MODULE 2 UNIT 2
Video set Video 3 Transcript

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NIR VULKAN: I'm pleased to introduce Daryl Cook. Daryl is from the Tudor Investment Corporation. Daryl is the Managing Director, Portfolio Manager and the Head of Macro Research. Daryl's been kind enough to join us today to share his expert insight into things like investor sentiments, models, and advice for those interested in this industry.

DARYL COOK: My name is Daryl Cook. I'm a Systematic Portfolio Manager and Managing Director at Tudor.

Do you see algo trading growing and changing?

COOK: I think it's inevitable that the algorithmic trading will continue to grow. When I came into the market, all the exchanges were open outcry trading pits. And so, things like high-frequency trading simply weren't possible then. And I think, you know, that's been a huge area of growth and I see no reason why systematic trading shouldn't continue to grow. You can systemise pretty much anything that the discretionary side do, so there's still lots of opportunities there.

At the moment, there's a lot of focus on things like artificial intelligence, big data, machine learning. And those methods, I think, are still in their infancy, so, the growth there is potentially huge. And I'm sure that as time goes on, we'll find new and novel ways of trading. It's almost impossible to predict what they'll be at the moment.

What advice would you give to someone starting in this space?

COOK: I think the financial world is brutally competitive, so, you have to do anything you can to maximize your chances of doing well. And so, I think you've really got to be very honest with yourself and look at your own capabilities, and try to match what you're going to do to those capabilities.

If you've studied economics and have hardly programmed a computer, then, probably, high-frequency trading isn't for you. You're not going to be able to compete against people who are fantastic coders and that it comes naturally to. Similarly, if you are one of those people, it would seem very strange to go and do some fundamental-based models because that's just not where your edge is. If you worked with big data and you're very comfortable with those kind of data sets, then that's where you should concentrate because that's where you'll do better than other people.

It sounds obvious, but people usually do best if they're doing something that they're interested in. So, if you've always found the stock market fascinating, then you should probably concentrate on equities. If you've got a much more technical nature, then maybe you should look at the fixed-income market. This matching of your interest to what you're doing will definitely help you in the long run.

You also need to understand your own attitude towards risk. Some people are quite happy to have large positions on, and they can go home and they can relax and get a good night's sleep. But for other people, if they have anything on at all, then they really struggle to relax at night, and they're always checking their phones and doing everything.

If you're that sort of person, then you probably need to concentrate on something that's maybe shorter term, where you can go home with no positions on. And also, you need to think about how you can cope with cumulative losses, which we call "drawdowns". If having those cumulative losses for weeks or months is something that you can't really live with, then long-term trading is probably not what you should do. You should probably aim for something that's got a higher risk-adjusted returns. But it's not a free ride, they tend to have lower capacity. So, there's no easy trade in this business.

What is it like working on algos in Tudo? How do systematic traders relate and compare to discretionary traders?

COOK: I think working at a place that has got both systematic and discretionary trading is actually very helpful. A lot of people think that the two disciplines are so different that they're incompatible, but I don't think that's the case. In actual fact, we're trying to do the same thing: we're trying to make profits in the financial markets.

If you look at the discretionary traders, they'll often be looking at the psychology of the markets or the positioning, or maybe they're focusing on upcoming political or economic events, and having an insight into how they operate can often just trigger something that makes you go in and test some thinking for your own models, and can help that way. And they also tend to have traded in a very wide variety of markets. So, if I'm trying to start trading in a market that I'm unfamiliar with, I can nearly always find someone there who's able to talk me through the actual mechanics of it.

But I think it's actually a two-way thing. I think the discretionary side also have, get advantage from the systemic side. When we code up a model, we have to be very rigorous and we have to check everything, and if a discretionary trader is trying to formalise their process, then I think we're in a great position to help them with that.

And then, also, we tend to be at the cutting edge of technology. So, for example, some of the trading algorithms, and things out there, will effectively have beta tested and now the execution desk at Tudor will use those as well. Of course, both sides of the company use same corporate departments: operations, legal, compliance, etc.

And a lot of our investors actually gained a lot of confidence in the fact that we've got 30-plus years of experience overseeing our models, and it helps a lot that the head of the company, Paul Jones, is really enthusiastic on systematic trading.

VULKAN: Did you understand all the concepts in this video? If you would like to review any of the questions, click on the corresponding button.