim Taleb, author of *Foiled by Randomness*, an account of the hidden role of chance in financial markets and life.

A sign of how seriously the industry takes the Drobny's different approach is that Deutsche Bank is sponsoring this year's event. Barry Bausano, global head of hedge funds at Deutsche Bank's global markets group, says he has known Andres and his work for around a decade and is impressed.

"Andres brings the urgency and immediacy of markets to his training as an academic economist," says Bausano.

We are left to guess what may follow the last conference's presentation on Icelandic housing bonds. In typical style, however, there will be a late evening of debate on trade ideas at Barcelona's hot Carpe Diem Lounge Club - on the beach.

