

On The Job Training at Mako

David Segel
The Mako Group

The Mako Group is one of Europe's foremost players in the trading world of exchange-listed derivatives, and we trade equity products and fixed income across the globe.¹ One reason for our long history of success is our ability to identify, train, and retain top trading talent. We are known in the industry as a place where some of the best traders come to realize their potential.

How do we find and train our candidates? What do we look for in a person's character, which suggests that he or she is a trading talent? What tools and methods do we employ to help our young traders succeed as quickly as possible? Here are our answers.

Characteristics of a Strong candidate

Six traits, ranging from discipline to entrepreneurial spirit, are what we primarily look for in a strong candidate.

Discipline: Discipline is the single most critical factor to success. It begins with academic discipline. The candidate's ability to absorb theoretical and practical information during the trading period is necessary, as the academic program is challenging. The mental discipline to work long days with unwavering concentration will begin in the training days, but be required throughout the career of the trader. As a trader there will be the decision-making discipline to stick to a game plan whilst many, many forces attempt to disrupt or derail that plan. Most importantly, the emotional discipline to manage one's own fears, one's greed, and the associated ego, is paramount. And so, from the initial stages of interviewing prospective candidates, we are looking for signs of personal discipline or the lack thereof to help us best assess the candidate's potential as a trader.

¹ We have a substantial, if not leading, presence in many products listed on the large derivatives exchanges, including Eurex, Euronext.liffe, CME and CBOT.

Humility: If one could study the outside world's perception of the stereotypical successful trader versus the real personalities of top professionals, one would find a wide fissure. The world wants the success story to be macho, bullying, egoist and insensitive. In reality, baseline humility and quiet confidence are very common amongst the best of the best. Self-confidence is an important factor, but it must be balanced by a humble spirit. Mako seeks candidates with an ability to admit their mistakes, with a character that can recognize its own weaknesses, and with a nature of humbleness that will serve to get the trader through the most difficult moments, when egos threaten to sabotage success.

History of Success: It reminds me of a track record in evaluating a fund or a stock. Every disclaimer we read says "past performance is no guarantee of future success." But in fact past performance sometimes is a terrific indicator. In the case of training recruits, we look for a strong history of success in life challenges that have nothing to do with trading, but more to do with a demonstration that 'this person can make it happen.'

Trading Experience: Previous experience trading the markets is not necessarily a plus. 80% of our successful traders came to Mako with no professional trading experience at all. Our success rate amongst those who come in without pre-conceived notions is extremely high, with an almost 90% going on to become successful traders. Of the 20% that we hire from the trading community, many fail. They fail to adapt to new styles. They fail to adapt to what is frequently an environment of higher responsibility and pressure (our tie between performance and compensation is very rigid). Or they fail for other reasons. Only a small handful of our top traders have come from other trading firms, and they are by far the exception rather than the rule.

A Gift with Numbers: A good trader usually has an interest in all things quantitative. Concentration on the task at hand is critical in trading. Our traders will often focus on a set of numbers or relationships from 7 AM to 7 PM without so much as a break for coffee. Concentration is mentally and physically exhausting. If that trader does not have an innate interest in and ability to work with numbers, then this level of concentration is unsustainable. Not to mention that he or she will never be competitive. PhDs in Mathematics or Engineering are helpful but by no means a requirement. The sums are not complicated. But innate quantitative interest and numeric ability are critical.

Entrepreneurial Spirit: Mako looks for candidates who have that personality that is always seeking value. “Is this someone who is going to take a risk to earn a return?” Actually, we find that the best traders are the ones who cannot sit at peace when there is opportunity within reach. Sometimes for fun we leave a ten dollar bill or a five pound note on the floor in the interviewing room in sight of the candidate, just to see how distracted they are by the ‘residual value opportunity.’ In this exercise it is interesting to find out if they are value seekers or not. We like candidates who have shown initiative from a young age to try experiments because they have a core need to make money. Did they deliver newspapers or shovel snow for pocket money as youngsters? Did they set up a small business at university? Even if they failed, did they at least try?

Mako Trader Training Program

At Mako, we view the process of learning to trade as similar to what an athlete or a musician experiences. The beginning or Novice stage of development is geared towards exposure, awareness, language, and mechanics. The second stage, that of proficiency, focuses on thoroughly engraining mechanics into practice. The third or expert stage, works to develop intuition and skill in the complex process of trade decision-making. As an expert trader, one begins to express a market view that is based on an ability to intuitively process a large number of inputs and, given this trained intuition, an ability to take decisive action. It becomes an intuitive expression of a market, or the value view to the trader. It is equivalent to a powerful performance of Puccini’s “Nessun Dorma” by tenor José Carreras. It is like a game winning fade-away jump shot for Philadelphia 76er Allen Iverson. It is sinking a 30-foot putt for golfer Tiger Woods. All are experts’ expressions from their gut, intuitive reactions to their situation, all filled with creativity and decision-making executed in the blink of an eye.

Training Program – Novice Stage (x months)

Trainees in the novice stage are schooled in the technicals, undertake mock trading, gain experience, and interact with experts.

Technicals: The technicals of our trading are important. Over an 18-month period, we run a complete academic schedule with exams. We teach options theory, market practice, historical market events, trading strategies, risk management, systems and controls, and a variety of fundamental and technical concepts. This is designed to give the trader a solid foundation upon which to build the ability to make trading decisions.

Mock Trading: Many of the more experienced traders in the market are products of the floor trading culture, where a powerful voice-box and an extra long arm's reach both count as valuable assets. The open outcry environment is a terrific world in which to learn to trade. Inputs are limited; a trader only has available to him what he can see with his eyes or carry in his pockets. No telephone. No computer. No coach or manager or sounding board. Pressures are high, speed is critical, mistakes are not quickly forgiven. And so we at Mako still teach every trainee pit trading skills, even if they will never trade in a pit. Trainees relish the opportunity to raise their voices a few afternoons a week and scramble with their peers for pretend orders in our simulated pit. They quickly learn the language and etiquette that the broking community expects them to use. Plus they learn trading lessons in a way that touches their competitive spirit, and this makes the lessons stick.

Experience: Just spending time working in the market is key. Markets are curious places, with their own language, culture, etiquette, pace and method. Immersion is critical to long-term success. We employ a Berlitz style of learning from an early stage. Trainees are thrown into market circumstances in support roles well before they have the language or practical skills to deliver quality work, but with help around them they learn this way and move more quickly through the Novice stages of trader training.

Access to Experts: Working next to, or in mentorship with, expert traders, is critical. Skills and success rub off. One can learn in isolation, but learning from experts practicing their skill every day is far better and faster. As an example, imagine learning to play competitive tennis just by hitting a ball against a concrete wall. Some of your skills will undoubtedly improve over time, but the progress will be slow and the diversity of experience will be limited. Play, however, with a professional, and your experience is different. At first the serve comes towards you at a frightening pace and you have no chance of returning it. But if the teacher is good, and your capacity to learn is in tact, your pace and breadth of learning will increase exponentially. You will become a proficient tennis player in a much shorter period of time. Same with trading. So we create an environment in which every trainee has a daily opportunity to absorb experience from an expert.

Junior Trader Program – Proficiency Stage (X months)

The next step is to learn to manage your own risk. Experienced traders at Mako will be responsible for making many significant risk and value decisions every day. They will do this in the context of a team environment, where their decisions will impact many people and many pieces of a portfolio. Before a trader can work at that level of responsibility, and in a fully integrated fashion, it is our belief that the trader needs some game-time action to experience real trading. So, we have created an environment which operates in parallel to our production activity. It is live trading with real profit and loss, but it is geared towards allowing the trader to develop proficiency in steps, with a limit to the number of forces acting on his or her decisions at any given time.

We need to be clear about our objectives in the first months of production experience as a trader. It is not to make money. It is to avoid losing money while learning and making mistakes. Mistakes are best made early when the stakes are small and the causes are clear. Too often traders start with too much risk from the beginning of their career and are taken out of the game with large losses that could have been controlled or limited to the realm of ‘expensive lessons’ if their process had been more patient and controlled. We use the following restrictions to focus the Junior Trader:

Limit the Scope: Trade only one product or one name. If it is a stock, learn everything you can about that stock. Know its history. Learn its fundamentals. Understand who buys and sells it.

Limit the Method: We focus our Junior Traders on electronic markets, and ask them to focus only on their system. No brokers. No alternate systems. Nothing but the core activity. We can add complications later once they have mastered the core environment for their product.

Limit the Exposure: We ask our Junior Traders to start with the smallest tradable increment. Again, the goal is not to make money at first, it's to learn from mistakes and to learn the environment. What's the point of doing this on a large risk profile? Greed and Ego say trade bigger, but with some caution one can learn a huge number of lessons at reasonable cost incurred through trading losses.

Increase the Experience: A novice trader should trade as often as possible and as small as possible. Every trade is an opportunity to learn. Get over the intimidation about 'pulling the trigger' by trading a lot. Learn about the impact of fees and slippage by trading a lot.

Keep a Trading Diary: One terrific tool for novice traders in particular is to keep a diary of each session's activity. What were the market's or the product's daily range and volume? How much did you trade? What was your biggest mistake? What was the best thing you did? All of this serves to create a discipline around the product – it allows the lessons learned to really set into the mental processor!

Deal with Personal Issues: Fear, greed and ego, how do they work in you? A trader must know what it feels like to buy sevens and then watch sixes, then fives, then threes trade. Fear of losing money, fear of failure, inability to admit you were wrong, all play their part in affecting the decision-maker. A trader needs to experience the profit side as well. When you make a decision, enter a trade, and it goes your way, how do you respond? “I’m clever!” or perhaps even, “I’m smarter than the market!” are common focal points. Human instinct wants to ‘realize’ that decision by locking in a profit as quickly as possible, hence affirming the part of our psyche that wants to “be right.” This can destroy a trader’s ability to make a sound judgement about the execution of the closing transaction. Sometimes greed creeps in and encourages you to get more out of a position, even if there is no more upside. Experience the human response early and learn about yourself as a trader before the stakes get big.

Traders – Expert Stage (learning never ends)

Once an individual has successfully accomplished all of the goals set out by the program in the stages above, he or she is ready to move onto a desk as a trader of Mako’s capital. Here this person will have the opportunity to work with a team of true experts, and will be engaged in a real-time activity of pricing, trading and risk managing a large inventory of integrated positions. All of the skills learned in the Novice and Proficiency stages of the Program will be put to practice, and there will be large rewards to reap from the success of being an Expert Trader. But, as the section title says, learning never ends.