

Hedge Fund Trader Interview Questions And Answers Guide.



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Hedge Fund Trader Job Interview Preparation Guide.

Question # 1

Explain what is a hedge fund?

Answer:-

It's a private, unregistered investment pool encompassing all types of investment funds, companies, and private partnerships that can use a variety of investment techniques such as borrowing money through leverage, selling short, and derivatives for directional investing and options.

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Question # 2

What is Sector Head?

Answer:-

Sector Head - The person is in-charge of "sectors" working within a fund, such as the healthcare sector or the technology sector.

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Question # 3

Tell me what is convertible arbitrage?

Answer:-

It's an investment strategy that seeks to exploit pricing inefficiencies between a convertible bond and the underlying stock. Managers will typically long the convertible bond and short the underlying stock.

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Question # 4

Explain Multi-Manager Platforms?

Answer:-

This type has a lot of Portfolio Managers running independent funds.

All the involved managers are entrusted with the task of implementing various strategies and in the end, a specific fee is paid to the 'platform'. SAC and Citadel are well-known examples of multi-manager platforms.

There are strict limitations on risk; there is extensive leverage use, and more capital is poured to the best performing funds and the underperformers are terminated.

Working at a multi-manager hedge fund is fraught with pressure, which is not always competitive. A significant advantage here is that since the platform takes care of the administrative part, the PMs and the analysts can focus on the investment, singularly.

The pay depends on the platform and its relation with the PM, and the relation between PM and the analyst.

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Question # 5

Tell me why would you want to work for a hedge fund and not a mutual fund?

Answer:-

This question varies by individual, but think about examples like the following:

You have a specific interest in the fund manager's strategy. You were always interested in merger arbitrage, fixed income arbitrage, etc.

You don't like to be confined by the stricter rules that mutual funds have to follow and would appreciate the ability to look for short positions and/or use derivatives.

You would like to work in a smaller shop-many mutual funds are huge-and therefore if you like smaller, possibly more challenging, work environments then state this.

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Question # 6

What is PM?

Answer:-

Portfolio Manager (PM) - The person is a decision-maker, responsible for a portfolio's growth.



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Question # 7

What is HFM?

Answer:-

Hedge Fund Manager (HFM) - The person has complete control over the fund.

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Question # 8

Who is Analyst?

Answer:-

Analyst - The person who researches and sells ideas to the PM.

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Question # 9

Do you know what makes hedge funds different?

Answer:-

The main distinguishing characteristics are that hedge funds use derivatives, can short sell, and have the ability to use leverage.

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Question # 10

Tell me what exactly did you do at these hedge funds?

Answer:-

I was a research analyst, which means I conducted investment research and generated investment ideas for portfolio managers.

I first started covering distressed debt and equity investments all over the world, and then I began spending more time on short selling, also getting into distressed assets.

We only worked with public companies, but some funds cover private companies too.

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Question # 11

Do you know what are the key issues that you think our fund must face?

Answer:-

This is also specific to the firm you are interviewing with, and will be partly based on your answer to No. 6. Once you've found the strategy that the fund is pursuing, research the current environment of the fund. For example, if it is a merger arbitrage strategy, look to find any recent announcement mergers and be prepared to discuss your opinions on it. Current news events, market trends, and new financial regulations can also affect a fund's strategy.

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Question # 12

Investing Hedge Fund Trader Interview Questions:

Answer:-

- * If you had \$100,000 to invest, where would you put it?
- * Do you have a Personal Account? What stocks do you own?
- * Give me a long idea. Give me a short idea.
- * How do you screen for stocks? What is your holding period?
- * What is the Federal Funds Rate?
- * What do you think of the economy?
- * Where do you think interest rates are going? What is driving them?
- * What does the yield curve look like and what does it mean?
- * What has been happening in the market the past six months?
- * What do you read to find out your news? Wall Street Journal? The New York Times?
- * What is Duration? What is Convexity?
- * What does the term delta mean? What does Alpha mean?
- * What is meant by the term "securities lending"?

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Question # 13

Brainteasers Hedge Fund Trader Interview Questions:

Answer:-

- * How many Hershey's chocolate bars were sold in the U.S. last year?
- * If you look at a clock and the time is 3:15, what is the angle between the hour and the minute hands?
- * You have a five-gallon jug and a three-gallon jug. You must obtain exactly four gallons of water. How will you do it?
- * You are faced with two doors. One door leads to your job offer (the one you want!), and the other leads to the exit. In front of each door is a guard. One guard always tells the truth. The other always lies. You can ask one question to decide which door is the correct one. What will you ask?
- * I am drinking beer and you are drinking light beer. Your light beer is 1/3 less filling than my regular beer. I drink 3 beers. How many do you have to drink to be equally full?



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[Read More Answers.](#)

Question # 14

Behavioral Hedge Fund Trader Interview Questions:

Answer:-

- * Tell me about yourself. Walk me through your resume.
- * Why do you want to work for a hedge fund?
- * Do you have an industry preference?
- * What do you plan to do in the next 5-10 years?
- * Have you had a performance review? What did it say?
- * What skills do you feel are transferable to this industry?
- * What separates you from other candidates?
- * Why are you working in your current industry?
- * Do you plan on going to business school? Why or why not?
- * Why do you want to work for our firm in particular? What is attractive about our firm?
- * What would you say are our firm's strengths and weaknesses?
- * What skills do you bring to our firm?
- * Why do you think you'll be successful as a hedge fund analyst?
- * What do you invest in?
- * What do you think of the markets in general right now?
- * If you could invest in anything, anywhere in the world right now, what would that be?
- * Do you own any stocks or do any non-work related investing?
- * Who is your favorite portfolio manager?
- * What books are you currently reading?
- * What happened when you worked with a team and one member wasn't contributing? How did you respond?
- * What happens when you face more work than you can handle?
- * What are your biggest strengths? Biggest weaknesses?
- * What are the easiest decisions for you?
- * Are you risk-averse or do you like taking risk?
- * What would your work colleagues say about you?
- * Who else are you interviewing with?

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Question # 15

Bonds / NPV Hedge Fund Trader Interview Questions:

Answer:-

- * If you are paid a dollar a year for the rest of your life, how much is that worth today?
- * How much is a dollar in 20 years worth today?
- * What is the relationship between the yield and the price of the bond?
- * How does the future value of money relates to the present value (i.e. $FV = PV(1+r)^t$)?
- * What major factors affect the yield on a corporate bond?
- * What is the Black-Scholes model?
- * How does the yield curve look like?
- * You have a 10% note maturing in five years trading at 70. What is the current yield?
- * Define the difference between the "yield" and the "rate of return" on a bond.
- *

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Question # 16

Accounting Hedge Fund Trader Interview Questions:

Answer:-

- * What is EBITDA?
- * Walk me through the major line items of a Cash Flow Statement.
- * Say you knew a company's net income. How would you figure out its cash flows?
- * What is the difference between the balance sheet and the income statement?
- * What is Goodwill? How does it affect Net Income? NOTE: there is a basic answer to this question, a complex, tricky one as well.
- * A firm is using LIFO, the COGS start decreasing. What are effects on I/S, BS and CFS?
- * What is the difference between Purchase and Pooling accounting? Under what circumstances would you use one or the other?
- * What are deferred taxes? How do they arise?
- * What is working capital? How would you calculate it?
- *

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Question # 17

Financial Market Hedge Fund Trader Interview Questions:

Answer:-

- * What did our firm's stock close at yesterday?
- * What is the DJIA at today? NASDAQ? S&P500? Long Bond? Fed funds rate?
- * Where is the market going? Bond, equity and foreign exchange? Where do you think?
- * What do you think interest rates will be in the next 12 months?
- * What happened in the markets in the past three months?
- * Do you read the Wall Street Journal everyday? What is on the front page today?



Hedge Fund Trader Interview Questions And Answers

- * Do you follow an industry, a stock?
- * What do personally invest in?
- * What industry do you follow and what numbers do you look at to determine if a firm is doing well in the industry?
- * Do you know what the difference between a put and a call option is?
- * What determines the premium you place on growth stocks relative to their peers?
- * You have three companies in three different industries: retail, tech, and pharma. What would you look for in their 10-Ks beyond financials?
- *

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Question # 18

Tell me what does it mean when a manager says that he is event-driven?

Answer:-

That's an investment strategy seeking to identify and exploit pricing inefficiencies that have been caused by some sort of corporate event, such as a merger, spin-off, distressed situation, or recapitalization.

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Question # 19

What is Multi-Manager Funds?

Answer:-

When a single manager fund grows too much, making it difficult for a PM to manage, it is split up into multiple funds, with each fund having its own PM or sector heads. They are given complete discretion over the assigned portfolios.

The decision maker is usually the PM but is restricted to one kind of fund. Or, there are Chief Investment Officers who are involved with all the funds.

In this kind, there is less access to the senior personnel but sector heads and analysts can still communicate with the PM directly. There aren't any generalist roles.

The pay is similar to single manager funds. Analysts, on the other hand, get a bit less since the Fund Manager and the PM both get a share of the P/L.

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Question # 20

Do you have any idea what is the strategy of our fund?

Answer:-

This is specific to the firm you are interviewing with. Try to do the following:

Search the Web to find any articles on the fund or its founders.

Search Bloomberg to find any articles written on the fund.

Search online databases to see if the firm is listed.

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Question # 21

Why is the market wrong and how will the market realize the intrinsic value of the business?

Answer:-

This is the most important part of the pitch. I usually begin, "ABC is currently valued at 10x [insert multiple], but is being unfairly discounted because of the incompetency of the prior management team. Since the current management team has taken over [insert metric] has improved XYZ. As of right now the market has not recognized the improvement in XYZ or the overall business, but I expect that [insert catalyst] will demonstrate ABC's true value to the market within [insert time frame]

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Question # 22

Suppose If you could only be provided on piece of information (read: metric) about a company before making an investment-decision what would it be?

Answer:-

The answer to this question at my fund, and consequently any other fundamental L/S fund I am aware of is Return on Invested Capital [ROIC]. We will also accept Normalized Free Cash Flow Yield.

ROIC is the return a company earns on each dollar invested in the business. Therefore, obviously, the greater ROIC is the better. ROIC is used as a quantitative measure of competitive advantage and, as such, if you are going to make an investment decision based on a single factor it would serve you well to choose the business with the greatest competitive advantage.

I call these questions the "All risk - No Reward Questions" because, simply put, answering them well will not earn you an offer, but answering them poorly can very well get you dinged quickly. Therefore, it is important that you prepare judiciously for these types of questions, but do not expect even amazing answers to earn you an offer.

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Question # 23

Explain and give me an example of a sector trade?

Answer:-

Here's an example of a sector trade: Fred is a long/short equity hedge fund manager whose primary trading strategy focuses on sector trades. Fred noticed that in the tech sector, Microsoft (MSFT) was a relatively cheap stock when compared with Oracle (ORCL). Fred purchases 100 shares of MSFT because MSFT is undervalued relative to the theoretical price (fair value) and the market is expected to correct the price. Simultaneously, Fred sells short 100 shares of ORCL because ORCL is overvalued relative to its theoretical price.

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Question # 24



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Tell me what important trends do you see in our industry?

Answer:-

More SEC regulation, continued growth in institutional investing, and the potential of offering hedge funds to average retail investors are all key issues.

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Question # 25

What is Single Manager Funds?

Answer:-

These funds comprise a couple of analysts, sector heads and one PM. In this fund type, people have direct access to the decision maker and generally, there is a good mentoring environment and less bureaucracy.

The processes are transparent and sometimes, the analysts even contribute to the core decision-making process. The single manager fund team usually don't have more than ten members.

The pay is varied with the PM getting about 50% of the total profits.

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Question # 26

Tell me about yourself / Walk me through your CV?

Answer:-

Yes, this is an obvious question generic to any job interview, but it's also a chance to sell yourself to the hedge fund. They want you to prove, by going through your skills and experience, that you can evaluate businesses, easily navigate your way through financial statements and analyst reports and, most importantly, have enough ability to be trusted with a large amount of money to put behind your trading ideas.

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Question # 27

Why is this industry attractive?

Answer:-

I suggest using a quantitative metric to show you did your homework here, such as, "ABC Industry has the ability to grow xyz% in the next 3-5 years. This is also a good place to highlight changing competitive dynamics, etc.

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Question # 28

Explain me and give an example of a sector trade?

Answer:-

Here's an example of a sector trade: Fred is a long/short equity hedge fund manager whose primary trading strategy focuses on sector trades. Fred noticed that in the tech sector, Microsoft (MSFT) was a relatively cheap stock when compared with Oracle (ORCL). Fred purchases 100 shares of MSFT because MSFT is undervalued relative to the theoretical price (fair value) and the market is expected to correct the price. Simultaneously, Fred sells short 100 shares of ORCL because ORCL is overvalued relative to its theoretical price.

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Question # 29

Do you know how many golf balls are there in China?

Answer:-

The days of brain-teasers, designed to test candidates' mathematical reasoning skills, are slowly coming to an end in hedge funds. "It's been a while since clients have asked candidates how many glasses of water it takes to fill the Atlantic ocean," says Seath. "What they want to see is logical and punchy answers, often with a mathematical reasoning, throughout."

Essentially what this means is that if you linger too long on a point, or go off on a tangent that is likely to present a complex argument, the interviewer will pick up on this. Expect to be interrupted, have your thought processes questioned and argument torn apart. This, you've probably guessed, is less about the answer and more how you handle a stressful situation. The secret is to remain cool.

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Question # 30

Explain what is the intrinsic value of the business?

Answer:-

I suggest saying something like, "If my assumptions [discuss them here] about the effect of [insert catalyst] prove true than the market will realize ABC's intrinsic value of [insert valuation]." You can then speak about contingency valuations, etc.

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Question # 31

Tell me why are you interested in a career in investing?

Answer:-

This is more aimed at junior recruits and suggests that it's another opportunity to show what a great trader or portfolio manager you could become. In reality, it's more of a 'cultural fit' question, a chance to prove that a career in a hedge fund is for you and that you're in investing for the long-haul.

"You need to be succinct and demonstrate a passion for investing. You might have started trading on your personal account, or gained work experience from an early age," says Barry Seath, managing director of hedge fund focused recruiters Mirage Recruitment.

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Question # 32

Walk me through an idea you had invest in?

Answer:-

What they don't want to hear is why a huge commonly followed stock is your choice (unless you're going against the consensus)," says Anthony Keizner, managing director at headhunters Glocap. "They want to hear good business logic and why the stock is over or under-valued, what the market is missing and what the catalyst is for the stock to hit your price target.

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Question # 33

Tell me why investment management? Why Hedge funds?

Answer:-

I cannot overstate the importance of your answer to this question. The interviewer, ideally, should not have a doubt that you want to be in investment management for the long haul. You should come across as mature, steadfast in your decision and appear as though you have thoroughly researched all your options and come to the decision that IM is for you.

The answer to this question is very personal and if you can't come up with a sufficient answer pretty easily than, honestly, this job is probably not for you. I will say, however, that this is a great opportunity to let your interviewer know that your personality lends itself favorably to being successful in the capital markets. Humble people who are competitive, inquisitive/perpetually seeking to learn, and intellectually honest often do well in this business.

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Question # 34

Why is the company attractive?

Answer:-

I suggest something like, "The business has sales of \$30 in a \$3000 industry representing a 3% market share despite being recognized as the product leader and having an exceptional management team.

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Question # 35

How much money do I have in my pocket?

Answer:-

I was told and had heard of this firm's selectivity when interviewing candidates, and it seemed like the thorough process was meant to make sure that no matter what, the candidate would be a good cultural fit. Part of the cultural fit was the ability to handle oneself smoothly in an impossible situation.

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