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FORTUNE 75
How I Make Decisions

Trading Derivatives

Simon Yates *Managing Director, Equity Derivatives, Credit Suisse First Boston—New York City*

When you see a trader panic, you can be pretty sure that for the next few hours, he's going to lose money. All the base instincts in your brain—what I call "caveman brain," the sort of fight-or-flight feeling of emotion that is designed to stop you from being eaten by a sabertooth tiger—takes over your decision-making. You start trading scared, taking smaller positions on good ideas and cutting profits too quickly.

I supervise about 23 people, and we can trade \$1 billion a day. My goal is to make money 52% of the time. I can make the right call half the time by flipping a coin; a good trader does a little better. Successful traders don't spend much time regretting decisions or going back over things. If a decision turned out to be wrong, so what? Move on. So when you have to make a quick decision and you know that there's a good chance it will be wrong—the worst thing you can possibly do is sit there and panic and hope. You have to be decisive—go on and do it. When I see somebody go into panic mode, I tell them, "Get off the desk. Go for a workout, or go sit in the park for an hour."

The first thing I look for when hiring traders is emotional robustness. And you can get some very, very smart people, the classic Harvard MB person who has been top of his class the whole way through, but they haven't had the emotional experience of failure. They come into this trading job, and they have this view, "Okay, I'm going to work very hard, I'm going to do all the research, and then I'm going to succeed." It's fascinating watching them the first time that doesn't happen. There's this sort of "How can this be?" look on their face. That's when many of them get out of the business.

If people in a bar ask me what I do, I say it's a bit like stock trading but with more math. In some ways it's like being a police

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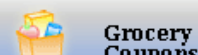
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officer: There's a lot of time when nothing is going on, and then suddenly you've got to be really fast.

You can't wait until you have absolute confirmation. You're looking to get enough information to think that you probably have detected something, and based on that, you make your trades.

Interviewed by Barney Gimbel

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