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# Hedge Fund Masters

**How Top Hedge Fund Traders Set Goals,  
Overcome Barriers, and Achieve Peak Performance**

**ARI KIEV**

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*For Phyllis,  
with all my love and appreciation*



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# Preface

Why do some good traders never become great ones? After 12 years of studying the subject, I have come to believe it is generally because the merely good traders don't have concrete goals. Or, if they do have goals, they become anxious and stressed as they approach their goals, and thus function less efficiently. Moreover, few traders seem to have any concept of the skills needed to master psychological obstacles and to develop strategies for winning that would sustain them in the face of the uncertainty and unpredictability of the markets.

My first book on this subject, *Trading to Win: The Psychology of Mastering the Markets* (Wiley, 1998), presented a step-by-step, goal-oriented program for building the mental and emotional stamina needed not just to win but also to win on an unprecedented level. A second book, *Trading in the Zone: Maximizing Performance with Focus and Discipline* (Wiley, 2001), examined specific techniques for achieving and sustaining peak performance levels by entering into the zone—a focused state of concentration and goal directedness. And my third book on this subject, *The Psychology of Risk* (Wiley, 2002), presented further exploration in the psychology of trading to win, focusing in particular on the appetite for risk taking, on ways of modulating and managing risk, and on some of the pathological patterns of risk taking that often incapacitate traders.

This present book, *Hedge Fund Masters*, is a continuation of and elaboration on these concepts and a further exploration of the parameters of high performance, including those in relation to leadership and the empowerment of others. It delves into the creation of a masterful culture where high standards of excellence, the measurement of performance, and the capacity for transforming yourself and those around you become a critical part of the conversation.

Because I believe that mastery results from a dialogue about mastery, I have again included many of my conversations with traders in order to convey the importance of participating in a challenging dialogue that is continually seeking to push the envelope. This type of dialogue leads traders to explore issues that they may never before have considered relevant to their trading performance, they do this in order to develop a

more advanced level of play. In the course of these dialogues, much is uncovered about what is possible and the kinds of miracles that traders can produce by changing their thinking and relinquishing certain assumptions they have about the world—assumptions that may be limiting their efforts and achievements.

In my experiences with traders, I have encountered many who were eager to have this dialogue, some who were resistant to it, and some who avoided it at all costs. Some traders believe that they have all the answers—they don't want to look too closely at their own trading, and they prefer to continue doing what they have always done. These traders also provide lessons for you—lessons on the obstacles to mastery—because mastery ultimately involves a willingness to explore the unknown.

Most of the traders with whom I have dealt work for hedge funds, an environment that is psychologically taxing. There are no easy structures to ensure profitability as there are at a bank or a mutual fund. The hedge fund requires you to work on yourself, which requires different kinds of adjustment and, of course, sets the stage for the development of mastery—helping you to set goals, to commit to goals, then to reverse engineer your efforts so that you do what is needed to reach your goals. Ultimately, in order to become a master, you must understand yourself. You are the instrument of success, and you must read your own emotional and psychological signals as well as those of others in the game. The purpose of this book is to help you develop and refine these and many other mastery skills.

As in my previous books, I have deliberately disguised the names of companies because I have been more interested in focusing on trading strategies than on the specifics of particular companies. I have also disguised the identities of traders to protect their privacy and to focus on the generic principles to be extracted from their experiences.

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fine-tuning the manuscript and preparing it for publication. She was always available for me and was particularly good at helping me to edit the dialogues included in this book. Marsha Crawford deserves thanks for her extra effort in working around the clock to prepare clean typescripts through the various stages of manuscript preparation.

Everyone needs someone in their life who, like Churchill, reminds you to “never, never, never give up.” My wife, Phyllis, does that for me in a big way, and I am forever grateful to her for her continued support and encouragement throughout all phases of this project.

ARI KIEV

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# Introduction

**C**ontrary to popular belief, the greatest achievements do not result from the kind of rousing pep talks associated with Knute Rockne and Vince Lombardi, but from a calming approach that relaxes the performer. Indeed, complex activities are best performed with only a moderate amount of emotional arousal. Of course, too much relaxation can also cause a problem. The greatest achievements result from the capacity to control the focus and the direction of attention. That is as true of traders as it is of quarterbacks.

When compared to ordinary traders, top-performing traders are both bolder and more composed, as well as more tough-minded, self-assertive, self-confident, venturesome, self-assured, and uninhibited. Some of their confidence comes from a greater ability to concentrate, to visualize, and to become centered in the course of events.

Top traders are able to tune out distractions and to focus on one thing at a time. They do this by having an overarching principle or strategy that informs their trading. Such an organizing principle may be as simple as the decision “to keep looking for ways to make money” or as complex as the concept of “buying the best companies and selling the worst companies.” That overarching concept or vision helps them to set priorities and to establish and stick to goals. Top traders also have a greater capacity to visualize events in advance and to prepare themselves to respond to the changing environment of the markets. Finally, they have a greater capacity for centering—finding a balanced place within themselves from which to process both internal and external information.

These skills enable top traders to bring their resources to bear on the tasks at hand in order to do whatever is necessary to achieve record-breaking performances. Beyond the maximization of performance, these psychological skills enable the master trader to endure high levels of ten-