

Transcription of recorded conversation: *Senior Trader (Anonymity requested)*  
*(Negotiation 1 year)*

Location: Meeting Room, London March 2013

**(Sections of the text have been redacted by request)**

(Conversation starts before audio recording)

X: ...the workforce in the US, [unclear] Walmart (MC: Yeah ...yeah.)...y'know, is the biggest...the fourth largest cap company in the world or whatever (MC: Yeah)...so...they have a vested interest every day...their 401K plan is investing...they get stock in the company, etc., and...it's just...they're just more versed towards that...whereas people think, like that, they are removed from the markets over here, but like I told you the last time...

Mark: But that's impossible in this day and age...

X: That's the whole thing of the-the break...the meltdown has brought people (MC: Yeah)...on board from various walks of life that always used to, y'know...(MC: Well, can I...)...there are two sections of it, you know...

MC: [Have you heard of?] the *Foresight Group*, that... I mentioned that to you...the Foresight...the...the Department of...eh...eh...Science and Enterprise. They commissioned...the British Government commissioned the report. I mentioned that the last time to you (X: No.)...It's up there as a pdf, it would be worth having a...in terms of ...they were looking at the role of...both...the role of generic algorithms and high-frequency trading and the possible implications for sorta say, ten years down the road. Em, and they talk about a thing...both...where they see the potentials of it, the possibilities for it, they also talk about a thing called the normalisation of deviants... that, eh, a...a...a...because they're talking about that these things will self-evolve, so not even...without sort of IT input (R: Yes.)...and that they're talking about then the, eh, the possibility that it can take a position, it can normalise the deviants...and then it gets to such a point that it normalises the deviants that it actually becomes irretractable...that it becomes catastrophic.

X: Well, I suppose too there's a train of thought that that's what happened on the flash-crash (MC: Yeah...but...)...albeit at-at-at-at...at a velocity that becomes (MC: Sure.)...and the velocity is the thing that becomes out of control because you don't have the...the computers can't reset...because that's what they do (MC: Yeah.)...they reboot...they reset, and they go back to zero...and they start it all over again (MC: Yeah.)...and that's a process, an investment thesis that they've sort of put into the algorithms

MC: So, they're putting *trip switches*...

X: Yeah, there's [now?] breakers and stuff like that, y'know...personally...

MC: But do you think, do you think ...there's an element of...do you think there's an element of...eh...ah...though...eh, the notion of momentum, also they talked about in the report that some ways those incorporating them and applying them actually don't understand them?

X: They don't...these things are out of control (MC: Yeah)...they've no idea (MC: Yeah.)...because you...y'know...I come from a school, where I was taught to...em, I've taught many traders, assistants and stuff like that (MC: Yeah.)...but a lot it's...it's and...and the business has become a lot more cerebral and stuff like that but

a lot comes from the gut, the feel (MC: Yeah) and you have to have feel...the tape and stuff like that (MC: Yeah.)...the machines don't do that (MC: Yeah.) and I...and people say, oh, I'm threatened by the machines and I'm some dinosaur and stuff like that...that's not the way I feel at all (MC: Yeah.) we're big users of technology absolutely, but they're only as good as those that use them (MC: Hm-mm) and we sort of ...from our business point of view is that we actually intervene a lot more with the technology...we don't just let it go and do it's own thing, we intervene...

MC: In what sense?

X: At...at intervals throughout the day and spikes and prices and stuff like that...we walk away. We also...rather than putting one algorithm in over the day, which is just passive trading – that's not what we do. We will put in one algorithm maybe...or if that's not working after half an hour, we'll walk away, we'll go to another dark pool (MC: Hm-mm)...the algorithm will always go back to historic data and will rely on that – we don't (MC: Hmm.)...we rely on what we see in front of us at the time.

MC: Can you describe that a little bit about...?

X: It's like playing a game, like y'know...‘Head's Up’ kinda thing (MC: Yeah, yeah.)...you play with what's in front of you (MC: Hm-mm)...there's a...

MC: But you've got eight screens in front of you right? (X: Yeah.) Am I right? Eight screens (X: Yeah.)...so can you describe a little bit because that's one thing I'm curious about it's...because people don't have an understanding of that...

X: That's just the training of the eye of data and-and understanding what matters at what time and when it does.

MC: But you're getting a lot of data, so what...can you even give me...just an example, a hint of what it is that you're...?

X: Well, I'm looking at (MC: An example, you're looking at...) charts of day-ticks of...broader indices of S&Ps...I'm looking at...key indices or...any particular day... there's usually an asset class that takes centre (MC: Hm-mm)... stage everyday within the trading day (MC: Hm-mm)...right now, it's probably the currency. You also have certain times where all the asset class memory interlinked...the *algorithms* probably interlink them even more but we live in a macro world where...interest...interest rates move one way and currencies will move the same. They're all very highly correlated...you know what they're going to do. And the machines are all programmed. There's investors out there who look for arbitrage so, interest rates go up a certain amount...FX will be inflected...when we... in equity world we see a move in the FX and we think, well, that's what's leading equities and then we talk to the FX guys and then we think ‘Oh, it's cos equities were moving, that's why we moved the FX, so no-one knows who's the first...mover (MC: Yeah.)...so to say. From what I look at the screens, yeah, you find out...again you *feel* what's important in this day...what's important today...

MC: But...how important is that...that sort of, as it were, not...almost...the cerebral element?

X: We can get a list...we get...we get a list every day of what economic data is coming. (MC: Yeah.) There might be a big US number...so, some guy would say...would then qualify his order towards that...we've got a Nonfarm Payroll...

Mc: Based on your experience...


X: Yeah, big, or...*big data* point...which personally, I think...it's fuckin' stupid, but...that's neither here nor there...the world thinks (MC: Yeah.)...we're getting better as unemployment gets better in the US - not saying it doesn't but...if I'm investing in a lawnmower company in Sweden which there is one...what has that got to do with it? It's just minute. But...they will then say, rather than over the day - they'll say do... half or two-thirds of the order before the data...cos we might see a lot of volatility in the market (MC: Hm-mm)...so that will change your parameter. I'm not sure the algorithm does that. The algorithm might historically look back at...four Fridays previous when that data comes out, to see what...how those stocks move (MC: Hm-mm)...but it can't foretell what the data's going to do (MC: Hm-mm)...so, you-you-you...you see algorithms get confused (MC: Yeah.)...they don't know what to do (MC: Okay.)...or is it the HFTs...*High Frequency Trading*.

MC: And how does that manifest itself?

X: In-in-in a chart that's just going like *that* all day long and what we try to cut out is, all this, y'know, if you're buying, you wanna...you wanna buy it all down here and not chase it up here kind of thing but you have certain stocks that are trending and it's like...the guy says over the day, and you've gotta chart like this all day long and any pull-back on the chart - it's getting bought, so you just *feel* that (MC: Yeah, yeah.)...that's a feel (MC: Yeah, yeah.)...now...I don't know is there an algorithm out there that does that.

MC: And how important is the feeling as opposed to, as it were, the cerebral?

X: Well, from...that's from my point of view.

MC: Can I ask you... is there an element because I've been reading a little bit about, sorta that, that process and just...y'know, in terms of actually having to almost cut out other thoughts as you're actually lo-, working then...the screens how does that...?

X: Colours come from the place where they try to research (MC: Yeah)...and...it's not a criticism, it's an observation - they're not a research shop...so they try and put a product out and research it and do it half ass and stuff like that. Any of the guys I speak to...they know there's nothing I'm gonna be able to tell them about their companies (MC: Hm, sure, sure.)...why bother? But I'm that extra 10 per cent layer on top that can give you value you add, that will time your investment, which will cut out the gain noise, that will be able to tell you where we can get, y'know...get that two per cent better than where you think your entry point is, etc., (MC: Hm-mm)...and y'know, it's a percentage game, you don't get it right all the time (MC: Sure.)...and you have to be able to move on and cut your losses and run your winners and all those clichés that go with it.

MC: So, is it about specialisation in that regard?

X:



MC: They are...because in part of this *Foresight Report* was that actually, they were saying in 10 years basically there'd be very hu-...very few human traders.

X: I have my doubts on that...I think the market could...I think the market could evolve to auctions three times a day. You put in your price or you put in a market order (MC: Hm-mm)...and we just ...but markets go back to the, y'know...I don't know when they...you tell me...BC?...open trading creates...volume liquidity...people need to know...like, the reason...let's say, take an asset-class property. What does it take to sell a property in London, one of those...liquid markets in the world I'd say take you 11...12 weeks, to sell a house? You could sell a stock and have the money in your bank account *today* (MC: Yeah, yeah...yeah) and that's why markets stay open – it's-it's access to liquidity. People need to know, that they can get out.

MC: No, I'm kinda curious about...cos I think it was in 1945...an average stock...an average *stock* was held in the US for six years. In 2011, I think it's like, 14 seconds.

X: Yeah, prob-...(laughs). See that's an amazing stat...(laughs) (MC: Yeah...) like.

MC: So where does the place cos I'm kinda curious...?

X: I think we're at an inflection point against the HFTs. Eh...I think there's also a regulation over here in Europe that they're looking at them a lot closer than the US...and the US has let markets go to shit to a certain extent.

MC: But that used to be the other way 'round, am I right?

X: Yeah!

MC: Yeah.

X: Well, when the New York Stock Exchange was owned by the people who had seats on the New York Stock Exchange – it's like owning taxi cabs plates (MC: Hm-mm)...y'know, and it was a restricted market and people would rent those things off you but it was for the good of the *exchange*. It wasn't like...[a for?] profit, where you just cannibalise...what your sole purpose for existence is (MC: Hm-mm)...which is

like, that's...y'know, you can call that capitalism...but it's...*crazy* (MC: Yeah, yeah)...and we talk about opening the market up...we...we had things in, eh, after the Crash in '87 (MC: Hm-mm)...retail got killed...because no broker picked up the phone. The minimal retail... (MC: What do you mean retail, can you tell me...?)...retail(MC: ...for example?)...Johnny Blow who reads the *Sunday Times* who thinks he [(MC: ...wants to invest in stock?).?]

MC: Okay, so retail got killed?

X: Absolutely got killed because they didn't have access to the markets. So NASDAQ brought in these – what they call SOES: Small Order Execution System...where they could electronically...hit or take a broker in a 100 shares, and that went to a 1,000 shares and that was the...infancy or even embryo of...HFT. Where these guys...y-you-you actually give access to market to amateurs...and that's all good in a perfect world but if people can't control themselves...don't have the risk controls, don't have the *capital* to play in the market (MC: Hm-mm)...they shouldn't belong (MC: Hm-mm)...they actually compromise the market...so they should be...

MC: But I thought they would've brought liquidity to the market?

X: Yeah, but liquidity they can't afford is not liquidity. They have to be able to pay for it at the end of the day. (MC: Yeah, yeah.)...and...and retail collectively, why not...

MC: But wasn't that part of the American dream in a way? I'm thinking of (X: No, no, you get to *own* stuff like...)...something like 60 to 70 per cent was invested in the market and that's...I mean, one could argue it's still dead.

X: Yeah, but then like...part of - part of the technology re-re-, y'know, bubble...was the...the last 20 per cent was driven by retail. The state intervenes to save these people from themselves cos they're not able to...it's...you take Australia, there's a Superannuation Fund there, nine per cent, I believe, and it may be going to 13, em...and I would check my facts on that (MC: Sure, sure.) but I'm nearly sure it's nine per cent right now, is taken from your salary, by law, and it's invested in these Superannuation Funds and, the government farms this money out to various, different (MC: Sure.)...large...y'know, I think it's in the...the pension fund in Ireland (MC: Yeah, yeah, sure.)...is the same now, although they've stolen from it.

MC: yeah, yeah, yeah.

X: Em, that's a different way of investing so...(MC: Sure.)...retail don't ha-...they can still be in the market and be exposed to it. (MC: But in a particular form...)...I think it needs to be led by professionals (MC: Okay, okay)... y'know, peop-...because y-y'know...the markets can be abused or not abused, they can abuse people because of gambling. It's a human fault, it's a flaw, that...it's a mantra for it.

MC: Can I ask, is the...is the-the comm - the conversation we've just been having, and I will get back to your personal background, eh, kinda jumped ahead first, but, eh, while we're at it, is it something that you...do you have conversations with other

people who do what you do, in terms of the role of technology, these sort...or is it just something...now I'm just asking you...?

X: No, I find... I find people either, they're one way or the other, and they're-they're very polarised and there's no in the middle, and I would like to think I'm in the middle, and not...I would be a very strong user of technology (MC: Yeah, yeah.)...but without the people it's useless. And they you've got these tech-geeks who think we should all go into auto-drive...and I just think there's been speed-bumps in the last couple of years – the Knight error, the Flash Crash (MC: Yeah.)...still be to unexplained (MC: Yeah.)...y'know, you get nonsense...local folklore over what happened (MC: Hm-mm)...my guess is that someone knows what happened but they're not will to spill the beans on it (MC: Sure, sure, sure.)...em, whether we learn from that, I don't know...but they seem to want to keep it sort of watertight as to what exactly happened.

MC: But how important is that role then in-with the market of...the word that's struck me a lot that I've really come to...cos I don't really necessarily prescribe [unclear] (X: But people got worried because they didn't...)...the word 'momentum'...?

X: Well, momentum's been there for a long time.

MC: But now it seems to be [o]n an exponential scale that possibly, I mean it's like that 14-seconds hold...I mean that momentum to me seems...y'know, and I was also reading, say for example, in the...four weeks ago on the front of the Financial Times...where it said that ten boroughs, eh, in London, in their property values was equal in property value to all the other property in Northern Ireland, Wales, Scotland, North of England combined...now that seems also about momentum.

X: That's urbanisation.

MC: Is it? That's...you think that's just urbanisation?

X: Yeah, it's on an exponential scale in China. Yeah, I...y'know...

MC: You don't see those related?

X: China and here?

MC: No, no...say something like, the example of the 11...y'know, and the increase[d] use of momentum around the market and then there's that sort of movement as it were, where one could argue, displacement and capital...value...

X: Haven't thought about it, Mark to be honest with you. (MC: Okay, okay...) It doesn't...y'know...

MC: Y'know, those pull...

X: I'm in it so I don't take that step back (MC: Yeah.)...I think you probably have a valid point but I haven't thought about it in that way.

MC: I mean I talked to...just again...a financial analyst at the weekend and he was talking about that notion about whether, y'know, it's almost making the city an unaffordable... *the City is making the city almost an unaffordable place to live, only for those that maybe can afford it.*

X: I...I completely agree...people that I knew in media, when I first came over to London were on...working for Channel 4, and earning £18,000 a year (MC: Yeah.)...how does it work?...and they ended up going to Bristol...and working for BBC there because I think they've got studios (MC: Yeah)...and-and they have a good life there now...so yeah, it does...there are market forces...that pushes...

MC: But again, just that word 'momentum', y'know...(X: Awwww...)...say in the context of possibly *not* understanding how these things work. It seems even...

X: When you say momentum in the market to me...that means something completely different...

MC: Sure I know...*Momentum in terms of...*

X: Earnings! And you have momentum...investors who were really big (MC: Yeah) in the 90s (MC: too simplistic on my part?)...yeaaaah, and that's momentum, and you get momentum in stocks and the way they move and stuff like that...ehh...y'know, if you look at something like the chart on Netflix, these things are sort of...high velocity, high growth...huge multiples, so if they fail on an earnings on a per quarter basis...the momentum comes out of the stock, and they can drop 25 per cent (MC: Hm-mm)... like lose quarter of their value in a day without a problem and that's usually towards... because you're buying a stock...on future earnings so, if they fail on a quarter...everything gets wiped out...suddenly the multiple's no longer appealing (MC: Hm-mm)...that's on a...y'know, that's the science of investing. (MC: Sure.)...that's what momentum in the markets mean to me, and the idea that...

MC: And the macro, yeah, I guess...and the macro [sense?]...

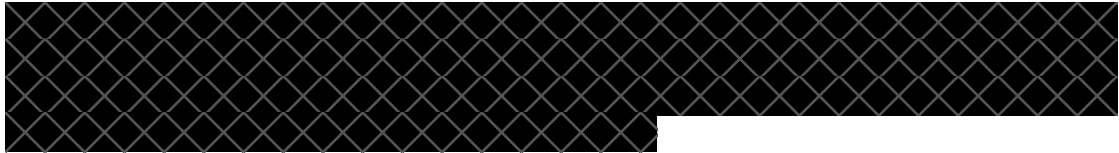
X: Yeah, like I say it's not something that I...that I really thought about. I mean, we're sort of...y'know, we set up a business last year where everyone thought like...we were off a fucking rockers but because everything around us is falling around, and it's not like, y'know, ahh, y-y-you could play Dr. Doom and stay at home and do nothing...stay in bed and drink a bottle of gin – whatever...y'know...I'm not qualified to do anything else. (MC: Hm-mm)...so, this is what I do (*both laugh*).

MC: Can I ask...y'know, can we dip into...how did you get involved in what you're doing now?

X:







MC: How long ago was that now?

X:



MC: When you say penny stock, can you tell me what that is?

X: Penny stock is...eh, it's a, it's a loose term for let's say a t-third tier listed stock, particularly in the UK. They have them in the US as well. They trade...they're what we call a 'pink sheet', OTC in the...you have lesser restrictions on listing (MC: Hm-mm)...eh, and they usually trade in pennies and they change in large amounts

MC: It's volume again.

X: Yeah, it's an oil stock that's 4p. If they find oil it'll be 20. So, you sell that to mom and pop and it's a chance of riches – and it's-it's gambling, it's not really investing. The outcome is too...eh...polarised (MC: Hm-mm)...it's a bit like...y'know, I suppose a biotech company...they find a cure for cancer? We're all rich...they don't find a cure, it's a zero...it's a big, black hole. That's not my idea of invest-investing...I might as well go to Vegas for the night and sorta throw it all on black and see how we go. But some people like...y'know, that's the punt (MC: Yeah.)...y'know? And that's an area...the business I'm not involved in...and that's again...retail gets sucked in by that...and that's...y'know, they should be locked out to save themselves...em, why these companies are on listed markets? I don't know. But then there area also, y'know...are they failures? I suppose they're growth companies trying to get there and they never get there and you just stay listed, and become a legacy. They should be taken private...probably or maybe they have a huge retail investor base...yeah, so...I did that and I just found that was really...hard sale...not what I do...I then went to...

MC: And how long did you do that for?

X:

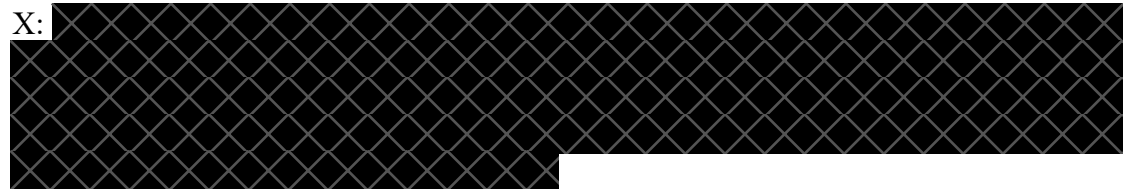




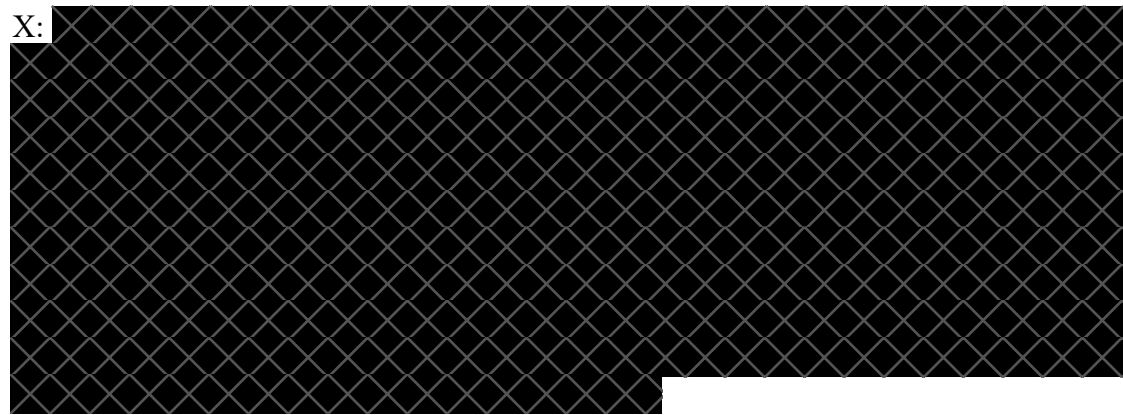
MC: You were gone...

X: I was gone...*outta there*...

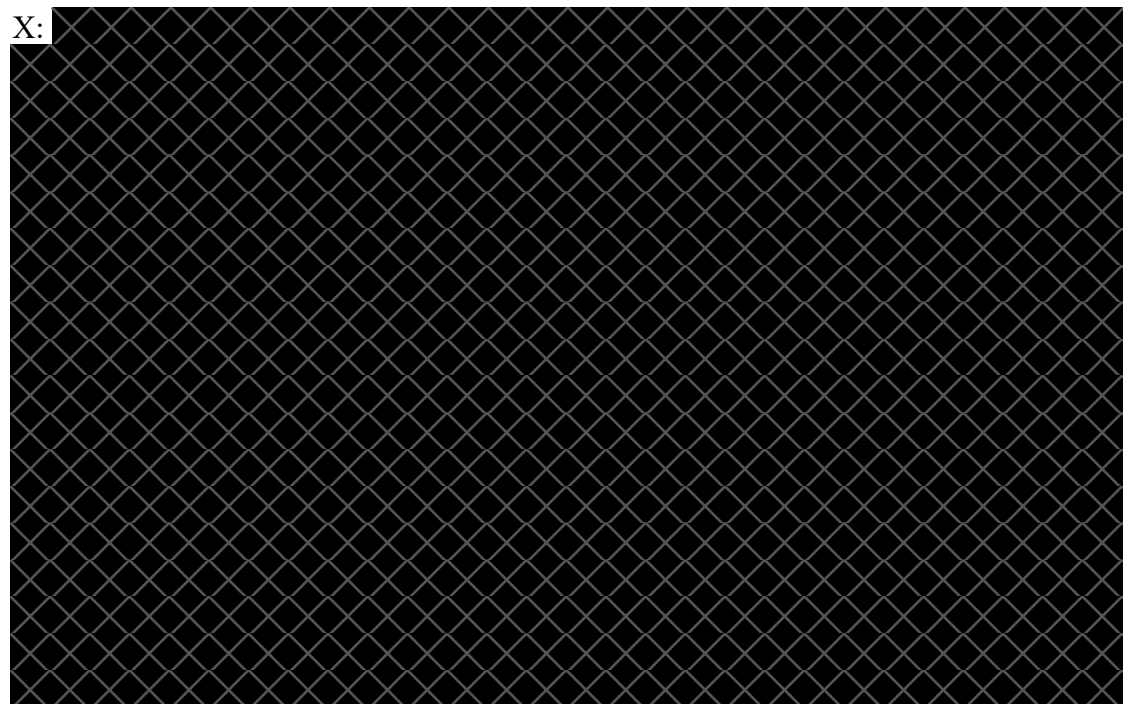
MC: And where did you go?



MC: So you didn't go to ?



MC: And were you doing?



[REDACTED]

MC: In [REDACTED]?

X: [REDACTED]

MC: And how long were you there? How long did that go on for?

X: [REDACTED]

MC: So this really was the bedrock of...

X: [REDACTED]

MC: And can I ask you about people who, who...*don't* do what you do? Who maybe were friends, family, whatever like that...what were their impressions or did they have impressions of what you...?

X: [REDACTED]

MC: And did that happen after your gig in...in...?

X: [REDACTED]

MC: And it was the...*the cutting edge*...

X:



MC: And what year was that then? Would've been... '97... '96?

X:



MC: Because it was seen as old school, right?

X:



MC: But it could be useful...

X:



[REDACTED]

MC: And is that kinda a common thing, in terms of the time?

X: [REDACTED]

MC: But was it a case that you could've gone to [REDACTED] for two to three years and then go back to [REDACTED]?

X: [REDACTED]

MC: But there's very little long-term...is that a fair observation? In terms of the employment, in terms of how people working...

X: Well...what do you describe as long-term?

MC: Sorry...long-term, eh...

X: Like a civil servant?

MC: Yeah, not even like a civil servant...

X: You're not going to see a 65 year old trader...

MC: Yeah. But you're not usually going to see somebody going to [REDACTED] and staying for a while...

X: *There are lifers.*

MC: There are lifers?

X: [REDACTED]

MC: Okay. So there are those still out there...

X:



MC: But the majority wouldn't do that...

X:



MC: He's *hot-air ballooning*...

X: Yeah, yeah, probably...no...they built, no...they built a very good business...

MC: That's changed, y'know, for sure...

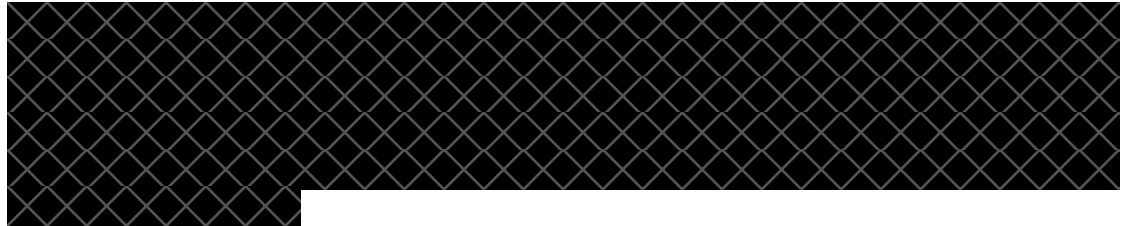
X:



MC: And what's caused that?

X:





MC: But aren't they...I mean...for example...y'know, derivatives of other forms are being sold again, am I right...in a larger realm?

X:



MC: But the moment *it's claw-back*...the moment it's so...hence...

X:



MC: But is that coal-face stuff? Can it really...coal-face stuff...in terms of (R: Well, no...) say, the Libor thing...I mean, the fine they got was small, y'know, it was small change in relative terms...

X: Yeah, but there's...I've a different point of view. (MC: Yeah.) You're managing a business. You get five prop traders, you give them four billion dollars (MC: Yeah.)... 'off you go'. They don't need to be managed...very little tech, they just do what they need to do, they sit in a corner, they don't need to communicate. Sales and trading, which will probably produce the same – you need 700 people, you need a full research department, you have massive HR headaches cos you've got people full stop, a-and it probably makes the same revenue stream. I know what business I'd pick (MC: Yeah, yeah)...y'know...it's just a nightmare and this is more risky but...it makes money and if you control it, and they have been very, very good at doing that so...but they're not allowed do this anymore. That's a business that has been choked. It's...it's not regulated anymore – you're not allowed anymore as a bank. Whether I agree with that I don't know. I don't really have a view...I suppose banks need to...and that's why the prevalence of the hedge funds is going to keep going because you can't do in a bank anymore. But what is...what you see happening is that those who have left the banks and gone to do hedge funds...they don't seem to be very good at it. (MC: Hm-mm.)...now, whether they had *edge* in inverted commas in investment banks, i.e. information that wasn't...in the public *domain* from the banks trading or something like that...I don't know.

MC: Okay...I suppose...okay...but tell me...to get back...do you...you were, so you were doing...back with [REDACTED] though in [REDACTED]

X: [REDACTED]

MC: It's mythologizing.

X: Yeah, yeah, completely...y'know, and people are cashing in and stuff like that, and we provide them with all the tools to do it so...y'know, you don't play the blame-game, the mechanics are there...so...y'know, it was like Margaret Thatcher sorta giving out about Soros collapsing the British pound (MC: Yeah.)... 'you gave them every fuckin' tool to do it' (MC: Absolutely) and in fact, 'you encouraged that kind of behaviour so don't tell me'

MC: But it was...wasn't it too I mean Clinton pushed that on being where you were, I mean, didn't he say famously, eh... 'you mean to say my career depends on some fuckin' traders in Wall Street?' and then he said 'yes'.

X: Probably does...well, back to Clinton (MC: Yeah.) ...and this goes to the...Clinton came up with the...social idea that everyone should have the right to a house...wonderful idealism. And he opened up the legislation...for these loans that should *never* have been given to people. One because they weren't able to control it and two, because the regulation – they couldn't afford it (MC: Yeah.) and they were getting these teasers, etc., and that was the start of the end from-from...from that bubble. So y'know it like Cyprus right now and everyone's like, 'aw, it's dreadful' and it *is* dreadful but I...withdraw from the emotion...someone's got to pay. (MC: Yeah.)...if all these banks open tomorrow and everyone goes to withdraw – there's not enough money there - there's not even 50 per cent of the money there. (MC: Yeah, yeah). They...it's not like they're stealing from people - they're taking a 40 per cent hit. It's cos the money (both: is not there.) (MC: Yeah)...so who in bucks is gonna pay for it?...and it...y'know, like it or loathe it...and mistakes have been made...it's like we all want to...hang Séanie out to dry. (MC: Yeah.) I mean, if that makes you feel better but it's not gonna get your money back (MC: Yeah, no but it's just...) and I don't believe he should get away with...I'm not looking for that (MC: No but it's not him alone...) but nailing him to a cross (MC: But it's not him alone...is he a scapegoat?)...yeah, this is just a scapegoat, and like, y'know, I think



we should probably look a little more futuristically and try to solve the problem and change the regulation. Let's...we've come a long way but...

MC: Come 'ere, hold that thought...I wanted to ask you about coming back to London, how did that...?

X: I just woke up one day and I wanted to...I wanted to go around the world...I was tired!

MC: Yeah...and were you still working at [REDACTED]?

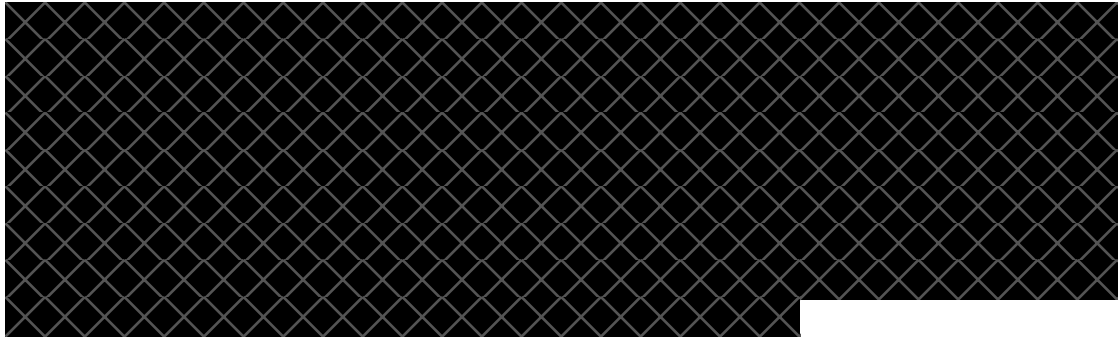
X: [REDACTED]

MC: was more about being *this side of the water*?

X: [REDACTED]

MC: And is it more extreme there in terms of the market demanding that of you there, in terms of that work, that relationship?

X: [REDACTED]



MC: And what year was that when you left?

X: 

MC: So you left Dublin then...you did?

X: 

MC: You mentioned before, I think....

X: 

MC: And when was that, when...?

X: 

MC: But you went through the 2007/2008 period then and...

X: Yeah, they were bumper years. They were huge. It was so...yeah, 2007 I...y'know...*capital was loose* (MC: ...in Ireland...) and there was a lot of stuff going on but markets behaved normally but then...I bought a house and I said to my gardener...he said 'what do you think of the markets?' and I'm like 'well, something's just come across that...' the Bernstein's thing happened in the money markets, and I'm not a money-markets person but I found it very interesting, it's like 'what's this all about?' You put your money in a fund and they invest it in money markets and you're supposed to get...it's preservation in capital and they couldn't (MC: do that...)...they couldn't do it...they couldn't perform. So, there was some

sort of fracture in the markets and I was just...at that stage all you had to do was focus on equities. People didn't look where the crosswinds...about anything else and it just opened up a whole can of worms. By like November of '07 I knew there was serious problems going on and we were in for...y'know, I can remember say-...this is...this is five years minimum if not a decade, of hardship like, that people are not going to know...and it's not cyclical. This is...a change. There...we're not going to know *what's* hit us and...and y'know...

MC: So it was different than what's come before in that regard...

X: Oh, yeah, absolutely. People talk about this as a recession, this isn't...this shouldn't be termed as a recession...this is not cyclical. (MC: Yeah, this is something else.) This is completely different. This is questioning what we do...y'know, on a giant scale.

MC: It does seem that.

X: Yeah, yeah, and it's a *re-set*...y'know, and markets will pick up and they'll do something else and they'll find something else out and that's called innovation and that's what gets *rewarded*. But...y'know, they progressed too fast, too far but it goes back to loose capital and regulatory changes, and Central Banks not looking at the system and that sort of...there needs to be checks. Like we...our guys on a Sunday night...they run models about 'what if this happened' - event disaster - y'know, and everyone talks about it; it's in periodicals (MC: Yeah)...some guys don't ever do this. They think they're immune to it. It's just bizarre...and there's only so much mathematical modelling you can do as well, I would say...so you'll always leave yourself a little bit of headroom. But there's different funds who offer different things in terms of...y'know, the big thing is to offer uncorrelated returns. I know what that means, I'm not sure if people on the street know what it means? Or other guys like 'I might give you up 40 per cent year but I could give you down 20 per cent year'. It's like, that's 'Gamblers Anonymous'...y'know, you want the big hits but you're gonna have to take it with us, so...

MC: Hm-mm. So you know even now in that regard...

X: Oh, yeah, y'know, certain funds will sell that way and then you have a neutral fund, which is always hedged...so, if they've 500 long in the market they've always 500 short against it and they're just trying to capture that - they're never going to do a 40 per cent year for you (MC: Hm-mm)...but they'll never do a down 20 either...they're putting it up 14 per cent every year. Y'know, 14 per cent every year will get you very wealthy over a long term...I don't understand why everyone doesn't go for that...but that's greed...fear (MC: Can I ask...?)...motivators of market...

MC: So how important is one...the *now* in the market and I know that's a huge term but how important is the now?

X: (*Pause*) I don't know what you mean.

MC: Say, in...in terms of, y'know, we can talk about short-, mid-, long-term, but I think more and more, how important is the *now* in terms of the functioning of the market?

R: That's the problem with the market that it's becomes instant gratification. Guy...guy buys his stock at €47 if it doesn't go to 47½ in a nano-second, they're puking it...they have no tolerance for in-...well, their timeline on investing...I suppose there's like...can you say you invest for six minutes? I don't think that's an investment.

MC: Hm-mm...but that does happen now, I mean, even, y'know...

X: Yeah, I mean the HFTs will argue that, that's not...that's not what they do. They're, y'know...they might even sort of, authenticate it by calling it arbitrage – it's not that either...it's playing the game. They're...they're gaming the market should I say (*coughs*). By all means, an investor is allowed change their mind because they've got another set of fresh data, that changes their theses on...on an investment, but...people have become so short-termers. This Cyprus thing...is about ten billion...like let's take a step back, it's about ten billion quid (MC: Yeah.)...60 billion was forked out in Ireland alone (MC: Yeah.) so...it's a pimple on the arse (MC: Yeah, no, absolutely, it's really to be sure) and Cyprus is all about contagion and everything they've done to date, including today...is the golden set of rules of how *not* to have a run on a bank: don't do this cos they've done it. It's like they're trying to test it. Fixed-income markets have sort of, well, one particular fixed-income smart guy that I speak to, said 'is this a test for a...for an exit?' You ring-fence Cyprus, we can actually put it out...

MC: But it's also, do you...I wonder how important do you think is, that they actually don't know?

X: What do you mean they don't know? No, I think it's very political as well. I think it's Merkel-Russian...they're...they're killing the Russians, they don't give a shit. Merkel's up for election...this is a politician getting elected; this is...she couldn't fold on this...she played it masterfully. She doesn't care what the fallout is. As long as *my* people, *my* BMW factory workers are not paying...for Russian oligarchs...who...six months ago we knew there was a problem in Cyprus (MC: Hm-mm.)...the only reason you have money is Cyprus right now is cos it's ill-gotten gains in the first place and people say, well, that's got...y'know...the Americans are flipping out because you cannot confiscate people's deposits...I actually take a different view. When you put your money in a bank you're actually loaning money to them. (MC: Hm-mm.)... it's not safeguarded...those deposit guarantees up to a 100,000, that's a government intervention which makes us all feel good and we can go to sleep at night. But, you...you're putting your money...it's...you're giving it away to somebody else, so it does...we've now followed the capital structure, which is: when something goes bust: shareholders get wiped-out first...senior bondholders...subordinate bondholders and then we go down to depositors...they've done that this time...now there's such a shortfall that we're gonna have a 40 per cent haircut into depositors. Like the bondholders are *zero* (MC: Yeah.)...shareholders are *zero*. So, we have done it right. This is the way it's supposed to happen and it's like, sad story and all it may be that's the way it works. And the US came back a lot quicker cos they followed the

rules...ugly and all they may be...although they did bail out their auto-industry. All the money to the banks?



MC: But they also bailed out, I mean in terms of, I mean in terms of public funding, I mean, I mean, even...

X: Wall Street? All the banks? (MC: Yeah.)...they made money on it.

MC: Yeah. But they've also been given cheap money. Y'know, I mean I think even here, it's like almost close to half a trillion is being pumped into the City.

X:



MC: Can I draw you back, if it's okay, to...eh, talk about, in that way, that this is something else, it doesn't seem to be cyclical? Em, but that idea too, you talked about  was bought out by , this idea of the mergers, the sort of buyouts, the takeovers...

X: But that wouldn't...we've gone past that now because we've got...this goes back to compensation in the banks (MC: Sure.). Global, and I use that word...global investment banks – want to be that sort of supermarket. You come here and you can pick every good you want off the shelf. They've now gone back to 'we need to make money', so if we're in a business that doesn't make us money, we've no (MC: Sure.) reason to be...like shut it down.

MC: But I was thinking more this sort of, less-less option, these things become more, and that's also about I suppose that word I keep thinking...it's the only word...I tried to describe to you [unclear] momentum...that actually things become...as it were *fewer*...fewer, fewer, fewer, and that idea then also that some talk about, y'know, almost the market as a construct, that in some ways, yeah, there was an element of, yeah, the...y'know, the...the material was there to sort of create this thing. So the lack of regulation, the lock...the lack of un-...the lack of understanding about models, that the notion then of the market as a *construct*...

X: Well...there was commentary...

MC: Do you have any thoughts on that?

X: ...that we were heading in – and there will always be commentary (MC: Sure.) but the it...y'know, that's the press and the media don't give it the airplay because it's

very hard to say, when we're all drinking fuckin' gin and tonics...in 07's like, 'lads, it's gonna...', y'know, you just don't, y'know, your editor goes 'sorry mate', y'know (*both laugh*) (MC: Yeah)...we need to sell whatever content we need to sell, whether it's newspapers or digital...

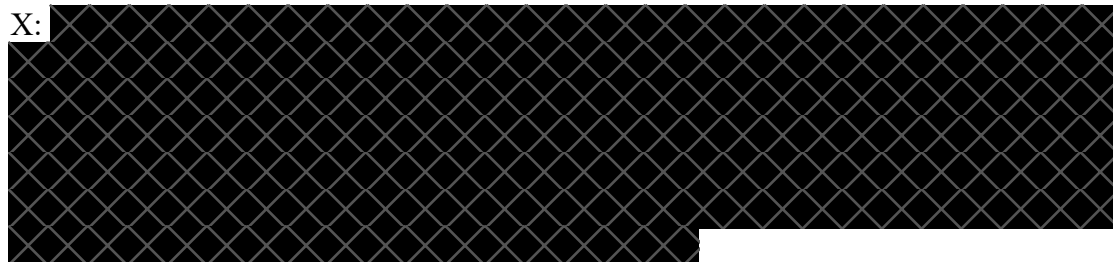
MC: But you know that thing of sort of saying, like in many ways...y'know, it was possible to jump jobs, it was possible to sort of...so...this doesn't inspire any sort of, y'know even mid- or long-term thinking because you're...you're just about maybe, maybe...thinking just the next year, if even that?

X: Yeah...I still think that persists to be honest with you. You're only as good as your last trade...cliché but true...y'know, performance-related...it goes back to...y'know, you kinda devalue what you do because you execute trade, you move on, you do it on a multiple basis and stuff like that but then a lot of us say like 'well get someone else in to do it...'.

MC: But then...but then what does that mean then for the *future* of the market?

X: I think...no...I know what you're...getting at...I actually don't (MC: Yeah)...look I talk to...we're trying to get a handle on...in terms of our business as a strategy (MC: Sure)...will it exist in twelve months time? I have to question that...and these are reasons outside of my control so to a certain extent I can't...it's not my thing.

MC: But I'm even also thinking in relation to the society around you because obviously, y'know...in some ways...there is this relationship to society. Y'know we spoke about this before, well, this is something that actually, y'know, what can I...y'know...how pivotal *is* the market to...to people's lives?

X: 

MC: I wonder about that. Its relationship at the, sort of, the...stock...what's happening with the stock exchange is that, y'know...what's his name...the CEO of the London Stock Exchange...he was talking about, well, maybe there's, y'know, *there's three super-exchanges*...in the world. Y'know, that eventually...also they merge, they're bought out because they're now also private companies – the majority of them.

X: Yeah, but the...from an exchange point of view it doesn't really matter. (MC: Yeah)...they're in private hands (MC: Sure, yeah)...they're for profit...whether they're based in Chicago and like, they'll be cross-selling and stuff like that and they'll have...infrastructure costs will be shared and so profit margins will go up in terms of that. That doesn't affect the market whether it's one big global exchange...

MC: But for example, then but getting back to...yeah, that maybe we could end up with three or four super-investment banks or even less...

X: No, I don't think the regulator will allow it...one...

MC: But does the regulator...in terms of how important is...if you don't mind me asking, but if you...y'know, one could argue that the nation-state is now just a conduit...that does the nation-state have any power?

X: There's an argument for it but...

MC: So therefore does the regulator in *real* terms, have any [affective?] power?

X:



MC: Cos I'd just sort...no, it's just, it's more in terms of...I guess it's more just an observation...I was kinda curious cos I wondered (X: Everyone...everyone...) I don't even know if there is a market...I just see this...this thing that is there just, more...it becomes just more distilled, in some ways. It becomes...(X: Yeah)...there may be specialists like yourself or whatever...

X: Yeah, there'll be *more specialists*.

MC: But I just wondered, just in terms of...the core...

X: They will run the businesses on a lower cost based and will be highly specialised in certain areas...

MC: Cos I agree maybe, maybe we're reaching a tipping point. It could be 75 per cent...

X: Yeah, but don't forget, with Dodd-Frank (MC: Yeah.) the banks can't put capital up, anymore. So, there is not gonna be that behemoth bank who said (MC: But will they just find another...?) 'I'll buy everything, I'll sell everything...'

MC: But they'll just find another...I mean history will tell us also too it's about just finding the means and mechanisms to...circumvent...y'know, the...what is it? Kansas City...I mean, it's goldmines...it's all these people, credit...they're involved in...in these...

X: You know why they buy into those? Because they want to know the inside technology. They get a look at it over the wall (MC: Yeah.)...they're quite happy for it to stay out there and stuff like that. Y'know, keep your friends close and your enemies closer kind of scenario (MC: Sure.) is...is why that works...

MC: I realise this is more macro but just...

X: Yeah...I...it's also...don't forget a lot of investment banks are fighting for just survival. (MC: Yeah, absolutely.)...so the only thing you might see are mergers...are through survival mergers (MC: Absolutely.) but we've been through that. But if you look at the US banks right now...the US banks have more capital than they can throw a stick at. They've excess capital. (MC: Hm-mm.)...I can't say the same for Europeans because we haven't fronted up to the whole thing so we're still undergoing that process...probably about three years at a guess behind...

MC: Yeah, but the US still seem to be holding on to that capital. It's not bein'...

X: Why would they, why would they give it away? *We're basket cases*...and we have politicians that make bloomers like that on the tape last night and the market dropped like...so many per cent. (MC: I didn't hear that...I missed that.) The guy said Cyprus was a *template* (MC: Okay.) for other European banks: I...we're going to confiscate your deposits'. Now that might be true (MC: Yeah.) but don't fuckin' say it!

MC: Cos that was...somebody asked me that and I thought in some ways...for once...there was almost an honesty...that actually in some ways there's a forthrightness about that action...in other ways it's dressed up in other forms...

X: I can appreciate it but...do you want a bank-run? Because once a run starts you cannot stop it.

MC: But they're[ve] already been happening. I mean Spain is the one that they're kind of taping over. Italy is...France...but Spain in particular. I mean there's already been a very below-key...

X:



MC: But I just wanted...cos it was, eh...(X: I mean it literally snowballs.)...a friend's his father removed *all* his money from his account...two years ago...in Ireland. Like, he withdrew *all* his money out of his account and this is an elderly man not particularly wealthy but actually who went in...



X:



MC: But we want to avoid that scenario. I mean the other scenario possibly coming in Ireland is about the mortgages and that actually it could look like that the original bailout was kinda small...y'know?

X:



MC: Yeah, absolutely. They've just started up a website 'keepyourhome.ie'.

X: And we're gonna start questioning our cultural history, s'like we would never evict anyone post-...what our...what's in our DNA but with the IMF behind you...they're being told...you better start doing it...and...and ugly and all it is...we come back stronger from it. It's hard to sell...you can't let people sit there on zombie assets cos it's just...you're...it's not...you're delaying the pain...you're actually making it worse. You're gonna make...the bailout will become bigger. You have to flush the system of dead assets.

MC: We're way over...

X: Yeah.

MC: We're way over (*whispers*). You alright? No, we've gone way over.

X: Yeah, yeah, it's fine.

MC: How late do you stay here? How late...normally...?

X: I was gone at five yesterday. Y'know, but I can be here 'til eight (MC: ...depending on what's going on...) if I need to be...I mean...just depends. I can do stuff from home as well I mean we all...*I'm all plugged in at home.*

MC: So do you ever switch off? Do you ever get a...

X: Not really.

MC: No?

X: Yeah, but that's only because I'm running a business not because of trading.

MC: Yeah. You need to keep an eye on what's going on.

X:



MC: Yeah, so you're gonna do that?

X:



MC: Can I ask as the other person I wanted to try? Cos the other thing...I'm kinda missing the bloody blurb...just to sort of give it some sort of vision...that it's supported by the Government of Ireland through its Department of Foreign Affairs. Do you know what I mean? In terms of the actual project has been...(X: Yeah.)...the people I've met have actually been through the Irish Embassy here.

X: Yeah, but that's...that's not the problem that you'll face.

MC: No, it's security. But I just...

X:



MC: So...I mean I could talk to you a lot longer but a question...is there room to be optimistic?

X: Optimistic about what...back to the heydays of '07?

MC: No, no...in the sense...because there's on one level like, y'know...can I be honest? I've a partner who won't talk to me the project...just in terms of what one

could describe as almost *dystopian* elements of sort of...the role of algorithms and...y'know...the almost dead-end street; it's gonna be a brick wall (R: Nonsense)...these other elements too, sort of, eh...

X: Now I know, I...I think we're heading to *an inflection point*...in technology or at least a change in direction of...*people are learning the hard way by losing money because the technology's out of control*. And people have to understand like, technology is someone putting software in a box, writing program data or whatever, y'know...code. But that's only...that emanates from a human being at the end of the day. I mean...maybe I'm losing that...*the computers can talk to themselves*...

MC: They're talking about it...

X: This is what they *are* talking about, yeah, but I...

MC: That they will self-evolve...

X: Yeah, will they start growing hearts and kidneys and stuff like that, y'know?

MC: (*Laughs*) Don't get me wrong...I'm not advocating it...at all.

X: Y'know, I love...I love robotics for surgery and stuff like that (MC: Sure.) and what's going on there but, no...

MC: But like what you said before...it doesn't...I also agree and the bit that I know, the *little* bit that I know...it *doesn't* seem cyclical...this seems something else.

X: No, this is completely different (MC: There seems to be a shift.). No, this is like...this will go down like post-growth depression. It'll probably be called the *Second Depression*.

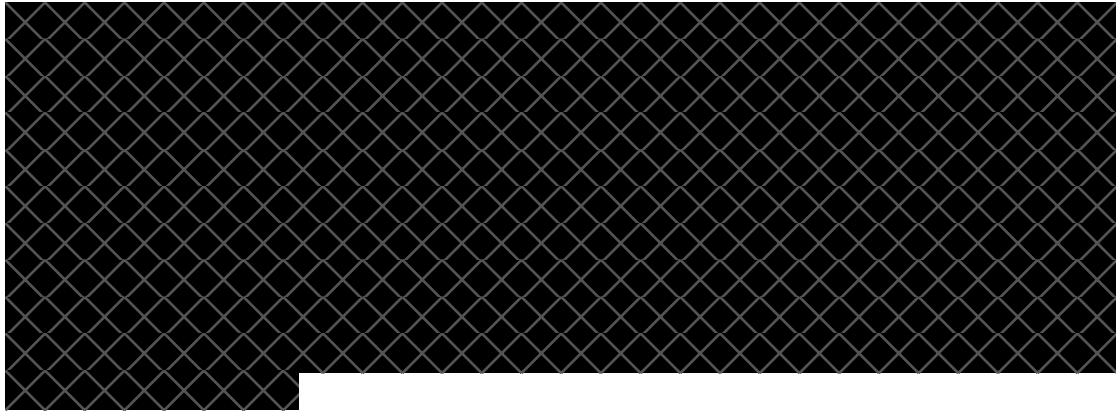
MC: But it even seems more than that...cos the global implications...

X: Y-y...no...no...it's magnified because of where we are in the state of, y'know, the world...

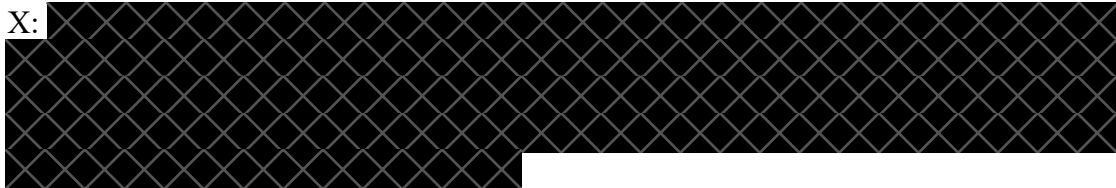
MC: I mean, they're building...they're *building cities to keep the Chinese economy going*.

X:

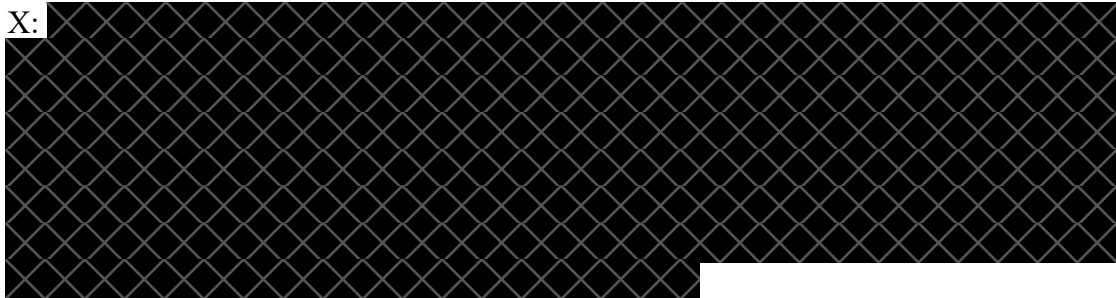




MC: No, absolutely but even for a speculative purpose, I mean I heard they are trying to attract, sort of, y'know...



MC: But if the banks are actually loaning this stuff out, surely there comes a point where it goes...(makes 'click' sound)?



MC: No, I was thinking more sort of maybe social destabilisation. They've talked about they need eight per cent growth otherwise they're...they're worried about, say, y'know, actual literally...social revolt, that actually, y'know, they need to keep, literally keep people working in that way, y'know...

X: Well then, they'll...they'll move back from the free economy which they're sort of tip-toeing into...and state workers will become more prevalent and stuff like that...I don't...there's always that *edge*...and I'm surprised just...just inside that we haven't seen more...(MC: unrest?)...unrest in Europe...partly because our history and our roots and...and the way we react to these things, particularly the French...in what's gone on. Again, Cyprus being an island I think it's quite a measured view...they've their own internal conflicts as well so they can consume themselves but it's not gonna...go anywhere. Y'know, who...they're gonna go to their Greek friends? The Greeks...the Greeks are the ones who got them in the problem probably in the first place...so that's... that's an aside. The China thing, y'know...

MC: No, no, I would agree...can I ask you but just about...just about...that the sort of unrest...I mean, y'know, the same you could also say about Ireland. I mean there's been...y'know, there's been...sort of responses to particular issues, there hasn't been a...y'know, there haven't been like in...in Reykjavík, where they're...y'know, from young and old were bashing their pots and pans 'til the government left the building.

X:



MC: And you've already got *50 per cent youth unemployment*...

X: That...that's the *scariest statistic I can think that*...this is not a recession...*that's structural*...you lose a generation and it doesn't get solved overnight. And...

MC: But that's what I meant about even the ten boroughs in London...cos that also is a structural shift, one could argue...and I just wonder how related they are...

X: Yeah, I...yeah...no, I see where you...where you draw the comparisons (MC: *The structural shift*)...is it like...? That youth unemployment statistic...oh, y'know, if I think about it too much I get really bearish, I get really like '*Jesus Christ*, we are in for...*the Dark Ages* and that we haven't'...and everyone knows hindsight's twenty-twenty but it was *bad*. I do think we won't get back to that but we could have a very long, long-drawn out...process...y'know, I take a look at our education system and it's like...are universities educating the people for the jobs that will exist in ten years time? I don't even know what the - what kind of jobs there are...because...traders,

the City doesn't really...y'know, it is in structural decline so what do they go and do? They can't...all can't write code and fuckin' algorithms for...

MC: So what's the...the future?

X: I don't know...I don't know...I...it...that's the crystal ball thing. I...it's not part of the business, it's not me to...sorta like, I...(MC: Can I ask?)...it's because we're so small, we're more reactive.

MC: Can I ask...I know we're well over, but it's just...it's all good stuff but just...in terms of...eh...the role of precarity, vulnerability...like that's one thing that has struck me cos some people's impression would be - those inside the markets somehow or another are cushioned from these things

X: Not at all...not at all.

MC: So how does that role of vulnerability...?

X: I think people in the City are more aware of it than ever, and...the invincibility is gone because most people are going to work and they think they've got a target on their back because they're going to lose their job. And we don't have the rights of unions or anything like that. You can...you can...UBS fired their...their fixed income guys by not allowing them through the turnstiles...and it was the most dehumanising experience ever. So, people from the outside who think we're on this rosy life - I challenge people...this guy gets up at 4.30am in Kent, say 'do that for a couple of years and see how you feel...'. And I...that's a basic thing about getting out of bed but that *wears* on you after a while; that demands a discipline, and it's usually the discipline is there because you want to feed your family, it's not anything else. The 'super-gods' who earn the billions, they're few and far between. And I mean, we do get the numbers - I think there was a 150 at Lloyd's that earn a million pounds and over, and stuff like that, and there are guys in hedge funds that earn a lot more, and stuff like that but the vast, vast majority (MC: sure.)...right now, as it...as you talk about, in the 'now', my guess is they're worried about their job, and they're worried where the structure of the industry is going, and it's out of their control...and it's happening so fast no-one even knows.

MC: And was that not the case even when you were in New York, in the late 90s?

X: No, no...*Superman suits on*. (MC: Okay.)...no, no, no, it's a complete change...the business is un-enjoyable because it's only enjoyable when you're making money. You come in every day, like it's fuckin', y'know...sales push clients - you got to deal with all this, you gotta get targets, you're doing the job before people now, and stuff like that. It's quite *un-enjoyable* is all the feedback that I get. So, the City is *not* what it used to be at all. Even the like, y'know, the drinking culture's been tried to be eradicated here in London...personally I don't understand it but some guys like it so...they're...they're real pissed it off - they can't do it anymore. Y'know, and that's the US investment banking culture coming in here. So, no, I... y'know, I think people are very vulnerable and more so because they're aware of it; because they're in it everyday (MC: Okay.) and that...we all know people who have lost their jobs, and for the first time in my career, I, eh...it might be an age thing

but I think it's actually got to with it...people are exiting the industry but they're not engs...exiting with four million in the bank account and like 'I'm gonna do my garden.' They're gonna have to work. They're selling second-hand iPods in some place in Billericay in Essex, but they've had to set up their own business, and they're not qualified to do anything else cos they've gone down this narrow skill set that's not really applicable to the rest of the world. I mean a lot of them have common sense...it doesn't get you the job at IBM...so, you probably have to start your own thing. So...there's a lot of, y'know, collateral damage internally, and no-one's *immune* from it. I mean think about the vast workers of like, just the back-office, middle-office people who get paid...y'know, decent salaries, but it's only cos they live in London. Deutsche Bank are moving to Birmingham. They're trying to sell as a favour in decentralisation...it's because it's lower costs. They can pay people twenty-eight grand there and they're quite happy.

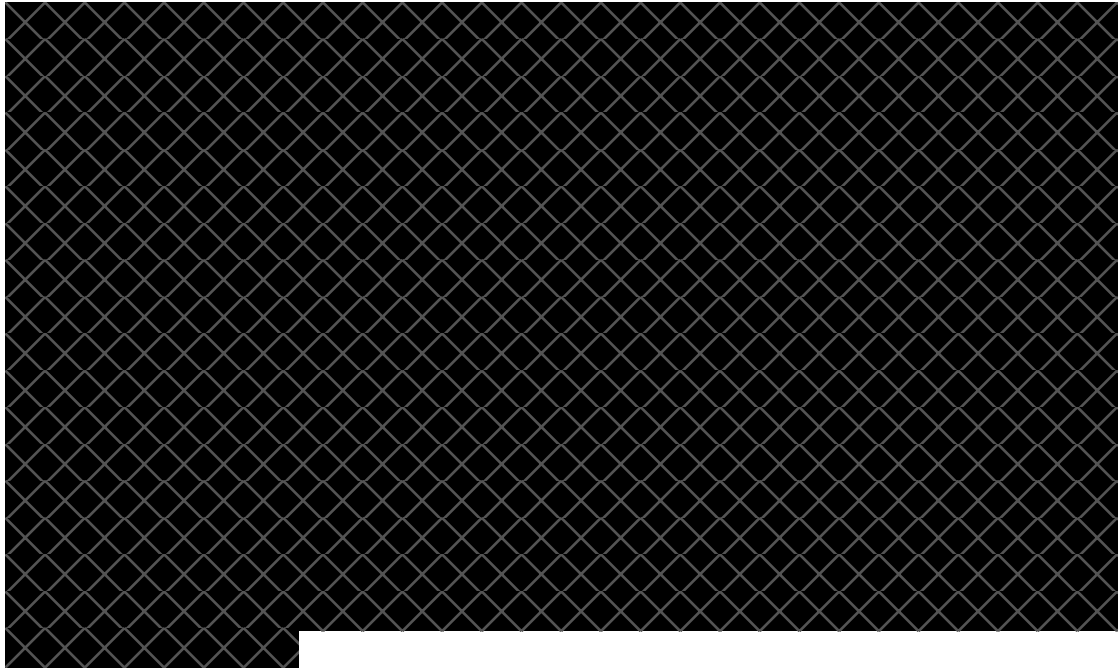
MC: But that's what I mean about the sustainability...I mean even heard elements of moving this out, it just seems is...

X: Well, land values are forcing the issue and maybe you're right...investment banks are looking at now. I don't *need* back office in London, we're all connected by technology anyway, so...let's go for the cheap land...maybe we'll get...see this is...there's inflection points, it'll sorta like, as you say – land values will spike; it doesn't make economic sense anymore...so they'll move it to somewhere else because we have the technology. They don't have to be here (MC: Yeah)...it's better off to have them somewhere else, and actually, y'know, there's benefits for...removing them from traders cos then...the traders can't...they have...it has to be done electronically; they can't interfere with their day-to-day business, and whatever...there...there's various ways of doing it. I do...market forces...normalise these things after a while and whether that might be a bubble that will burst...I don't know, y'know, that happens in various cases but...market forces are very strong and shouldn't be underestimated...y'know...the land-value thing, yeah, I...I don't think that's sustainable but...I think they said that about London 10 years ago but we've had various sorta...events of...what's driven the property in London in the past four or five years? Foreign money escaping Europe, so we're the net beneficiaries of being outside...dirty money in Russia...oligarchs; oil money from the Middle East trying out...come to a hard currency, although it's a weak currency (MC: Yeah)...it's still a hard currency and there's a fascination with Anglo-Saxon culture anyway, and London is a gateway city – it's the New York of Europe...y' know, and then Commonwealth - easy access, all that kind of thing...there's a lot more than just financial, it's not the financial that's ru-...y'know, Chelsea where all the high-end residential stuff – that's all foreign, European money...it's *Greek*...the French investment banks will be moving over here cos they're getting there. There's various forces. All the like, the...the property guys will say – it's all foreign buyers and they're paying in Euros. So, y'know, lifestyle pressures, tax...

MC: So in terms of what you do, it's not just the money...

X:





MC: And...

X: Listen, I'm gonna send *himself* in...

MC: Yeah, no, thanks a lot, that's been great...I'll just stop this thing...