Nothing Matches Risking One's Own Money

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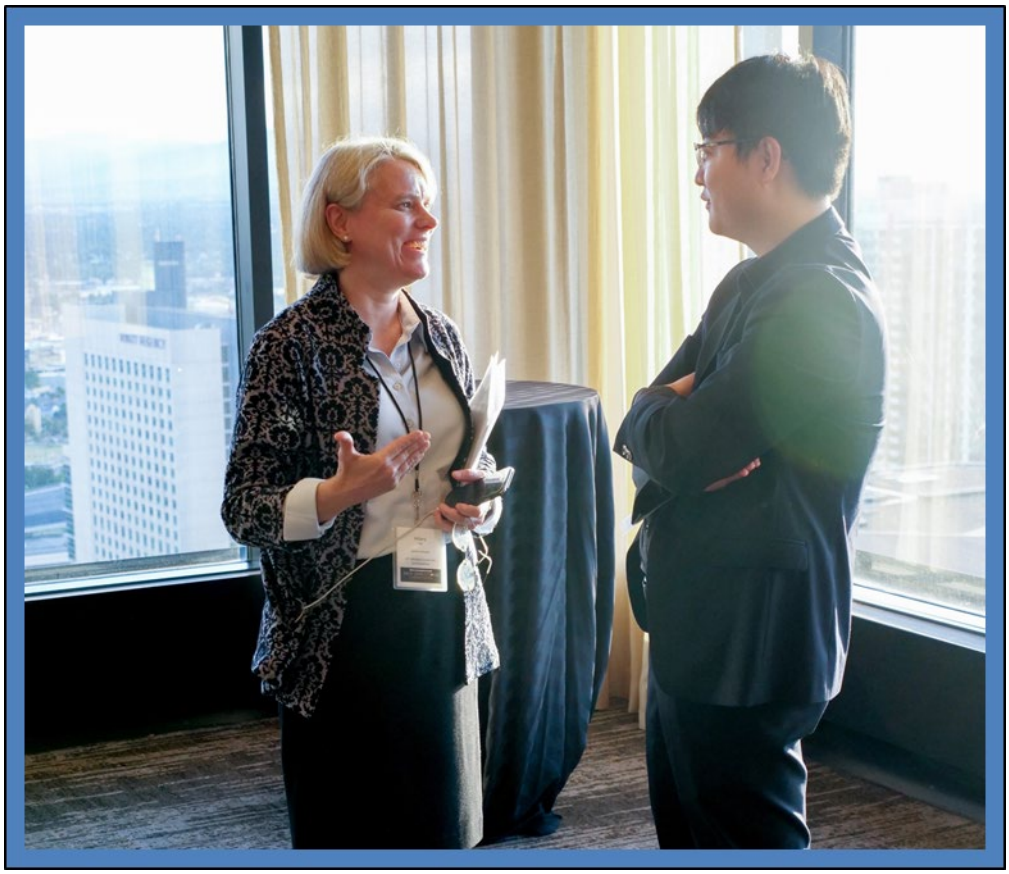
This article is based on the Contributing Editor's prepared remarks during the second day of the MarketsWiki Education World of Opportunity event, which was held in Chicago on July 17, 2019 for financial industry interns. The annual conference was organized by John Lothian News, which is a financial industry leader in organizing civic events in Chicago. Since the GCARD is an educational institution publication, it is fitting to provide professional advice to students, as in this article.



Ms. Hilary Till, who provides professional advice to students in this article, discusses commodity research with Dr. John Hua Fan of Griffith University (Australia) during the JPMCC's 3rd Annual International Commodities Symposium at the University of Colorado Denver Business School on August 12, 2019. Ms. Till is the Contributing Editor of the *GCARD* and is also a Principal of Premia Research LLC.

During this session, I am going to discuss my industry experiences along with how I became involved in derivatives trading. I am a principal of a Chicago-area-based firm that has developed the Premia Research Bancor Index, which in turn is an asset allocation model that includes equities, bonds, and a "smart" exposure to commodity futures contracts and which is calculated and distributed by S&P Dow Jones Indices.

My firm began as a commodity trading advisor and later as a proprietary trading company, employing statistical techniques, primarily in the natural-resources futures markets. I am also a consultant at the J.P. Morgan Center for Commodities in Denver where I edit and contribute to the Center's *Global Commodities Applied Research Digest.*

In high school and college, my favorite activity was writing for the school newspaper. The professional opportunities in writing seemed limited to the lucky, or the brilliant, so I focused on majoring in a technical field instead. Also, my father had told me that he had chosen to major in engineering in college because he had been very much influenced by the play, *Death of a Salesman*, and he didn't want to be in a profession where it mattered how personable one was.

This leads to Insight #1: Self-assessment is important. If you are a superstar, then it is fine to go into a crowded field, but sometimes becoming successful means choosing something unique.

I was very fortunate to receive a scholarship to attend the University of Chicago. There was not a computer-science major at the time, so I basically designed my own major and petitioned to have this approved. My Bachelor's degree is in statistics, but I took more computer science classes than statistics classes.

In this case, Insight #2 is: Get as much education as you can; they can foreclose on a mortgage, but not on your degree.

My father had received a scholarship to study in London when he was in his 20's, so when I was growing up, this really captured my imagination. As a result, when I was in college, I applied for at least ten scholarships to study in London, and one came through to study statistics at the graduate level in London.

Here, Insight #3 is: Try to do something interesting and different, as it makes for great conversation during a job interview.

After obtaining a Master's degree in London, I went to work in Chicago at Arthur Andersen (now Accenture) in their computer consulting division, working on developing expert-system applications. I stayed there for about 13 months, after having some real culture-shock experiences concerning working in the real-world.

Accordingly, Insight #4 is: Know your personality; culture is important to your success in a company.

After my brief Arthur Andersen experience, I went to work at an options proprietary trading firm in Chicago. *I loved it*. I was 24 years old, and I learned a lot while working for people who measured employees entirely on merit. At the time, there were not any readily understandable textbooks and software for pricing options, so one had to assume an apprenticeship role in order to learn. The department I worked for had two brilliant mathematicians who taught me applied options pricing theory as well as teaching me about the strategies that the department employed. I became responsible for the department's software, which I updated and maintained.

Unfortunately, the head trader eventually strayed from boringly consistent and profitable arbitrage strategies to unsuccessfully bet on mean-reversion at the long-end of the Treasury futures curve. When the losses reached the parent firm's pain threshold, the department was closed.

I next worked at Continental Bank (which later became a part of Bank of America.) I worked on the foreign-exchange, fixed-income, and commodities desks in Chicago and London and mainly wrote software for the swaps and options trading desks.

Later my husband was accepted into a medical residency program in Boston. I vaguely knew that Fidelity was there, and that Boston had a financial district. Before moving to Boston, I had picked up a Sunday Boston newspaper at a Chicago newsstand that specialized in national and international newspapers. This Boston newspaper listed the names and addresses of various recruiters; this was in the era before the internet. I sent my resume to about a dozen recruiters listed in the Boston newspaper.

Insight #5 is: Having a meaningful relationship in your life is important, but it also means you need to be flexible.

Through one of the Boston recruiters, I landed a job at Harvard Management Company, which manages the university's endowment. At the time, I had no appreciation for where I had just landed a job other than that I was glad I would have a job before moving out to Boston.

I learned a lot at this job, as I realized in retrospect. The endowment was involved in just about every hedge-fund arbitrage strategy that existed at the time. I was on the trading floor carrying out quantitative research projects for the domestic and international equity portfolio managers. Their strategies included merger arbitrage, convertible bond arbitrage, Japanese warrant arbitrage, and closed-end country-fund relative-value trading. These portfolio managers, years later, went on to create very large hedge funds.

It was at this job that I started to understand how traders could consistently make money.

So now, Insight #6 is: Although at the time it feels like Location+Pay-Check = I'll Take That Job!, you should think about what you are learning and where it might take you.

Later I decided I really wanted to be a trader and not be in a quantitative support role, so I took a pay-cut to become an interest-rate swaps market maker at the Bank of Boston. (Later, via various mergers and acquisitions, Bank of Boston was also eventually subsumed into Bank of America.) Before taking the job, I read the three chapters in Fabozzi's *Handbook of Fixed Income Securities* on interest-rate swaps and found that by doing so, I knew as much (and sometimes more) as everyone else on the trading floor. My "formal" on-the-job training was as follows: the head trader told me in a very emphatic way not to make any mistakes.

At the time, though, the mutual fund business was really starting to be on a tear, so I decided to eventually leave Bank of Boston to become a derivatives specialist at a large Boston-based mutual fund firm, basically because they tripled my pay.

It was then that I came across Insight #7: I learned that sometimes the best thing to do in a career is "to stand on a hill that turns into a mountain."

In my first week at the job, I was put before six Securities and Exchange Commission Examiners to represent the firm on derivatives. I would not say I did a great job, but over time, I became better at being put on the spot on just about any investment or regulatory issue.

During my second week on the job, my boss told me to unwind a very large currency option position. That night at 2am in the morning, I did so. Each pip was worth many tens of thousands of dollars, which I found so stressful that I pulled a waste-paper bin next to my chair so that if I became quite ill, I would not interrupt the call with the foreign-exchange counterparty.

From my early experiences at this mutual-fund company, I learned the following behavior at a large firm, which is: "Whatever it is, act like it's normal."

In general, I'd say that this job was very useful in learning how to work amongst ever shifting coalitions and in learning how to deal with clients and regulators. There was a large-scale reorganization every six months at this firm, so I learned to be adept at working in a large organization. This experience was also very helpful because now when I am interacting with professionals at large companies I have a mental map for what their environments are, so I am able to deal with them very effectively.

While I was at the mutual fund company, I eventually became responsible for the management of *all* derivatives investments with the total notional value of derivatives structured and executed by my group amounting to $93 billion. I also became responsible for a commodity futures program that was offered to top institutional clients.

Later, I found when starting my own firm that it is very useful to have worked at brand-name firms during one's career. When potential employers look at your resumé, it becomes immediately clear that someone else had done their due diligence on you and that you had passed the test.

After four years at the mutual fund company, there was another massive reorganization, and I decided that I did not want to spend the next four years of my career figuring out how to manage up to the latest new set of executives. I also still had a strong desire to become a trader and additionally I had a latent desire to author articles, neither of which was possible at the mutual fund company.

So, I moved back to Chicago and eventually started Premia with a former colleague. We had a set of ideas on what we wanted to back-test in the futures markets. We did precisely that and tested out the ideas with our own money. Of course at the time, I had not realized how little we knew. But we had very strong risk controls, so that the inevitable losses did not become catastrophic. Along the way, as

we were working out our strategies, we each did consulting projects at large investment firms, which meant that at times, both of us were doing two full-time jobs.

With this anecdote, I come to Insight #8: Your mother was right, saving money for a "rainy day" is a good idea. Being able to step off the corporate treadmill and take the time to start up a company requires a large safety cushion.

My business partner and I eventually figured out some successful strategies in the futures markets, and we narrowed our investment process to solely focus on those strategies.

There are two books that I thought were very helpful for the types of experiences I have had at Premia, one is on trading and the other is on starting a business. On trading, the best books that I have read were the Jack Schwager series on *Market Wizards*. The main insight is to find an investment strategy that is right for one's own psychology.

The other book that was helpful was the *E-Myth*. Here, the *E* means entrepreneur. The book basically describes why most businesses fail. If you really enjoy an activity, it does not mean that you should create a business to do the activity. Instead, it means that you should work for the entrepreneur, whom in turn will take care of all the myriad of business issues while you can focus on the activity itself.

The other thing is that if you are going to start a business, make it very simple. Running the business and dealing with the outside world are very complicated, so the business itself should be quite simple.

Therefore, Insight #9 is: Good logistics and organization are critical. Don't get "over your ski's."

By deciding to be independent, I have been able to also carve out a niche as a financial writer with my work cited over time by Central Banks, the International Monetary Fund, the U.S. Senate Permanent Subcommittee on Investigations, and Harvard Law School's Bankruptcy Roundtable, amongst many other institutions. I have always thought that the painful aspects of risking one's own money in trading forces a person to have to really understand markets beyond what a strictly academic take would be.

Endnote

The author gratefully acknowledges helpful feedback from Ms. Janet Clay in shaping the presentation from which this article is drawn.