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PhillyDeals: Poker games as trader's test for making quick decisions

By Joseph N. DiStefano
Susquehanna International Group L.L.P. and its founders keep a low profile. That's why political Pennsylvanians were surprised to learn founder **Jeffrey Yass** and two of his partners gave more than \$1 million to longshot gubernatorial candidate **State Sen. Anthony Hardy Williams (D., Phila.)** because, they said, they like his school-reform ideas.



MICHAEL BRYANT / Staff Photographer
 Pat McCauley, a trainer at Susquehanna International Group, plays poker with trader-students in the poker room at their City Avenue offices.

But the partnership and its traders and techies - 900 at its City Avenue headquarters, an additional 600 in New York; [Chicago](#); [Dublin, Ireland](#); [Shanghai, China](#); [Sydney, Australia](#); and beyond - are used to Susquehanna pumping big sums rapidly through the world network of flickering, screen-walled trading rooms used by investors to weigh, price, buy, and sell stocks, bonds, options, national currencies, and private investments.

"**Warren Buffett** talks about derivatives and why they're dangerous. But he also says there are mispriced assets in the market, and they are great bargains, if you can find them. And that's the essence of Susquehanna: Jeff and his people are visionary at finding displaced items in the marketplace and taking advantage of opportunities," said **Louis DePaul**, managing director for derivatives at **Boening & Scattergood Inc.**, of West Conshohocken.

Susquehanna is a fluid business. It is, its managers say, the leading trader of stock options and exchange-traded index funds, among other products. It has been a varying presence since the 1980s in program trading of [New York Stock Exchange](#) listings, online brokerages, options-market-making, municipal bonds, and other services and asset classes.

"They adjust very well to the changing landscape," said DePaul, who, like Yass, got his start trading at the [Philadelphia Stock Exchange](#) on Market Street.

That has meant wide career opportunity for Susquehanna veterans such as **Patrick McCauley**, a [Delaware](#) County native, Archmere Academy and Swarthmore graduate, who married his prep-school sweetheart and came home to a job at Susquehanna after his Vanderbilt University M.B.A. professors told him it was a good place to put his math skills to work.

McCauley has been chief operating officer, head of equity trading, creator of an electronic-trading network for "dark pool" investments, and, for two separate stints, head of training for the average 30 traders Susquehanna hires each year, many of them from [Penn](#), [Drexel](#), [Villanova](#), [St. Joe's](#), and other [Big Five](#) and [Ivy League](#) schools.

Hold or fold?

The Susquehanna training regimen includes weeks-long grounding in probability, statistics, finance, game theory, decision science, and other arcane fields, alongside trading simulations. Training also includes poker, which Susquehanna says teaches and tests decision-making, because successful players have to balance risks and rewards using incomplete and indirect information from rival players.

The company doesn't look for [World Series of Poker](#) winners, since competitions typically require luck as well as skill. It measures carefully the risks players take and the bets they make and relates them directly to the stream of rapid decisions a modern trading-day demands.

McCauley looks for math geeks - but also for people with good communications skills, since traders who are chained to their desks for long hours need to know how to talk to and understand people who may be two continents away. Some 30 percent of trainees drop out.

Put or Call?

The stock exchange's old paper Put and Call sheets, relics of the days when traders stood in crowds

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But Susquehanna long ago moved way beyond the Philly exchange (now owned by the **Nasdaq OMX** stock market) to deal in world markets. The firm won't say how much it rakes in or how many millions it pays in salaries and bonuses each year.

It doesn't have to: it's still a private partnership, like **Goldman Sachs Group Inc.** or **Morgan Stanley** in the old days before **Wall Street** firms incorporated, sold shares to the public, and switched from being owner-traders betting their own capital to becoming high-paid guns for hire. To be sure, Susquehanna trades increasingly for wealthy institutions and other big clients. But the firm's own capital, the partners' money, is still at risk each day.

Susquehanna's charitable foundation helps keep the libertarian, antigovernment **Cato Institute** afloat. It also underwrote the computer-aid design lab at the **University of Pennsylvania's engineering school**, which has become a leading training grounds for **Hollywood** computer animators.

The firm's Philadelphia location lets it offer short Main Line commutes for traders with families who, if they worked in New York, would face long and daily Wall Street treks to Westchester County or Long Island, says **David Pollard**, a former **Morgan, Lewis & Bockius L.L.P.** partner who joined Susquehanna in 2004 and serves as head of strategic planning and special counsel.

The city is also convenient to Washington, where partners watched the government's recent financial-rescue operations closely, and adjusted its trading strategies to fit.

Contact Joseph N. DiStefano at 215-854-5194 or JoeD@phillynews.com.

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CiceroSpuriousDeodatus

Posted 09:10 AM, 05/14/2010

After the finance industry-driven collapse of the global economy, you would think these firms would AVOID blabbering about how wonderful their "poker game" training is. Ultimately, that's all they do - gamble with OPM and collect their fees, commissions and bailouts with zero risk to themselves.

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magicboy2

Posted 09:41 AM, 05/14/2010

Cicero did you even read the article? "the firm's own capital, the partners' money, is still at risk each day."

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Lefty Grove

Posted 09:52 AM, 05/14/2010

It's a common mistake to view the financial markets as gambling. They fulfill crucial needs in our society. Selling stock is how companies raise capital; the equity market exists so the original shareholders can sell their stake without liquidating the company. Markets for commodities futures let businesses that can be damaged by price changes (farms, for instance) hedge their risk. Foreign-currency future markets do the same for businesses that face risk in exchange rates. For example, think of a company in Philadelphia that has a contract to deliver a computer system to a German customer and get paid in euros. It has to pay dollars to its employees to get the job done. If the euro drops relative to the dollar in the interim, they can lose money. They can protect themselves from this risk with a countervailing bet against the euro.

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Mortgage rates drop to lowest level this year

Mortgage rates fell this week to the lowest level of the year. The drop was caused by a high demand for U.S. government securities, which closely track mortgage rates, as investors fled risky European debt.

Foreclosures down 2 percent from last year

INO Online system streamlines mortgage modification
DN Yard sale101

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Help Wanted: Social media promoters

In this economy, it probably is news when anyone's hiring, but the folks at adidas Golf are taking it a step further. And in doing so, they have some interesting company - songster Alicia Keys and Pizza Hut.

All three are using souped-up help-wanted advertisements for social-media communicators that, at the same time, promote their brands.

NBC seeks to fan enthusiasm with social networks

No guy-in-a-bar iPhone story in Vietnam
DN Can Facebook help save lives?



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