

Patterson

Scott ~~Patterson~~ - Quants

8/12/10

Notes
by order
Paul

Cooper & Paul 4/2

Cooper: Who Quants?

"archaic debate, about who is / isn't"

"anyone who uses math to trade in markets"

- Fixed Income - Price most securities
- Hedge Funds - assess risk person. - Value at Risk
- Black-Scholes

"Contension dramatically

sea of math & computer power"

WS
blasts

Cooper - When

"Inception bubbling of Quant in 1980s"

"Ed Thorp - crack blackjack"

"could make more \$ on WS"

People using math long before that

"widely used too - computers"

Fischer-Black options, futures industry
took off"

Feb 1, 2010

Cooper - What went wrong?

"so many things"

Cooper - CDO?

"US & ratings formula late 90s - early 2000s"

Syn-CDO - Gaussian copula - David Lee - JPM

"extremely complex formula - track AP of
various tranches"

FI

"at end of day so complex and arcane
"one obvious assumption price in future"
"across WS, hp continue to rise"

"When prices go down formula stopped working"
↳ trading thinned out dramatically
↳ trading dried up, no correlation
"market entered black hole, everyone in dark"

"regional failure of

"Gaussian across WS"

"banks brought models to ratings agencies"
seemed to work for awhile"
"great push to next model"

"Co-executive suites - top not quant"
"Giant just being run as quant
machine - how new this is"

"Look at quant as best office
rocket scientists - Traders are becoming
more quantitative"

- Pondart is an exception - at Citi after
the worst

"Quants enthralled by math"
↳ good example of effective RM
↳ people understand drawbacks
Blankfein - smart guy

8 Paul - self-perception?

"even if something bad - felt muzzled
- didn't feel have power to say much
- didn't see what was coming"
"Trade by gut guys saw coming"
"see whole economy"

"Top execs say too much leverage -
trader gut feeling - meeting half way.
"Were not listened to"

9 Co-Regulation?

Derivate - may created - to arbitrage reg.
Not able to do a trans in local currency
swap on interest rate

"Der. world a lot of it is designed to
sidestep regulation"

↳ bond limits - areas ripe for investigation

"Int fin world let people step
outside own but my enviro. Trade
overseas around own local Reg

(III)

Co-like to know?

Abacus

"Talked to CTO Ind 05-07, There is a belief that fin ist., like Gold & Deutsche Tricadica, were extremely ~~aware~~ ^{aware} & positioning self to take advantage."

"Needed to look at e-mails exchanged by traders"

"So many people knew" - "People involved - a lot [of stupid] European who trusted ratings"

Look at Tricadica