



Day Trading in US Treasurys? Volatility Sparks New Market

MARKET, STOCK MARKET

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Once considered one of the ultimate buy-and-hold investments, US Treasurys are now being traded like stocks and commodities contracts, bond experts say.

With the government flooding the market with new debt offerings to pay for stimulus and bailout programs, traders have been moving quickly in and out of Treasury positions to capitalize on sharp moves in prices and yields.

The result has been opportunity for quick-thinking investors who now look at government debt as another chance to make money in the volatile environment that has followed the collapse of the global financial markets.

"It's not our father's market anymore," says Kim Rupert, managing director of global fixed income analysis for Action Economics in San Francisco. "A lot more individuals are becoming more or less day traders these days and are a little more flexible and have the capacity to manage their accounts a little more fluidly. That means more demand for Treasury bills, especially as a real flexible investment tool."

Prices on the benchmark **10-year Treasury note** have seesawed since the government began issuing what ultimately is expected to be more than \$2 trillion of debt. Market experts say bond auctions have provided a fertile environment for sharp-eyed traders looking to capitalize on government policy.

And with the federal debt likely to keep growing as the government continues to pump stimulus money into the economy, opportunities could abound in the Treasurys market.

"The only buy-and-hold investors now are insurance companies and central banks, and everybody else is in it for the game only," says Kevin Ferry, chief market strategist at Cronus Futures Management in Chicago. "You've got to keep yourself nimble enough to stay in the game. We're in the early stages of this game, not the late stages."

Of course, plenty of average investors continue to buy Treasurys as a long-term investment. But the growth of fast-moving Treasury contracts gives savvier investors another tool to seek short-term gains.

With no real measures handy to gauge bond volatility—nothing comparable to, say, the Chicago Board Options Exchange's **Volatility Index** that measures gyrations in the Standard & Poor's 500—the extent to which Treasurys have become a trading vehicle is something that becomes clearer when speaking to those in the business.

Ferry, for one, insists that the trend is more than anecdotal and is plainly seen whenever the government prepares for one of its auctions.

"I would not bet on the volatility of this thing going away anytime soon—three to five years," he says.

Indeed, the summer has seen some interesting price swings for the 10-year, which ironically is right around its June 1 levels despite its peaks and valleys throughout the auction process.

The availability of investment vehicles has contributed to the volatility in Treasurys trading.

Where once investors could only buy or sell the actual notes on the open market, various firms now have made exchange-traded funds available that pay both on moves up or down in the government debt markets.

Among the most heavily traded are the iShares **Barclays 20+ Year Treasury Bond**, which corresponds equally to the underlying Barclays index; and its bear counterpart, the ProShares **UltraShort 20+ Year Treasury**, which tracks twice the inverse of the corresponding Lehman Brothers index.

The difficulty for average investors to grasp the complexity of leveraged funds such as the TBT has made them controversial, but the ETF nevertheless generates average daily volume of close to 7.5 million shares. Investors like the funds because they provide some risk hedge while also the opportunity to move quickly in and out of positions.

"The retail investor is gaining this exposure mostly through trading of ETFs. Whether they're using shorts or using longs, they're getting that exposure," says Blair Anderson, managing director at HighTower Advisors headquartered in Chicago. "The thought process of retail investors is not general exposure as a percentage of the portfolio to a sector. They might use that as guidelines (then say), 'I'm not going to buy Treasurys. If I'm not buying Treasurys, maybe I'll buy the inverse.'"

Those looking to get in at the shorter end of the yield curve can use the less heavily traded ProShares **UltraShort 7-10 Year Treasury** and the iShares **Barclays 7-10 Year Treasury** .

"People have been looking at the Treasury market more as a sector play, and we've had a lot of volatility with interest rates," Anderson says. "We're getting volatility monthly if not weekly that is giving people different entry points and different exit positions, as opposed to buying and holding."

The move in Treasurys to short-term buying mirrors the new stock market mentality.

Where once equity investors thought at minimum in terms of three- to five-year investment periods, the volatility of the past two years has forced a new approach to being nimble and holding positions for far shorter time spans

And to be sure, another swing in the markets could change that thinking as well, particularly in Treasurys, where investors traditionally flock in difficult times for stocks. Government debt is considered the safest bet in times of market turmoil.

"We think that we'll break the (March stock market) lows in October," says John Lekas, senior portfolio manager of the Leader Short Term Bond Fund of Leader Capital in Portland, Ore. "Ultimately I think as we move forward we're going to see a pretty significant flight to quality. I think Treasurys are a spot you want to be in."

But not for long periods, some analysts say, as the continued influx of supply could depress prices while also creating opportunity for investors willing to be nimble.

Investors who do so need to make sure they have solid stop-loss provisions, but can otherwise do well in the volatility of the current Treasury market, says Mike Larson, analyst with Weiss Research in Jupiter, Fla.

"Being a buy-and-hold investor in long-term Treasurys makes no sense in this environment," Larson said. "Buying at the bottom and selling at the top works until it doesn't."

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