

White Paper II: The Best-Worst Questions The Four-Part, Three-Part Answers

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Candidates often ask us how to prepare for a job interview. Apart from the usual questions about qualifications, experience, moves, we have found it helps to think through a version of the standard query: What are your strengths? What are your weaknesses? The questions have been reframed to focus on particulars to provide specifics to what otherwise might be generalities. For traders, it is: **What is your best trade? What is your worst trade.**

We've come up with a four-part answer to the best-trade question and a three-part answer to the worst-trade follow-up. The point is to go beyond the recitation of skills and accomplishment detailed in a resume to use an actual example to convey how you think about trading, risk and the tools you use: Your potential boss will have a much clearer view of who's sitting on the other side of the desk when you use this framework.

Notes: This framework carries over, with different vocabulary, to almost all fields, not just discretionary trading. (Glad to explain how.)

There are obvious overlaps between the parts of the answer but our candidates have found it helpful to focus separately on each part.

Your Best Trade

Idea Generation:

You explain what it is you saw in the market that was an anomaly, something unusual, some mispricing. You bring in the background that led to your insight. Maybe you remembered something like this. Maybe you were noodling around with ratio patterns and spotting a movement off-

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trend. Perhaps the market is pricing for short-to-midterm high volatility much more expensively than counter views of mid-to-longer range low volatility.

You see something. Now do something.

Putting the Trade On

You saw something. Now do something.

The next step is how you translate your perceptions into a trading position. What instruments do you use? Futures? Option? Swaps? How do you build your position? In one transaction? In phases? How do you determine the size and duration of the trade? Do you use back-of-the-envelope math or sophisticated quantitative methods? Do you have ready-made models? Can you build bespoke models on your own? If the trade is based on fundamentals, do you use technical analysis to enter the position?

Your interviewer will gain a much better sense of your toolkit.

Risk Management

But how do you plan for the possibility that you might be wrong if not immediately, then down the road? Again, techniques: Back-of-the-envelope – maybe cut back on a drop of 5%, out at minus 7.5% Or quant techniques – perhaps traveling Monte Carlo calculations? When/how often do you re-examine the original conditions and perceptions that generated the trade in the first place? Do changes in them suggest shortening or lengthening the duration of the position? Cutting back or expanding?

Exiting the Trade

The last part of the answer is how you exit the trade – taking profits or avoiding losses. Do you re-examine the initial conditions for changes or calculate that your position has achieved the gain originally predicted? Perhaps there is a set discipline for time or profit horizon. Perhaps technical analysis indicates the appropriate time to unwind your position.

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Your Worst Trade

The answers here always are:

What have you learned?

What are you doing differently?

How has that worked out?

The subtext to the worst-trade question and answers is for your interviewer to learn how you take a punch. Trading – and almost any complex job – is a tough business. You won't always win. It's critical to know how you react when things aren't going the way you thought they would. Do you curl up and wait for the pounding to pass? Or do you come out of a defensive crouch swinging, with deft and hard-hitting combinations?

Many candidates write out answers or put down talking points to prepare for a job interview. And they find the exercise helpful as a confidence builder to marshal thoughts and practices they engage as a matter of habit. In fact, several have told us their trading desks go through something like the process regularly, frequently on a weekly basis. Even if the exact question is never asked, many of our candidates have used the exercise to weave parts of their answers into their discussions. *They are prepared!*

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