HEDGE ME

2nd Edition

The Insider's Guide: U.S. Hedge Fund Careers

Claude Schwab

INTERVIEWS • RECRUITERS • RESUMES • COMPENSATION

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From the Author

I wrote *HEDGE ME* because so many aspiring hedge fund analysts and traders were finding it difficult to get precise answers to their career-related questions. The industry seems remarkably devoid of reliable industry and firm-specific information and is still too new to enable parents, friends and family, professors, or career services staff to speak definitively about getting a hedge fund job and about a long-term career in hedge funds.

Meanwhile many professionals—both in finance and in other fields—have many misconceptions and stereotypes about the industry, which I hope I have finally dispelled in *HEDGE ME*.

Our hedge fund career guide, written early in the development of the industry, was the first one written on the subject. As the industry has grown and evolved, so too has *HEDGE ME*.

The second edition is not meant merely to update industry data and recruiting resources. It has been designed to be richer by incorporating the best possible answers to those most frequently asked questions posed in presentations that I have given to MBA students and at industry conferences and panel discussions; it also has been designed and formatted to be even more user-friendly than the first edition. In this edition we have categorized charts and exhibits, highlighted most frequently asked questions (FAQs), and provided resume-by-resume pointers.

We think the second edition of *HEDGE ME* will prepare you to move into your exciting and challenging new careers in the hedge fund industry.

Table of Contents

Charts

Resume Exhibits

FAQs

A

INTRODUCTION

This guide has been written for experienced professionals and business students interested in hedge fund employment opportunities. It provides a realistic overview of the hedge fund industry and hedge fund careers. The guide is meant to help business professionals and students find hedge fund opportunities and prepare for interviews. It also provides guidelines for compensation.

The guide focuses on two functional roles within a hedge fund: the investment analyst or junior analyst and the trader or junior trader. The role of an investment analyst is functionally standard throughout the hedge fund industry and includes the analysis and due diligence required for investment decisions. The amount of prior work experience and the expected level of contribution to the investment portfolio may vary at each firm. The typical investment analyst has either earned an MBA degree and has had several years of full-time work experience between his/her undergraduate and graduate programs or has earned a college degree and has between two and three years of full-time experience in financial services or the business sector. The typical trader has earned a college degree and has two to three years of full-time experience. A junior analyst or trader is typically a recent college or university graduate with no more than one to two years of professional work experience.

There are two types of hedge fund traders, each of whom performs a distinct functional role. One is the execution trader, whose primary role is to execute investment ideas provided by the investment analyst and/or portfolio manager (PM); and the other is the trader responsible for profit and loss (P&L), whose primary role is to generate investment decisions and trading strategies. In such instances, the investment role of the trader and portfolio manager often converges. This is especially true for traders of fixed-income products who tend to conduct their own analyses.

For the purpose of this guide, however, only the execution trader will be considered, as the trader with P&L responsibilities typically has had significant prior investment or trading experience. The guide will also review the differences between investment banking, or "sell-side" execution traders, and asset management, or "buy-side" execution traders, particularly when dealing with hedge fund investment strategies that are complex and/or trading oriented **(Chart 1)**.

Not covered in this guide are midoffice and back-office roles, often referred to as hedge fund infrastructure roles. They include the marketers, investor relations personnel, the Chief

Financial Officer (CFO), the Chief Operating Officer (COO), the Chief Administrative Officer (CAO), the Chief Technology Officer (CTO), and other operational personnel. Typically these roles do not differ significantly from similar functional roles at financial services and traditional asset management firms.

Other basic topics not covered in this guide but commonly found in books on job opportunities and interviewing preparatory advice are the normal preparation and etiquette expected of any interviewee during any professional interview: for example, arrive on time. And when in doubt regarding proper attire, always err on the side of the formal—even though hedge fund personnel in general tend to dress casually. And display a high level of energy, intensity, and interest in the opportunity, and never give the impression of resting on the laurels of past accomplishments or successes. In the case of hedge fund interviews, the interviewer should feel the candidate's hunger to trade or to spend day after day listening to company management conference calls, attending industry conferences, building investment models, dissecting financial statements, and developing industry trends. For the purpose of this guide, we will assume that the candidate has already learned such general interviewing skills.

Buy-side and Sell-side **Chart 1**

The "buy-side" refers to asset management firms that invest the capital of individuals and institutional investors. Buy-side asset managers can invest in publicly traded securities or securities of privately held firms, depending on their firm charter or partnership agreement. Private equity funds invest primarily in the securities of privately held firms. Buy-side professionals at hedge funds invest primarily in publicly traded securities and both make money through management fees (typically 1% to 3% of assets under management) and performance-based incentive fees (typically 20% of profit).

The "sell-side" refers to the functions of an investment bank. Sell-side professionals issue, recommend, trade, and sell securities for the investors on the buy-side. The sell-side can be thought of primarily as a facilitator of buy-side investments—the sell-side makes money through fees and commissions for these facilitating services.

Hedge funds are structured less formally than sell-side firms and career paths are more flexible and vary more from one firm to another.

AUTHOR

About the Author

CLAUDE SCHWAB currently heads the Hedge Fund and Asset Management Recruiting Practice of Glocap Search, LLC, one of the largest alternative asset management recruiting firms in the United States. Claude also raises capital for hedge fund managers, in association with Glocap and in partnership with Broadmark Capital, LLC. Claude has written for several financial publications, including *Bloomberg News*, and his articles have been syndicated to *The Los Angeles Times* and *The Wall Street Journal*. He is a guest speaker at industry conferences and is often interviewed and quoted on the hedge fund industry and compensation trends.

Claude earned an MBA from The Wharton School of The University of Pennsylvania, an MA from Columbia University, and a BA from The University of Pennsylvania.