

## **Strategos Seeks to Profit on Differing Views of Mortgage Bonds**

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By Jody Shenn

April 6 (Bloomberg) -- Differing views on the value of specific U.S. home-loan bonds that lack government backing provide an opportunity to profit by actively trading, Strategos Capital Management LLC co-owner Frederick Horton said.

The market is "incredibly inefficient," Horton said today in a telephone interview. "We'll see the same bond trade in a 10-point range over a three-week period when there's no change in the market," he said, referring to differences of 10 cents on the dollar.

For example, the second-place bidder in a Feb. 8 auction of pieces of a bond backed by home-equity lines of credit offered 46.5 cents on the dollar, according to information compiled by Empirasign Strategies LLC. A month later, a second-place bid on the same debt was in the mid 50-cent range, according to the New York-based data provider. The spread indicates the winning bidder of the first auction could have profited by re-selling the same securities a month after purchasing them.

So-called non-agency mortgage bonds, meaning those without government-backed guarantees, have offered unprecedented gains to investors after plunging to record lows through early 2009. Floating-rate subprime-mortgage securities have returned 42 percent since mid-2009, Bank of America Merrill Lynch index data show. The rally has made a manager's trading acumen more important, Horton said.

"It's not a market like it was in winter 2009 where you could close your eyes and buy almost anything and it would be cheap," he said.

Horton, 52, and Alex Cigolle, 35, started Philadelphia-based Strategos Capital Management last month with about \$400 million of funds they had been overseeing at Institutional Financial Markets Inc., the firm formerly known as Cohen & Co. Six other people from their previous employer joined Strategos.

One way mortgage-bond investors can add value "without taking much risk" is to buy small blocks of the same securities and combine them for sale in larger amounts, said Horton, who has also worked at GSC Group and TCW Group Inc. Strategos Capital Management also tries to make bids at some level for as many bonds as possible to gauge the market, he said.

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