

## Thirty-Three Years of Trading Anecdotes

By Vineer Bhansali | September 9th, 2025

For a recent podcast interview, I was asked to reflect on “fun/interesting/enlightening” trading anecdotes that I might have. After 33 years in the trading business, I figured the best way to jog my memory was to go chronologically year by year beginning in the year I started in this business (1992). There is a saying that each time memory is recalled and re-told the memory is replaced by the memory of the memory. Despite this caveat, I do think though that some of what follows might be interesting and maybe even have some lessons for others.

1991: The super-collider had just gotten cancelled and the US economy was in a recession. My postdoc prospects after finishing a doctorate in physics at Harvard were in Europe. But Wall Street and Goldman Sachs were looking for physics people to model options. I received a call from a search firm looking for physicists to join Wall Street, and went for an interview and sat across from an elderly gentleman who wrote “does not know any finance” and “is very good at math”. Later I found out it was Fischer Black of Black–Scholes equation fame. They made an offer but since this was, for me, a temporary sabbatical from physics, I wanted to do something completely new and unknown to me to learn...trading. So, I turned GS down and joined Citi's derivatives trading desk which was a group of hard-knock survivor trading geniuses. This set the theme for my next 33 years. The main lesson here was that sometimes the biggest twists of fate and “accidents” can end up being a gift in disguise, so sometimes it's ok to just roll with the punches and make the most of it.

1992: I started in the business at Citi as a freshly minted Ph.D. in Theoretical Physics from Harvard with the intention of doing one year on Wall Street. I was told to “trade” bond-futures by my boss Mamoon Zamir who was at the time the head of the trading desk. I had no idea what the bond futures contract was at the time and barely knew what a bond was. The low yields then were also a great environment to create “hybrid options” with multiple asset classes. One memorable trade here was selling a knockout interest rate cap on Yen interest rates with a knockout triggered by the dollar vs. yen exchange rate. The cap was knocked out within months of the trade initiation. Since then, I have noticed that the interest in hybrids and the sales of my now out of print book on “Exotic and Hybrid Options” is positively correlated with the need for yield.

1993-1994: Everyone was long the front end of the curve and collecting “carry”. The Fed tightened 25 bps in February 1994, and then again “inter-meeting” in April 1994. I tried to catch the falling knife and got “my face ripped off”. First lesson is that it never pays to fight the trend. Orange County was the other casualty after it declared bankruptcy. Much later, I would find my home in Orange County since this was where PIMCO was based. The take home lesson here was that the consensus and experts can frequently be wrong, and it is best to think for oneself. Also, sometimes the lure of carry is the shortest way to hell.

1997: I was at Salomon Brothers Fixed Income Arb desk by this time, helping run a massive municipal bond basis trade, under the “de-minimis” exemption. I tried to trade the (now defunct) muni bond futures contract. My boss at the time, Rob Stavis, told me that this cash-settled contract was a roach motel. I realized quickly, after my first trade, that a cash-settled contract that can be manipulated by smart index arbs is not a place to apply your analytical skills. Escaped with minor bruises. I guess what I learnt was that a “hard-expiry” on a contract can trap the unwary. Similar things happened more recently when the oil contract went negative and you could not take delivery of the oil (and get paid) even if you were long. Expect the unexpected, and understand the nuances in detail before you risk your money. If it looks too good to be true, it probably is. “Free” hedging strategies in the market today fail this test.

1998: I was part of a meeting with the arb desk and the leaders of Travelers, the new owners of Salomon. Both Sandy Weill and Jamie Dimon were in the meeting. They clearly did not like volatility coming from the arb desk’s trades. Over the next few days I found out that the whole business was to be shut down and I was offered to stay on the “customer” side of the business or take a severance package with the rest of the team. I do remember Sandy Weill coming to an arb desk party prior to this and telling the team what a jewel the arb desk was. This was before the PNL volatility freaked them out.

Having taken my severance package, I spent the summer on my old 18-foot boat on the Hudson (which I had earned/won as part of my Liar’s Poker winnings) learning how to operate it. When LTCM blew up and arb desks were all shut down, I started on the prop trading desk at CSFB, buying back many of the municipal bonds that were being liquidated, and also bidding for AAA GOs at muni-treasury ratios of well over 100%. It’s always good to have liquidity when others don’t.

1999: I happened to hear Bill Gross speak at a book tour in Manhattan and wrote to him.

2000: Was asked to join PIMCO as the Head of Analytics, and on day two was asked to become a co-PM with Bill Gross on many global bond portfolios. Went home that day with a multiple thousand-page binder of portfolio positions, most of which were mortgage pools, trying to figure it all out given that I had never traded mortgages prior to this.

2001: Started PIMCO's first hedge fund – the "Global Relative Value (GRV)" Fund, with John Hague. The fund got off to a great start, with assets growing to over a billion in a year or so (those days a billion assets meant something). As one of the 26 sleeves (they were labelled alphabetically), the "Z" sleeve was the tail hedge sleeve, whose purpose was to hedge our correlated systematic risks. A couple of investors asked for just that sleeve for their own portfolios as a custom strategy. Tail Hedging as a new business was born at PIMCO. The main lesson here is you never know what investors are looking for. What you think is important might be irrelevant, and what you think is irrelevant might just be the most important thing.

2006: We started to build up the hedges, especially in credit, especially after visiting a bunch of banks in New York and finding out that many (especially Lehman and Bear) did not include large housing market down-shocks in their portfolios, and had retained a lot of the risk on their books, levered. We bought protection on the banks at low double digits CDS spreads, with one notable trade being buying protection on Bear using Lehman as a counterparty! Fortunately, this trade was re-assigned before both of them imploded. Sometimes you get lucky! Take the gift but try not to get lucky again with the same mistake.

2007-2008: At this time the CDX index and its tranches had started to trade, and synthetic credit funds were using packaged credit and mortgage derivatives to enhance yields, believing these tranches could never default and so were safe to sell protection on. We bought large notional size protection on these tranches as a systemic risk hedge. At the peak of the crisis these tranches widened by about 8x and implied correlation went above 1 (i.e. the market was broken). They never defaulted, but the mark to market created a meltdown of the synthetic credit market. This was the first time I observed that mathematical models can break big. The second time was when yields went negative (see below).

2009-2011: I got involved with the PIMCO Distressed Senior credit Fund which was the brainchild of Dan Ivascyn. I co-managed the fund with Dan and remember buying bonds that

were money-good that would get marked down daily. Even CDS on the USA default traded at close to 75 basis points which made for a relatively easy protection sale. Fortunately, the fund could keep calling capital, and we were able to buy bonds at 50 cents on the dollar that were money-good and promised yields in the 15% plus zone. This made Dan's career and perhaps his future as the CIO of PIMCO. The moral here was that as long as you are the last person standing, it does not matter how smart or dumb you are in the markets. Liquidity is King!

2012: I argued for "trend-following" as a core risk mitigation strategy before it became common fare in the institutional space. In the value-investing, human discretion driven ethos of PIMCO this was heresy. After many internal battles, we got it launched as a core quant strategy at PIMCO. Tail hedging had already become a fixture and a "real business", and these new strategies were sufficient for an internal "quantitative portfolios team" to be formed.

2015: I spun out of PIMCO to start LongTail Alpha. Possibly the best trade for myself I ever made!

2016: Election day I took a poll and found that (1) market consensus was for a Hillary victory, (2) market consensus was that if Trump won, the stock market would tank. The odds were so one sided that we entered with a long call position and short futures against them. After the market went limit down as Trump looked like the winner, covered the short futures position and went home since the call options were essentially worthless. When I woke up the next day the market was up huge, and now the calls paid off. Moral: you can get a trade right with the wrong hypothesis if the market is one sided. Don't forecast – look at the odds! Sometimes they are just too lopsided.

2017-2018: At a quant conference Larry Harris and I sat down to talk about why volatility was so low in the markets. My view was that everyone was "selling volatility", and we wrote a paper called "Everybody is Doing It" to illustrate the short volatility ecosystem. I even got a pitch from a couple of academics who said that selling volatility in a levered form had a historical Sharpe of over 5! Sharpe ratios can mislead when they don't pay attention to tail risk, which is existential. Our view was that this would not end well. Since Larry is a professor, we submitted the paper to an academic journal which immediately rejected it. In 2018 the XIV inverse vol ETF imploded in an episode now called "Volmageddon", going to zero within hours. The editors called and the paper was immediately published. Never underestimate the ability of Wall Street to manufacture products that may implode. Buyer beware!

2019-2022: The ECB and other Central Banks went on a price insensitive bond buying spree, arguing, as only academic economists with their blinders on can argue, that if low rates were stimulative, then negative rates should be even more stimulative. As almost 20 trillion of global bonds went to negative yields, I went short the negatively yielding “bund” market as a long-term position (and also wrote a paper titled “The Upside Down Bond Market” for the CFA institute). Since a negative bond yield means you are getting paid to borrow, the extra premium you earn above par in the price is like being paid to hold a cheap option on inflation. It took the bond selloff of 2022 to make this option pay off as free money led to global inflation. Clearly, the lesson to be learned here is that Central Banks and economics Ph.D.s are just as likely to make gross errors as the rest of us, and sometimes these big distortions create the biggest risks and biggest opportunities, since they actually can compel action with the public’s money. Many of the bonds that the central banks were buying and forcing others to buy have lost over 70% of their value.

2020: COVID-19 resulted in a massive spike in volatility and then the quick rebound and rally in the stock market. In January 2020 tail hedges were literally being given away. In March the story was quite different. Limit moves and non-existent liquidity during this time exaggerated moves and made it easy to be long volatility as long as one was paying attention and actively managing the positions.

2024: The Japan market meltdown happened on the back of levered currency hedged trades gone awry. A sharp vol spike as liquidity all but evaporated. Be very wary of synthetic trades that create a lot of complexity and a lot of hidden risk. Everything is interrelated and is becoming even more so daily.

2025: Liberation Day tariffs trading set a new record. The most interesting thing that I remember is the speed at which things happened, and how early (pre-market) trading happens now. There is simply no time to prepare in the moment. You have to be locked and loaded, and execute the trade. Pre-paration is essential!

Back when I started in 1992, crises took years to unfold. Then they took many quarters to play out, as in the GFC. Then volmageddon and COVID-19 condensed it to months. Over the last few years, the time scales have compressed further to weeks, days and hours as during “Liberation Day” 2025. Things will just happen faster, it appears. Technology and execution matters.

These are just some of the “moments” and lessons that stick out to me as I reflected over more than three decades in the trading world. The experience has possibly created a schema that one way or another always operates in the background when I am looking at the markets now. If anything, I am more uncertain now than I ever was on what is possible and what isn’t. As we speak, markets continue to evolve rapidly and there will surely be many more anecdotes to accumulate. Not a boring day, and so much still to learn. I still expect that many unexpected things will happen.

## Important Disclosures

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