

What's important?

Thanks for the intro, Dean Barrett. Or, maybe I should say Thanks a lot for that intro...I've spent the last years trying to hide the fact that I'm a hedge fund manager, and now you go and tell the entire audience. But yes, it's true...I'm a hedge fund manager. This means that I spend my days forecasting the financial markets. This reminds me of the [Albert Einstein story here].

Preamble: It's a rare and unique honor to be invited to one's alma mater to speak to the graduating class, so thanks to Dean Barrett and to Chancellor Fox for inviting me. And congratulations to all of you!! You're done! You've finished, proving that you have both the intellect and the determination to accomplish virtually anything.

Over the course of your studies, you discovered many things that are important. You discovered the importance of caffeine. You discovered the importance of networking ...actual and virtual. You discovered the importance of discipline, of focus, of wearing sunscreen, of finishing what you started.

Today, I'd like to focus on the topic of "What's Important?" Specifically, I'll highlight three other *things that are important*.

Background: But first, some background about me so you know who it is you're being forced to listen to for the next three hours, and so that you can put my comments in context.

- I grew up in Western Canada, the son of immigrant parents who never even had the opportunity to graduate from high school.
- In contrast, I graduated from UCSD with a PhD in Economics in 1988. That was an amazing time. I worked with Professors Engle and Granger, who both went on to win the Nobel Prize for work that was done while I was a student here.
- I went from UCSD to the business school at the Univ of AZ. As soon as I got tenure at Arizona, I took a brief break at a finance company in San Francisco called Barclays Global Investors, or BGI. I guess I'm a "recovering academic," because I'm still at BGI. I have various responsibilities there, but the one that seems to get the most attention is that I'm responsible for managing about \$40b of client money in hedge funds.

So, what's important? There are lots of things that could be on this list. I selected three, not because these are the most important but rather because these are three things whose value I didn't recognize when I graduated. I've also noticed that BGI rookies tend to undervalue these three, so I'll assume that some of you might also undervalue these three:

- Grey hair
- Doing what you love and loving what you do
- Relationships

1. What's important? Grey hair.

So what's important? Grey hair is important. I had to go into the emergency room in Hawaii the day before yesterday after a surfing accident while I was being chased by sharks. (At least, that's the story I'm using because the truth isn't nearly as interesting.) The attending physician was this young kid who looked like a teenager...which means he was probably about your age, because most of you look like teenagers to me. He had all kinds of fancy degrees on his wall, but I'd have gladly traded in all those degrees for a few grey hairs.

Why? Because the best education in the world – even one that comes from UCSD – won't teach you as much as old-fashioned experience. I remember when I first learned this. I had just arrived at BGI, a hotshot Engle/Granger-trained econometrician, and was working on a project to forecast Germany's long-run stock market return. I was stuck, so I went to my boss, Richard Grinold, to seek advice. Just so you know, Richard is a guru in the financial community – arguably the most highly respected person in the field of quantitative finance. He told me that 30% of Germany's annual stock market volatility would probably be a good starting point for the forecast. I couldn't believe how naïve his advice was...this guy was supposed to be smart! I was expecting a fancy economic or econometric model, and he gives me 30% of volatility#\$#??? So I blew him off, went back to my desk and threw all my years of high-powered econometric training at the problem...and came out with – you guessed it – 29% of volatility. His grey hair – his experience – was much more valuable than any degree that he or I received, and I'm very lucky to have been mentored by him for the last 15 years.

Today, I'm one of the people with grey hair, as my kids are a little too pleased to point out. It's my experience and not my degree that helped my team survive the financial tsunami that struck our industry last year.

So what's important? Grey hair. Find someone with lots of it, allow that person to mentor you, and you'll find life's challenges easier to navigate.

2. What else is important? Doing what you love and loving what you do.

I've had to make two major career decisions. I got one of them wrong and one of them right.

My first major career decision came when I graduated from UCSD. I really wanted to get a job in finance. But with advisors like Engle and Granger opening academic doors for me, academia was the path of least resistance, and academia is where I landed. But it didn't take long until I was finding my own research boring. And I'll never forget the time one of my graduate students was standing in my office doorway asking about some aspect of his dissertation, and all I heard was blah, blah, blah. I wasn't interested...why didn't I lock my door? That's when I realized I needed to take a break...spend a year outside of academia applying what I'd learned.

So I went to BGI, which leads to my second career decision, which worked out better. This was my decision to stay at BGI and not return to academia. It was after about six months at BGI, and one of our models called for an \$8bb sale of stocks. This would have been the biggest trade in stock market history by a long shot, and would have pushed the stock market off a cliff, making the crash of 1987 look like a blip on people's computer screens. A week of frantic work and late meetings ensued. It was during that week that I realized that my career options boiled down to staying at BGI where I'd impact millions of people's retirement portfolios, or going back to academia where I'd continue to prove a particular matrix is positive semi-definite. When evaluated along that dimension, the decision should have been easy. But pursuing my passion required giving up the security and freedom of tenure, making it a very difficult decision. Now, 15 years later, it's clear I made the right call. I love what I'm doing, and I'm one of those lucky people who can't wait to get into work on Monday mornings. The reason is simple – I've found something I love.

I know this is very trite, and you hear it in half of all graduation speeches. But I don't care, I'll say it anyway – **What's important? It's important to do what you love.** You'll spend at least a third of your waking hours at work, so you might as well enjoy yourself. Compensation and career development will take care of themselves.

3. What's important? Relationships.

The old adage used by Realtors as a guide to buying property is of course "location, location, location." One might easily adapt this and say that broader success in life requires three things...people, people and people. Relationships are important. I can think of no version of success that can be achieved in isolation. Even the monk seeking enlightenment requires community to be successful.

Here's something that some of you might have figured out already, and those who haven't will: Of all your relationships, the relationships at home are the most important. Home is where your closest relationships reside. It's where you run to when everything else is going badly. It's where you can be yourself. For me, the biggest things at work don't come close to the satisfaction/ fulfillment I get from the smallest things at home. No promotion or recognition can match

- My 14-year-old telling a friend that he admires me
- My 12-year-old running up and hugging me every day when I come home from work
- My 10-year-old waiting for me to tuck her into bed every night.

But don't underestimate the importance of maintaining strong professional relationships as well. Three years ago, I fired a senior managing director in our London office. About six months later, in an effort to prevent our relationship from deteriorating further, I invited him out to lunch. It was an awkward and uncomfortable lunch for both of us. There were a lot of silent moments as we sat across the table from each other. But twelve months later, I was again sitting across

a table from him. But this time it was a meeting in which he was evaluating one of my hedge funds on behalf of a client of his. Now let's be realistic...I'm not on his Christmas card list. But I believe that those efforts to maintain a strong relationship, even after having to let him go, contributed to the positive review we got from him. There's no such thing as a disposable relationship, even in situations like the one I described.

So what's important? Relationships are important. There's no such thing as a disposable relationship.

What's important?

So what's important? It's not wealth, income or status. Those are hollow. I often think of the employee I had whose goal in life was to own a Ferrari by the time he was 30. He succeeded, buying a Ferrari at 29. But within five years, the Ferrari was long gone, as was his wife.

What's important?

- Experience is important. Find someone with grey hair and allow that person to mentor you.
- Doing what you love is important. The fact that you've survived graduate school suggests that you're on the right track...either you love what you're doing or you're insane for having finished. If you're lucky like me, you'll find someone who's willing to pay you to keep doing it.
- And relationships are important. Look around you, at your classmates and profs. You'll be bumping into these people for the next 40 years whether you like it or not, so you might as well nurture these relationships.

Congratulations to all. You've proven that you have the intellect and the discipline to accomplish anything you want to in life. So Congrats! And on behalf of the entire financial system, don't forget to make your student loan payments!