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Private Placement Programs & Trade Platforms

What They Really Are

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TRADE PLATFORMS

Trade Platforms are pools of capital that invest in a wide variety of financial instruments including stocks, bonds, commodities, EFT's and foreign exchange. These pools of capital may be a number of legal entities; however, the most common is known as a PPP, an acronym for Private Placement Programs. Private Trading Programs are not offered to the general public. They are exactly what their name implies, offerings of membership interest to a select group of chosen investors who meet certain financial requirements.

The minimum investment in these Private Placement Programs can often be quite high and require a lockup period, where the capital is committed to the Trade Program for a certain amount of time. The minimum investment levels and principal commitment periods vary depending on the type of investments and the objective of the investment. One year lock ups are not uncommon and in some investments the lock up period may be even longer. Lock ups serve a very important function. They provide the Trade Platform Managers and Platform Traders with the time in which to obtain results for the investors. Platform Traders want to know that the capital allocations they have been given to trade are for a long enough period of time to allow a particular trading strategy time to mature.

If you were to look at the returns of outstanding Platform Traders you would see profitable results over time; however, in the short term they may have a period of negative returns. If your interest is in traders with no down periods, please read no further, as they do not exist, contrary to popular belief. There is no such thing as free money. Trading involves risk. Every investor dreams of opening the door today and finding tomorrow's Wall Street Journal, but this only exists in fantasy. Platform Trading requires hard work, tremendous discipline,

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practice and superb talent. The fact is very few people have the gifts to be a successful trader. The Platform Traders at the very top of their peers are rewarded with staggering wealth. Platform Traders utilize many strategies to help determine profitable trades, such as macro analysis, price theory, fundamental analysis, value analysis and many more investment strategies. What superior and outstanding Platform Traders can do is make enough winning trades over time, irrespective of what strategy they may use to accumulate trading profits. However, a number of their trades will not be winners. A large part of successful Private Placement Program trading is risk management; controlling and mitigating your risk and losses to preserve investment capital.

One of the very basic risk management techniques utilized by Private Placement Platform Traders is only risking a very small percentage of the investment capital on every trade. It is usually between one half and two percent on a particular trade. If a trade loss hits a defined percentage allocation, the trade is closed out. The average investor has an extremely difficult time taking a loss. In fact, it is a human tendency to hold-on to losing trades and cut winning trades short, which is the very opposite of what great Platform Traders do. Risk management systems can get very complex and Platform Traders often write complex algorithms to manage risk when there are many positions and trade strategies running all at once.

AUTOMATED TRADING

The advent of the computer has radically revolutionized trading, just as it has every facet of our lives. Modern Trading Platforms are heavily dependent on mathematics and the hard sciences. Most Platform Traders today have advanced formal education and training in mathematics, probabilities, physics, computer science, economics and engineering. Trade rooms are more similar to busy computer driven laboratories than the old image of guys in a boiler-room shouting into two telephones at one time. Almost all orders are input electronically and trades are matched up by sophisticated software. PP Programmers and software engineers are indispensable to successful Private Placement Programs and Trade Platforms.

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As mentioned earlier, Platform Traders have many products to trade and a huge number of global exchanges to execute the trades. The most well-known exchange in the world is the New York Stock Exchange (NYSE). When Platform Traders make a trade, that trade is executed on an exchange. The NYSE, CME, NUMEX, ICE, CBOE and NASDAQ are the largest U.S. exchanges. In Europe the LSE, Euronext and Frankfurt Exchange are the largest. In the commodities much of the execution is done on the Globex, and electronic exchange. Platform Traders use the exchanges to buy and sell trillions of dollars of stock, bonds, currencies, gold, oil, Euro-dollars, CMO'S, EFT'S and hundreds of securities, currencies and derivatives in efforts to make profits for themselves and investors.

PRIVATE PLACEMENT PROGRAMS

Private Placement Program Traders can make profits by buying a particular instrument or by shorting, (SELLING IT) betting the price will go down. Some Platform Traders buy and sell similar instruments simultaneously, betting on the change in price between the two instruments; this is called **arbitrage and spread trading**. Other Platform Traders employ options strategies that can quickly become extremely complex and are highly specialized areas of trading which require extraordinary expertise.

Private Placement Program Trading Platforms utilize margin to buy and sell all of the various instruments they trade. Margin is simply partial payment for the instrument. Most people are familiar with margin on stocks. Margins are met with cash, period. Contrary to what some people may believe and popularly believe, the only instrument that is good for backing a trade position is cash. When a profit is made, it is credited to the Trade Platform's books that day; when a loss is taken it is debited from the Trade Platform's books that day. Private Placement Trading is a cash business; gains and losses are marked to market each day. Trade Platform Managers should know by between midnight and two am each trading day where they stand. The Private Placement Trade Platforms maintain what is called the customer segregated account with an FC. This account is where the Trade Platform investors' funds are held. An independent capital account is established for each Trade Platform investor in order to

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provide accurate accounting on a monthly or quarterly basis. The Private Placement Platforms' funds are deposited into a master segregated funds account to be used for margin trading.

Goldman Sachs, Merrill Lynch, ABN AMRO, MF Global, JP Morgan Chase, Credit Suisse, Deutsche Bank and Bank of America are all FCMs. These companies, as well as handling trades for independent Trade Platforms. Some of these trade desk are famous such as Goldman's Alpha Fund, Morgan Stanley's PDT (Process Driven Trading) Platform and Deutsche Bank legendary SABA Trading Program, led by Boaz Weinstein. The new regulatory environment is forcing many of the banks to divest themselves of proprietary Trading Platforms. This is making for a large talent pool comprising the best and brightest traders available for Private Placement Programs, Private Hedge Funds and Trading Platforms.

Private Placement Programs and Trading Platforms often use what is known as nationalization or notional funding to increase the leverage that the Trade Platform may use. The Trading Platforms may leverage its trading capital as much as ten times, meaning that One Hundred Million Dollars (\$100,000,000) may be trades as it was a Billion Dollars (\$1,000,000,000). Leverage, while giving the ability to greatly increase the returns on cash can also lead to significant loss. The old adage that "leverage is a double –edge sword" is very true. Notionalization absolutely must be constantly monitored and adjusted, depending on margin requirements and market conditions. The Private Placement Platform Managers have investment committees that are responsible for determining notional trading levels, Notionalization is a very powerful tool for the Private Placement Trading Platforms.

In conclusion when it comes to Private Placement Program, the minimum investments can be high and risk can be high as well. However, the reward can be great, great enough to easily justify the investment and risk for one who has the means with which to get involved in such an investment.

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