THE FIRST 50% IS THE HARDEST

Evergreen Commodity Advisors

AUM:
$8.2 million

Traders:
Kelcy Voth
Bryan Vaverek

Strategies:
Discretionary energy spreads

Location:
Chicago

Both Kelcy Voth and Bryan Vaverek, co-founders and Principals of Evergreen Commodity Advisors, clerked on the Chicago futures trading floors when they were in college. The experienced cemented a desire to trade and learn more about the markets.

Vaverek, graduated from Bradley University in 2005 and joined Bell Trading where he met veteran energy trader Dan O'Grady. Vaverek had been interested in fixed income but when he joined Bell, energy markets were beginning to take off so that is where he focused his attention. "It moved a lot more than interest rates at the time," Vaverek says, "Dan taught me to watch crack spreads, calendar spreads and inter-product spreads so I started trading that and had a lot of success with it."

It was also at the time that liquidity was beginning to move from the floor to the screen, which enhanced the spreading opportunities.

O'Grady mentored Vaverek and when he moved his operation to Iowa Grain in 2008, he took him along where they were joined by Voth, who had just graduated from Bethel College. "He taught us the fundamentals of the energy markets," Voth says. "He had a ton of experience and knew the fundamentals inside and out."

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"I gravitated to spreads because there was a lot of inefficiency in the spreads at that time that I was able to take advantage of," Vaverek says. "That didn't last, but it was a good way to learn how to trade the energy markets. I learned what kind of moves they made, when to fade them and when to jump on board."

They also got a feel for volatility, trading crude oil and its products during the massive crude moves of 2008.

After separating for a couple of years Voth and Vaverek teamed back up at Crossland Trading where they began trading for themselves and eventually launched Evergreen in January 2015.

They trade crack spreads and calendar spreads in the energy complex from a discretionary perspective utilizing fundamental and technical analysis based on their years of proprietary trading.

"I would describe it as a relative value strategy," Vaverek says. "We look at everything on the board and determine, with technicals and fundamentals or seasonality, what's overvalued, what's undervalued, what's fairly valued and look to put a spread on based on that. For example, RBOB is overvalued relative to the complex; first off we ask why? We want to know the fundamentals behind that and if the technicals say this is overdone, we will sell that. Or seasonally, if everything is equally valued and RBOB should be outpacing everything else that time of year, we will look to buy."

Because they are discretionary and trade numerous combinations within the complex, their trades can be intraday or up to two months. "We tend to have more time-based stops," Voth says. "If we are putting a trade on because something is overvalued or undervalued, we are looking to get out that day or the next day."

When they were prop trading they would not hold anything overnight, but they saw longer-term opportunities, which was a driver in launching the CTA.

"A year before we were trading client money we were paper trading this strategy and we had a lot of success with it," says Vaverek. "We were taking nickels and dimes out intraday for our own accounts [and saw] an opportunity to take a dollar out of these trades."

They also became more technically focused. "Usually we are waiting for something to happen," Voth says. "We have several ideas at any given time and we say, 'if this goes here, this is what we want to do, or if it goes here instead, then this is what we want to do."

So far it has worked out well, as Evergreen earned 39.66% in 2015, its first year of managing customer funds, and is up 11.44% year-to-date through May.

While the massive sell-off in crude oil and its effect on the products provided an opportunity, it also created a challenge as many of the seasonal tendencies and basis relationships they trade on have changed.

"A few years ago the Brent/WTI spread was up to $25," Vaverek says. "Even seasonals [are changing]. Last fall a lot of the seasonals did not behave like they usually do. Every year you can count on some things happening and last year was totally different, especially in the fall. You have to pay attention to it and adjust accordingly."

The two had to adjust from trading proprietary money for a firm to trading for themselves and now for customers. Voth says the latter is a tougher adjustment but given their performance they are adjusting to both the markets and managing money just fine. ∆

Daniel P. Collins