LESSONS FROM A BOND SQUIRE

THE STABLES: 2004–2008

I kept my first employee ID for posterity. The picture said it all—young guy, hair parted and combed (but slightly askew on the side), a freshly pressed white shirt that was too tight around the neck and too loose around the chest, and a tie that looked like it was from the ’80s (it was, I *borrowed* it from my father’s closet). I had a quirky smile—and I remember thinking: Do I smile for my first professional photo? Do they smile here? Maybe I should go halfway. It was the summer of 2004 and I had graduated from USC with a bachelor’s degree in business administration. My first full-time job, I had been hired into Trade Compliance after an impromptu phone interview and a series of interviews in three departments in the weeks that followed.

My onboarding during my first day at PIMCO, at the time a $450 billion bond manager based in Newport Beach, California, lasted about two hours. “We have a great package here, people really like it, and people seem to stay forever. Just last year the entire firm went on a cruise to Alaska! Everybody brought a guest, and Bill Gross paid for the whole thing himself,” the junior HR representative told me.

“Really? Wow. Do you have low turnover here?”

“Yes. We have the second lowest IP turnover of any large U.S. asset management firm.”

“IP?”

“Investment Professional.”

“Ahh. That’s really impressive. Is there any advice you have for new hires that may not be apparent after their first weeks or months?”

“Take your vacation. Really. We work really hard here, so take all three weeks your first year. You also stop accruing vacation after you hit five weeks.”

"Good advice."

And with that, I was shown to my desk. "Hi Brett." "Welcome, Dave," my manager said. "Take a seat and I'll show you how we check trades, the programs we use, and what you do when we find something noncompliant." And with that, I was off and running.

Until I had received an offer from one of the largest bond managers, I had always assumed that I would spend the entirety of my career at an equity shop. As a teenager, I had day-traded with an online brokerage account, read dozens of equity-centric investing books, and envisioned a career as an equity portfolio manager. During my senior year of college I applied to all of the largest and reputable firms but found they mostly hired from the Ivy's and other prestigious east-coast colleges. I applied to PIMCO through their website, thinking I'd never hear back, and I largely forgot about the application until three months later when I received a phone call asking about my résumé and summer work at a Pasadena, California-based equity manager. I learned as soon as I arrived that bonds may not be boring at all. In 2004 the outstanding value of the global bond market was $53.1 trillion, which was $17.2 trillion larger than the global equity market.[i] Additionally, with dozens of large, price-insensitive investors creating opportunities for active managers, there were ongoing opportunities for active bond managers to add value. I was excited to be in my role and optimistic that my trajectory would be steep.

"What's that?" I asked my neighbor as a large box was dropped off on his desk.

"CFA study manuals. Today is the last day to sign up to take the test in December. They'll pay for it—you might want to sign up and give it a shot."

"Yeah, good idea." The CFA is a professional designation that many people in finance and the investment management industry seek for accreditation. They require you to pass three tests, two of which are given annually; if you pass and have the requisite work experience, you gain the privilege of writing *CFA* after your name on business cards and e-mail signatures. Average passing rates, per exam, are generally between 40% and 50%.[ii] "Do they care about people earning the CFA designation here?"

"Yeah, lots of people take it, and most of the senior guys have it."

Good enough reason for me—I signed up that afternoon.

"Oh, and don't forget to wear a baseball hat tomorrow."

"Why?"

"Baseball and hot dog day in the parking lot. Our CEO, Bill Thompson, is a huge Cardinals fan, and he has a day where if you wear your baseball gear, even a hat, he'll serve you a dog."

I don't like hot dogs, but the next day I wore an Angels cap and thanked Bill Thompson for the dog.

That December, I walked up to my manager Brett and asked him about a trade. "The trade assistant says it's compliant because they're selling Treasuries against it, but I think this trade takes the account over its net notional exposure."

"Then DON'T pass it!!!!" someone shouted from behind me. Startled, I turned around and saw Bill Thompson, along with another man, wearing Santa Claus hats and smiling.

"Didn't mean to startle you. Merry Christmas, and thanks for a great year," Bill and the other man said to me as they went desk to desk and shook everybody's hand.

"You bet," I could only muster in response. "Hey Brett, who was that other person with our CEO?"

"Oh, he's Jim Muzzy, one of the three firm founders."

"Oh, wow. Do they go around and thank everybody the Friday before Christmas, every year?"

"Yup."

In hindsight, it is apparent now how privileged I was to work at a firm where the CEO and founders took the time to thank each employee individually (and even serve them lunch). The value that a firm places on its employees and how they are treated starts with the CEO; policies concerning employee retention and advancement begin and end here. All things being equal, growing firms that emphasize attracting and retaining talented professionals offer the greatest opportunities for advancement. Bill Thompson ensured this was the case.

Several months later I started rotating on to one of the two Trade Compliance-designated seats on the trade floor, where all the action happened. The trade floor was a tightly packed, L-shaped space that occupied the northern and eastern sides of the building. Most of the portfolio managers (PMs) sat on the north side of the floor and their support staff filled the east side. Traders, PMs, and their support sat in pods, or long desks with four or five people sitting in each row, facing one another and separated from the people opposite them by two to four computer monitors. Boards with financial market updates filled one of the walls, and there was a TV in each corner. A Bloomberg ticker with headlines circled overhead. The end of the pods on the north side of the floor were capped with the desk heads, and in the middle stood a separate and much larger desk, occupied by Bill Gross. He could be seen there, every day, by 5:00 a.m. PST, and with the exception of an 8:00 a.m. yoga lesson across the street, he spent the entirety of his day there and would then retire to his office after the market closed. Unlike what's seen in movies—guys shouting over each other, swearing, and cracking jokes—the PIMCO trade floor was like a library with a hundred overachieving students, each preparing for their next exam like that test would make or break their scholastic career.

"I want to see the trade floor!" my then girlfriend, now wife and mother of my three children, said one evening.

"Sure Laura, let's go on Memorial Day. It's a holiday and nobody will be there." Two weeks later, just shy of my having worked there for a year, we walked on the empty and dimly lit trade floor in the early afternoon. "I sit over here," I started. "The rows of desks are organized by team. Emerging markets is over there, the short-term guys sit there. Investment grade and high yield sit . . . "

"Who sits there?" Laura interrupted as she made her way to the middle of the floor.

"Oh, Bill sits there. Be sure not to touch anything." As she made her way over to the large central desk, a startled Bill Gross sat up at his desk and shot us confused looks. Oh crap. Bill, who was the only person working on the trade floor (and had been hidden from our sight behind a row of monitors) had just been woken up from a nap. "Laura, we need to leave—*now*." I grabbed her arm and we scurried off.

"I remember that! Ha!" Bill wrote to me in an e-mail exchange some twelve years later. I suspect Bill later got a laugh that he had scared off a couple of employees who were unaware he was napping. But at the time, I was terrified. I had broken multiple cardinal rules that afternoon, above all: don't approach Bill while he's working at his desk, and don't wake the king while he's sleeping. While *networking* is a great way to learn about an organization and discover new opportunities, I don't recommend waking up the founder of the firm at his desk. Rather, fifteen-minute coffee breaks across the street seemed to be the most effective.

Several months after waking the king from his nap, I was sitting on the trade floor checking a currency trade and the fire alarm sounded. People looked mildly worried; fire drills were telegraphed with e-mails alerting people to the date, time, and floors that would be affected. However, no such e-mail had gone out. In response, floor wardens donned their orange vests and whistles, and people began filing for the emergency exit. Down three flights of stairs we went and exited the side of the building, where, to everybody's surprise, well-dressed servers were waiting to hand out flutes with champagne. We were directed to the corner of the parking lot where a temporary stage had been erected. After only a few minutes, the buildings had been cleared and several hundred employees were standing around a stage, sipping champagne, and waiting for an announcement. Before long, Bill Gross walked onto the stage, flanked by Bill Thompson and Jim Muzzy, and said that every PIMCO office was currently watching this surprise announcement by satellite. Bill then explained that the Total Return bond fund had just crossed $100 billion in assets. "And while this accomplishment is something I will be recognized for, I want everybody to know that this is an accomplishment we all contributed to. I sincerely appreciate each and every one of your efforts, and as a small token of our appreciation, everybody at the firm will get a spot bonus of no less than two hundred and fifty thousand dollars." Just then, Bill Thompson and Jim shot Bill panicked looks. Executives on the sides of the stage began waving their hands as if to say, "No, Bill!" But, by then, it was too late. People cheered and champagne flew. Bill, realizing his slip, turned white as a ghost and went on, "Oh God, I meant two hundred and fifty dollars. I'm so sorry. We can't afford the other." People calmed, had a chuckle, and filed over to one of several tables to collect their checks, coasters, and coffee mugs.

As fun as it was spending my days telling traders what they couldn't do—which is often the role of compliance—after a year and a half, I was ready to move on. The time spent on the floor had reaffirmed my interest in trading and working as a PM; the only question was the next best step.

"You should apply for the PARS associate opening," a friend and recently promoted account associate shared with me over coffee.

"PARS?"

"Yeah, it's like PIMCO's fixed income hedge fund."

"PIMCO has a hedge fund?"

"Yeah, global macro, fixed income arbitrage, stuff like that. I think they want someone who is good with math. The PM is Changhong."

Changhong Zhu is a Chinese national who graduated with top marks from a prestigious university in Beijing and then earned a PhD in physics from the University of Chicago and received an award for best dissertation. He then became an exotic derivatives trader in Bank of America's Hong Kong office, and for three years earned millions for his desk. Changhong was hired by PIMCO as a derivatives and rates trader and later tasked with turning around their Global Relative Value fund, which later was rebranded the PIMCO Absolute Return Strategy (PARS). Bill Gross quickly warmed to Changhong, and placed him directly in front of Bill Gross on the trade floor. After making a small fortune managing these portfolios, in 2009 Changhong left PIMCO to run the Chinese State Agency of Foreign Exchange (SAFE), where he was directly responsible for the management of roughly $3.5 trillion of Chinese reserves.

"Yeah, that sounds like a good fit. I'll give it a shot," I told my friend who had posted me on the opening. So, I applied and several weeks later, I had my first interview with a senior executive and the PARS product manager, Robert England. Robert is the seasoned white-haired rabbi that every professional should have the good fortune to work under at least once in their career. Robert earned a PhD in economics from the University of Chicago and opted to enter the private workforce in lieu of academia, beginning his career as an economist at the Bank of International Settlements. He later moved to Salomon Brothers and became a managing director and head of their London fixed income desk. After a stint at Swiss Bank Corporation, Robert later joined Lehman Brothers as a managing director and one of the heads of their fixed income group, before starting his own hedge fund as well as fund of funds. Robert had been brought to PIMCO several years earlier, also to turn around the PARS portfolios.

Running into the conference room ten minutes late, Robert introduced himself, skimmed my résumé, and locked on to one of the final bullets. “It says here you worked on a model in college intended to provide a rich/cheap signal for stocks and bonds, and that you tried to incorporate inflation?”

“Yeah, it’s the S&P 500 earnings yield compared to the yield on the 10-year U.S. Treasury.”

“Can you write it on that white board?”

“Sure.”

Minutes later Robert was dissecting the equation, citing research, and recommending that I incorporate both real and nominal rates. “Huh. Well, you’ve given me a lot to think about.”

“Sounds good. Gotta run.” And with that, my thirty-turned-twenty-minute interview was over.

“Did it go well?” Laura asked me that night.

“Honestly, I don’t know. It was cordial, but we didn’t talk about the role or any of the typical interview questions.” The following day I received an e-mail from HR informing me that they would set up a round-robin interview with around twenty product managers (almost the entire department). Two months later, I became the PARS product associate.

Just two weeks into my new position, another product manager asked me to step in for him at the new IP onboarding and training class. “Me, train the new IPs?”

“Yeah, I have a conflict. I’ll be five minutes late. Just cover the first few slides on the introductory deck and I’ll come in and finish the session.”

“Okay, sounds good.”

So, with that, I spent about an hour reviewing the standard PARS educational deck and walked over to the training center where I encountered a classroom of about forty recently hired MBAs (and a couple of PhDs) from the top business schools. The room reminded me of the training Salomon Brothers recent hires received, as described by Michael Lewis in *Liar’s Poker*. Oh, God—I hope I don’t become the equities in Dallas guy.[1] So, two weeks into the job and two years out of undergraduate, I gave it a shot—I mildly exaggerated my previous experience as an equities analyst (a summer internship) before coming to PIMCO, and I told everybody (bragged a bit, really) that I had just passed Level III of the CFA exam. I apologized that the scheduled manager was running late, and

[1] “Equities in Dallas” is a catchphrase used in *Liar’s Poker* to describe the trainees who are at the bottom of the class and have no future at the firm.

I launched into the presentation. I made it about 30 minutes into the presentation, but began to stumble during the Q&A when I was asked, "What were the changes made to the guidelines from three years ago?"

The moderator, sensing I was out of my league, politely stepped in. "Good question, because I wrote those guidelines."

Really? Wow, nice save. About a week later, I received a note from the head of Product Management. "Great work Dave—you had the 2nd highest evaluation of the presenters, behind Bill Gross himself!"

"Thanks! I'm pretty sure I received the sympathy vote, but I'm happy it was so well received," I replied. My manager congratulated me and informed me that I could do all of the training classes going forward. Curse of competence, I suppose.

For the next two years I worked as something of a surrogate PM and functioned a bit like a help desk. Questions regarding PIMCO's leveraged hedge fund product generally made their way to my desk. What is a conditional 2s/10s steepener? What is the TED spread trade? What is 10-year equivalent duration leverage, and how is it measured? My role was to learn everything the PM was doing—what, why, and how—and then distill that information into an intelligible note or presentation so that an institutional investor could understand it. I wrote commentary, updated presentations, spoke to prospects, and helped service existing clients. Robert's mentality was to give me as much slack as I could handle and pick me up after I stumbled. I appreciated his willingness to give me additional responsibilities—as much as I appreciated his stories, mentoring, and tutorials, which occasionally extended beyond finance and portfolio management.

"Hey Robert, did you know Michael Lewis when you were at Salomon Brothers?" I once overheard the head of the department ask Robert at a company happy hour.

"Yeah, he sat next to me in London when I ran the fixed income sales desk. I also trained him in currency trading."

"Really? You're not mentioned in *Liar's Poker*."

"Michael showed me a draft of the book and I asked him to take me out of it. I didn't want the attention or association with it."

"Whoa! Peter—did you hear that?" I asked a good friend and fellow associate. "That's awesome. We need to challenge Robert to a game of liar's poker."

"Great idea."

Now, for those who aren't familiar with the game, *liar's poker* is a game that combines statistical reasoning with bluffing, and is played with the serial digits on U.S. paper currency. Each player holds a bill, unseen by the other players, and you try to guess how many of a particular digit appears among all the bills being held by the various players. Each player must bid higher in value or quantity than the previous, and the round ends when a player finally challenges the bid.

So, we collected our one dollar bills and that Friday around 2:00 p.m. PST, we walked up to Robert as he was leaning back in his chair reading *The Wall Street Journal*. “Hey Robert, we hear you play a pretty good game of liar’s poker.”

“Yeah, I’ve been known to play a decent game. Why?”

“We were wondering if you cared to play a few rounds with us.”

“Sure boys, that sounds like fun.”

Robert then took out his wallet, took out hundred dollar bills, and placed $1,000 on his desk. “I’m in for ten rounds.”

Peter and I look at each other, nervously waiting for the other to speak. “Uh, those aren’t the kinds of stakes we had in mind.”

“That’s fine boys. Come back when you’re ready.”

And with that, Robert taught us the first three lessons in *Liar’s Poker*: (1) exude complete confidence, (2) feign a willingness to lose large sums of money, and (3) if you don’t want to play, come way over the top of your challenger.

The two years leading up to the global financial crisis were excellent to both PIMCO and the PARS team. The large firm-wide macro positions were working well, including a yield-curve steepening position, which was based on the thesis that the Federal Reserve would be forced to cut the overnight rate—reversing what was then an inverted yield curve. Overweights to credit, underweights to housing, and a void of non-agency mortgage-backed securities were all spot on. Many of the most senior PMs were highly skeptical that housing prices would continue to rise and ensured credit portfolios were void homebuilders. PIMCO also would have none of the low-doc, no-doc, or liar-loans that were repackaged into non-agency mortgage-backed securities. On the heels of strong performance, flows into the firm’s products were robust, and investment banks were eager to work with our team to launch a variety of high-fee structured products. Out of respect for my former employer, I won’t disclose how much our products made for the firm in those years, and I wasn’t in a sufficiently senior position to earn an outsized bonus like many of my Wall Street counterparts. But, Robert was happy with my work and promoted me to a senior product associate that year. Around that time, I also applied to business schools.

“Why do you need to go to business school? Didn’t you already get your CFA?” Laura (then my fiancé) asked me over dinner.

“At most firms in our industry, the CFA designation gives you a nice bump in pay and prestige, and as long as I keep paying dues, it’ll stay with me for the rest of my career. But, it’s not that material of an accomplishment at PIMCO. It’s almost like earning a securities license—it’s basically expected of you. And almost all of the most senior IPs have MBAs or even PhDs from top schools.”

"Why would anybody want to earn an MBA? It's expensive, and if you go full time, you forgo two years of a salary."

"Good question. Michael Spence is a consultant at PIMCO—I just read about him. He won a Nobel Prize in economics basically by answering the question why anybody would want to earn an MBA at Stanford Business School. He was the dean there. This is a bit of an oversimplification, but the answer is the *signal*. The best workers go to the best schools and earn the most advanced degrees they can. Employers recognize that this means the prospective employee is *good* and are willing to hire them and pay more for them. In practice, this means that I'll earn more throughout my career than the cost of the education and the income I didn't earn for two years."

"So, where do you want to apply?"

"I got ahold of a spreadsheet that HR puts together of all the IPs. It showed their years of experience, age, previous employers, and where they went to school. The top four business schools represented were Chicago, Columbia, Harvard, and Wharton. I figure if PIMCO recruits there, then that should be my target list. Also, it'll be easy to find alumni to write letters of recommendation."

Laura agreed with the logic, and we made plans to move to a new city after we married. Several months later, Laura and I celebrated with a nice dinner, my acceptance into my top pick: the University of Chicago. Robert was highly supportive of both my decision to earn an MBA and my school of choice because it was a well-worn path among associates. Additionally, he was thrilled that I would have the opportunity to study at his alma mater. In my final week, Robert's assistant organized a well-attended happy hour, during which the head of the department thanked me for my hard work and presented me with a manila envelope; in it was an offer to return as a summer intern as well as an offer to work as a *consultant* for three months after I left the firm.

ACQUIRING A *SIGNAL*: 2008–2010

The period from 2008 to 2010 was an interesting time to be earning an MBA. In the months prior to entering school, The Great Recession had taken hold with significant consequences to the financial industry. Bear Stearns was purchased by JP Morgan (March) and Countrywide was purchased by Bank of America (July). Then, within the first month of school, Fannie Mae and Freddie Mac (who collectively securitized and insured approximately 40% of U.S. mortgage debt at the time) were placed into conservatorship, Merrill Lynch was purchased by Bank of America, the U.S. Government took control of AIG, and Lehman Brothers failed. "Well this sucks," a friend and fellow member of the Chicago Sales and Trading club said to me over lunch. "Bear, Merrill, Lehman, JP Morgan—these were some of the largest recruiters at our school just last year. Now, half of them don't even exist anymore."

"Goldman is still coming to campus. Their recruiting event is next week."

"Yeah, let's see how axed they are to hire a bunch of MBAs."

As I quickly learned, business school activities generally fall into one of three categories: socializing, studying, and recruiting. My motivation for attending Chicago was primarily academic, and I came unprepared for the focus on finding a position at a new firm, particularly given the heightened urgency that The Great Recession injected into the student body. Fortunately, the University transitions students into their new role as professional job-seekers with standardized résumés, interview prep, career workshops, on-campus recruiting events (and preparation events for those recruiting events), and a deep network of well-placed and successful alumni. Students are encouraged to join clubs that align with their career interests, and these clubs function as gateways to many of the firms who recruit on campus.

I initially found that job searching was more overwhelming than the actual academics. I wanted to work as a fixed income PM; but, how to get there seemed unclear at that point, especially since the investment management and sales and trading industries were rapidly contracting. While I had hoped to use the opportunity to transition into a new role that would complement my existing experience, I was thrilled to be able to return to my prior department for the summer. Many of my friends, who came to business school hoping to switch careers into investment management, investment banking, or consulting, found that they were competing with thousands of recently laid-off professionals with similar degrees and decades of experience. With the stock market crashing and unemployment spiking to 10%, I decided I'd focus on a very limited number of firms and positions, and if those opportunities failed to present themselves, I'd happily return to PIMCO for the summer.

At the Goldman Sachs recruiting event, over two hundred well-dressed students assembled in a large room flanked by Goldman employees. We listened to a rousing speaker, a managing director who spoke enthusiastically about the opportunity that Goldman affords its employees. She assured the students in attendance that the firm was strong, growing, and in a position to continue hiring the best among us. That evening, I made my way from circle to circle, shaking hands and collecting business cards. The next morning, I dutifully sent my *thank you* e-mails and reaffirmed my interest in the firm and the roles for which they were hiring. As I walked out my front door and picked up my daily copy of *The Wall Street Journal*, I skimmed the headlines and saw that Goldman had just announced that it was laying off 3,200 employees—or 10% of its workforce. One month later, I sent follow-up e-mails to each of the nine Goldman employees whom I had met at the recruiting event; all nine e-mails were automatically returned to me.

When I wasn't recruiting or busy with student clubs, I did manage to find time to go to class, meet professors, and study. In addition to fielding some of the most impressive academics in finance and economics, the University of Chicago encourages their faculty to make themselves highly accessible to the student body. Randy Kroszner—a former member of the Board of Governors of the Federal Reserve, and then chairman of its Committee on Supervision and Regulation of Banking when Lehman and AIG collapsed—taught my *Money and Banking* class. "It's difficult to know if each and every decision was the right one because we can't go back in time, make different decisions, and see how things would have turned out differently. But, I'm sure we did some good, *ceteris paribus*," he explained to me over coffee.

"Ceteris paribus?"

"It's Latin for all other things equal."

John Cochrane, head of the National Bureau of Economic Research asset pricing group (and author of the book *Asset Pricing*) taught my *Advanced Investments* course. "Yeah, Itô's lemma is a tricky one. But, once you wrap your head around geometric Brownian motion with constant volatility it makes sense," he explained as we ate in the cafeteria.

"Oh, got it (I never got it)."

Jesse Shapiro, whom *The Economist* had selected as one of the top eight young economists in the world while I was taking his *Microeconomics* course, asked me to be his TA after I aced his class. I negotiated with him while playing Halo at his house the week after my stint as his TA ended—"If I get to 10 kills first, you get me another beer. If you get to 10 kills first, I'll get you another Diet Coke."

In June 2010, I graduated, earning an MBA with honors and with concentrations in analytic finance and economics. I happily returned to PIMCO, this time as a product manager. The investment management industry was still smoldering after the fire that had ripped through the thick bush of finance was extinguished and a few green shoots had emerged. Fortunately, I had secured a full-time offer to return after my ten-week summer internship at PIMCO.

SQUIRING AND KNIGHTHOOD: 2010–2015

Returning to PIMCO, I was paired with my former mentor Robert, who had moved on from PIMCO's hedge fund and was now tasked with starting two new lines of business: Tail Risk Hedging and Solutions. Tail Risk Hedging involved developing a completion portfolio to limit institutional investor losses in the event of a material decline in equities. Solutions involved generating a risk-factor analysis of an institutional investor's portfolio; the analysis generally dovetailed into discussions of the investor's primary risks as well as cross-sale opportunities. I was employee #4 in both the Solutions and Tail Risk Hedging initiatives. I was thrilled to be working with Robert again, who told me my first week after joining, that if I worked as hard as I had for him prior to business school, *for two years*, he'd then help me move to wherever I wanted at the firm.

While I was ramping up on both initiatives, I also became involved with the Secular Forum team. Each year, the recently hired IPs present to the firm during PIMCO's annual Secular Forum. The Secular Forum was a three-day event in which traders, PMs, and analysts from across the globe converge at the PIMCO headquarters, listen to four or more keynote speakers, discuss the macroeconomic environment, and debate the global economic outlook for the next three to five years. Each year, five or so freshly minted MBAs present their outlook (usually the firm's outlook) to the global audience. The Forum room was focused around a single, long table that was flanked by three rows of stadium seating. Sitting at the main table were the most senior members of the firm including: CIO Bill Gross; Economist and author Paul McCulley; the future Federal Reserve Vice Chairman Rich Clarida; the former head of TARP, the future California gubernatorial candidate, and Fed Governor Neel Kasharki; as well as notable PIMCO consultants Nobel Laureate Mike Spence and former Federal Reserve Chairman Alan Greenspan. About 100 professionals occupied the room and another 500 or so watched the meeting remotely.

"Are you going to speak, Dave?" Laura asked me.

"Yeah, I volunteered to present on inflation. It's pretty relevant on the heels of two rounds of QE."

"Are you going to present the house view?"

"Nah, I'm going to present my own view."

"Really? What if you're wrong?"

"Well, the way I see it, if I present my view, at worst I have a 50% chance of being right. But, if I never present my view, I have a 0% chance of being right. So, I'll speak about what I think is going to happen and let the chips fall where they may."

"Good luck."

My colleagues who were also working on the forum team thought I was crazy. In the May 2011 forum, in the morning on the third day, I was the fourth of five speakers. Before and after myself, people spoke on China, banking reform, and global trade. I had five minutes to cover six slides, which included my outlook that the biggest risk to inflation is that the Federal Reserve would be unable to sterilize the growth in reserves should bank lending increase. As a result, the reserves were an *inflationary powder keg*. When we concluded, the CEO asked if there were any questions from the members of the audience. Hands flew up and I sensed the enmity of dozens of PMs who were keen to take shots at me because I had just directly attacked their collective thesis. I was ready. While my presentation had six slides, my appendix had about 30. My heart was pounding, my breathing deep, and I clutched my notes. Apparently, on the surface I looked calm as I faced a firing squad. Questions ranged from Fed policy in the 1930s to why the shadow banking system might re-emerge. The most probing questions came from economist and author Anthony Crescenzi who had joined the firm the previous year and worked on the short-term desk as a Federal Reserve expert. At the end of the Q&A session, I sat down and quietly observed for the rest of the morning—and then celebrated that evening with the secular forum team over drinks.

"Did you convince anybody?" Laura asked me that evening.

"I don't know. Lots of people disagreed. I think I held my own, though. We'll have to see what the investment committee thinks." Two days later the Secular Forum write-up was distributed to investors. On the final page, the CEO wrote (my emphasis): "Inflation convergence—between high headline and low core rates, as well as between high emerging and low advanced country rates—will occur at levels that are *higher than currently anticipated*." I leaned back in my chair and smiled. Was I responsible for tipping the firm's base case in that direction? I'll never know for sure, but later that afternoon I received a note from a senior member of the portfolio management team—it was short: "Dave, there's an opening on the short-term desk. Do you have any interest in joining the portfolio management team?"

"Hell, yeah!" I thought. I immediately shot back an e-mail, "Yes, I'd love to join the team and learn more about the opening." The next morning, HR set up a series of interviews to meet other PMs. I then asked Robert if he had an opportunity to chat.

"Yes, I know about you interviewing for a portfolio management position," he said disappointingly. I realized at that moment that I didn't discuss the e-mail with him before I responded in the affirmative. To this day, I feel a sense of guilt for having broken his trust as I might leave Robert after working for him only one and not the two years that I had promised. He later forgave me.

"Congratulations! Enjoy your new 3:45 a.m. start time!" the first e-mail from a member of my short-term desk sarcastically read. 3:45 a.m. God. I did the math and realized that I'd need to go to bed at 7:00 p.m. if I wanted to get eight hours of sleep each night.

"Let's get you blackout curtains," Laura suggested the weekend before I began my new position.

"Great idea."

My first day, I sat next to Scott, the firm's primary repo trader and native New Yorker. "It's very simple, Dave. If you want to buy something, you ask for an offer. If you want to sell something, you ask for a bid. If you're selling, you're hitting; if you're buying, you're lifting. When you agree to terms, make sure you say *done*."

"Got it." Moments later, the phone (called a *turret*) rang. "PIMCO, this is Dave," I said.

"*Linton*! You see that little blue button that says *Morgan Stanley* on it. Well, they have a little blue button that says *PIMCO* on it. Don't say you're at PIMCO. They already know."

"Got it." Shortly after that conversation, Tony Crescenzi, the economist who had chided me weeks earlier at the forum, sat down next to me on the desk. "Hey Tony."

"Hi Dave, welcome to the team. Great job at the forum." I quickly warmed to Tony and soon realized that in addition to being an exceptionally intelligent and well-spoken economist, he is also highly approachable and friendly.

It took a couple of months before I was comfortable, but I eventually got used to the flow of the trade floor. E-mails had to be acknowledged within one minute, words had to be spoken with precision, and attention to detail was critical.

"So, what do you say when you call one of your dealers?" Laura once asked.

"Conversations go something like this: Please offer a stick of Treasury GC, cash, overnight. Ten. Twelve? Eleven. Done. Thank you."

"Huh. Okay."

Scott and I eventually grew close and complemented each other nicely. Occasionally, we would look to execute large block trades *on the wire* or while on the phone.

"Dave, who are you checking?"

"I'll check Credit Suisse and Morgan Stanley."

"OK. I'll check Barclays and Goldman."

"Ready? Go."

Holding phones to our ears we'd hit the direct lines on our turrets: "Please bid half a yard of current ten's, cash, overnight," we'd ask the four dealers simultaneously. "Hold." We each held a phone to either ear and pressed the mute button as we waited. Moments later, levels would come back.

"Neg 250."

"Hold."

"Neg 290."

"Hold."

"Scott, what do you have?"

"Neg 280 best."

"I have neg 290."

"Hit 'em."

"Matt, you're done at neg 290," I told my contact at Credit Suisse.

"Pass, thanks," Scott and I relayed to the other three counterparties.

On the Credit Suisse line, I heard my sales coverage shout, "Charlie, you just bought a half yard current 10-years at neg 290. You're done. Hey Dave, you just sold five hundred million Treasuries. Youse big time now kid!"[2]

Over the course of two and a half years, I gradually assumed more of the daily flow from Scott and others on my desk. I became responsible for the entire Repo (cash investing) book, the firm's dollar-denominated financing, and the lending of securities that were *special* or difficult to source. Prior to my final year-end review on the short-term desk, I asked our middle office to pull the firm's trade data and learned that I was executing half of the trades off the short-term desk and 10% of the entire firm's trading volume, making me the most active trader at the firm by ticket volume.

While taking a rare vacation day with Laura, about a dozen other traders and I received a meeting invite. The subject was *Rotation Program*, and there was no *body* to the invitation. Until that point, there was no formal rotation program, although some traders had moved between desks. As fun as arguing over basis points was, I was ready for a new challenge. The overnight rate had bounced between one basis point and 20 basis points for more than two years, and it would likely remain there for several more years.

"You're moving to the emerging markets (EM) desk as a sovereign credit analyst. After a year, you can request to move to another desk or move back to your original assignment," I was informed the day I returned to work.

"When do I start on the EM desk?"

"November—actually, October."

"Huh?"

"We'll figure that out later."

For my first assignment on the EM desk, I was asked to update all 52 sovereign *tear sheets* which were three to four page summaries of each country, including its fiscal situation, analysis of its debt sustainability, political analysis, and anything else you'd need to generate a sovereign credit rating. "How about

[2] So, what just happened in that exchange? Four times a year the U.S. Treasury auctions 10-year Treasury notes. It then *reopens* these issues two additional times. Occasionally, following an auction of a 10-year Treasury note, the primary dealers sell more Treasuries than they receive from the treasury in the auction. In this instance, dealers then seek to borrow the security so that they don't fail to deliver the security to another purchaser. Scott and I would regularly lend these bonds, oftentimes for overnight periods. By lending these bonds, we could add value to client accounts because we could reinvest the raised cash at a rate higher than the implied financing rate. Occasionally, these bonds would trade *special*, meaning we would be paid to lend the notes and receive cash. In this instance, we received close to 3% per annum to lend the bonds; we then reinvested the cash at +0.20%, netting +3.20% of additional interest for holders of the 10-year notes.

you update all of them before you relocate to our desk full time in November?" I was asked in my first meeting with my new manager.

"Sure, I'll try, but I haven't shed any of my other responsibilities. So, I'm a bit capacity constrained."

"Then you can finish your first week."

"I'll do my best."

My best involved my normal 3:45 a.m. start time, and I'd begin researching a country around 4:00 p.m. Around 8:00 p.m., Laura would call me, "When are you coming home? I'm worried."

"I'll leave in about an hour." For a month, I maintained that routine, taking every other Saturday off and working half-days on Sunday.

The EM desk was a great compliment to the role I previously held; in the U.S., repo rates trade in a narrow range, collateral is generally U.S. Treasuries of other dollar-denominated debt, credit risk for a majority of my trades is de minimis, and a major headline could move the overnight rate a few basis points. Not so in emerging markets. For my first travel assignment, I attended a private meeting hosted by a dealer at the International Monetary Fund (IMF) office in Washington DC. About 15 large, institutional investors sat in a small room as senior IMF staff members rotated in for a one-hour discussion on their respective assignments. For the second meeting of the day, the former finance minister of Venezuela came in, and in a low and somber voice, opened with, "I have just returned from Caracas, and I am convinced that Venezuela is on the path to default. It is only a matter of time." Whoa!

In a separate meeting, weeks later and back at the office in Newport Beach, I took a meeting with the senior staff from the Ecuadorian finance ministry. "You've never repaid a bond in 180 years, and you defaulted just five years ago. What would make me think you'll repay us if we lend you dollars?"

"Because we've reformed and have put new protections in place for bondholders. And, the last debt was issued illegitimately. This debt is legitimate."

"But, what happens if a new government comes to power and deems this debt as illegitimate?"

"Why would they? This is legitimate debt because the bond proceeds will be used for the people."

"Right."

Meeting with senior staff of a large African country was notable, not for what was said, but what wasn't. "I will begin with a brief statement about my country," a senior official began and then slowly began reading a script (prepared by their New York bankers) concerning the country's growth, reforms, and outlook.

About ten minutes into this *brief* statement, I interjected, "You mentioned your current account deficit. I'd like to ask you a few questions about that." The large gentleman, in his fifties or sixties with defined facial features and deep eyes, paused, slowly looked up, glared at me for about ten seconds, and then continued reading. I *googled* him when I returned to my desk and I found a picture of him from about thirty years earlier, wearing a beret and carrying an AK-47. The picture was from his *freedom fighting* days.

One benefit to working on the EM desk was that I was in the center of the trade floor, located near Bill Gross, and I had the opportunity to listen to him share fun anecdotes when he'd address institutional investors as they toured the trade floor tour. "Do you know Warren Buffet?" the gatekeeper for a multi-billion dollar university endowment asked.

"Sure. I first met him when I was a credit analyst across the street at Pacific Life. He and Charlie Munger were interested in a private loan to expand their candy business. So, after meeting them in the office, we drove down to the *See's Candies* on Pacific Coast Highway and sampled some of their products. I ended up underwriting the loan."

"Wow, what about Sam Walton?"

"Yeah, I knew him, too. Also, when I was a credit analyst, a company I had never heard of named Walmart reached out for a private loan. So, I flew to a small town in Arkansas and he met me at the airport. I jumped in his truck; his kids were in the back seat and the family dog was in the bed of the truck. We drove down a dirt road to his third store. I extended a loan to him as well."

In addition to institutional investors, Bill also entertained a slightly less sophisticated crowd during *take your kids to work* day. About fifty children would be shown onto the trade floor in the early afternoon and sit in a semi-circle on the floor around Bill and his desk. Bill opened by reaching for the stuffed bull and bears on his desk and attempted to explain what a bull and bear market are. "Does anybody have any questions?" One child raised his hand. "Yes—you, there."

"My dad says you manage a lot of money, and I see you have a lot of computer screens. Do you get more computer screens when you get more money to manage?"

"Huh. Well, sort of. Good observation. Any more questions? No? I have a question—who here wants to be a bond trader when they grow up?!" Crickets. "Oh, okay. In that case, what does everybody want to be? You, there."

"I want to be a marine biologist."

"I want to be a football player."

Bill then turned (unknowingly) to a senior executive's young daughter, "How about you?"

"I want to be a bartender when I grow up."

"A bartender!"

Months later PIMCO staff prepared to move to a brand new, beautiful I.M. Pei designed, 21-story building less than 200 yards from their current location. The firm had outgrown their current facilities; junior members of the team parked across the street at the mall or valet their car on the main level. Meanwhile, building management circulated quarterly e-mails telling PIMCO staff to not go to the non-PIMCO floors to use the bathrooms. On the final day on the trade floor, instead of celebrating the near 40-year history of growth and excellence in this space, the mood was somber. Instead of a party, the floor administrators rolled out a large sheet cake and provided us instructions on how to pack our boxes for the weekend's move. The following Monday, Bill went from pod to pod and asked everybody how the move was going and their thoughts on the new headquarters.

"Great Bill, the phones, computers, and turrets all work without a hitch. And the building is amazing."

"That's great, Dave."

"Did you have anything to do with the building's design?"

"Me, no, with the exception of the gym on the 4th floor, I didn't have any say at all."

"What was going to be on the 4th floor if not a gym?" I asked.

"Just some more conference rooms."

"Good trade."

With my second rotation nearing an end, I was asked where I wanted to move for my final rotation. It was an easy choice—the investment grade credit desk. In 2012, three years after I had hosted him at the Chicago Booth Investment Management conference, Mark Kiesel was awarded the Morningstar Manager of the Year award in the fixed income category; Kiesel was the second PIMCO PM to receive the award (Bill had already been awarded it three times). I was given the green light, and I learned that I would take over the trading responsibilities from two other junior traders who were rotating off the desk. I would be the new technology, media, telecommunications (TMT), pharmaceuticals, healthcare, and managed care corporate bond trader. It was truly like drinking from a fire hose.

"Dave, I'm stoked I get to work with you again!" a friend and my former repo sales coverage from RBC said to me on my first day. He continued, "If you need anything to help you onboard, feel free to let me know."

"Thanks Brett, I think I do. I'm a little embarrassed to ask this, but I've got no idea what I need to focus on. I need to build a dashboard ASAP. Can you send me every ISIN for every benchmark bond in every sector I'm covering, or anything you have off the shelf? Like, what are the biggest TMT and pharma issuers? And what are their on the run 3-year, 5-year, 10-year, and 30-year bonds? I have no frik'n clue—I gotta get this down before I start writing tickets."

"Yeah, we can help with that."

"Thanks, buddy."

It was a long journey and involved many sacrifices, but I was thrilled to be in that seat trading corporate bonds. When he announced his retirement, Managing Director and portfolio manager Paul McCulley aptly described PIMCO as an intellectual Camelot. It was understood that his assessment reaffirmed Bill's role as the king. To Paul's observation, I would only add (as corny as this sounds) that I felt like a knight at the roundtable, surrounded by the best and brightest of the industry. Despite my relatively junior position, I was an equal in terms of my ability to inform and influence the direction of the firm. The PMs and traders on that desk were all exceptionally bright, friendly, and proficient. They generously donated their time as they brought me up to speed. Additionally, I sat behind Mark Kiesel, and after overhearing him speaking to clients about the firm's thoughts on the collapse in oil prices in 2015, I suggested to him that we write a Viewpoints thought piece. "Good idea—put together an outline and send it to me. We can write it together."

Sitting in such close proximity to Kiesel, I had the opportunity to directly observe one of the best in the industry and before long, I noticed many similarities between him and Bill: both men had a laser focus on identifying trade ideas and ensuring that they were in their portfolios. Additionally, each man had built a process that ensured ideas flowed to them. This process involved annual, quarterly, weekly, daily, and hourly reoccurring subprocesses whereby information was fed up, internalized, and inquiries and orders were sent back down the chain to their lieutenants. Both men were perfectionists, exceptionally intellectual, and both encouraged their employees to bring forward ideas. Finally, both men had unbelievable work ethics—it was clear that earning money was not their primary motivation. Rather, the pursuit of excellence and inherent drive to be the best was of far greater importance.

Trading corporates was exciting. Verizon and AT&T are two of the largest corporate bond issuers in the world. After a short period, I gained confidence in the PMs who owned these bonds, and they provided me with standing orders to sell their *rich* bonds and buy *cheap* bonds with similar risk profiles. This allowed me to provide liquidity to the broker dealer, a position that allowed me to extract trading profits on behalf of our investors. As a result, I became one of the most active buy-side traders in these issuers.

"Dave, I need to source $50 million VZ 23s. I can bid +125 for 50. I can put you into VZ 20s and 25s. Interested?"

"Yes—I'm a +123 bid on VZ 20s and +140 bid on VZ 25s, and I need to do 25 apiece."

Unfortunately, the honeymoon didn't last long. At 7:28 a.m. on September 26, 2014, one of my dealers sent me a note, "Hey Dave—I hear you're running Total Return now."

"Haha, yeah right." I responded. Odd.

One minute later, another note from a different dealer, "Hey Dave—you in charge there now?" I thought, "What's going on?" Then at 7:30 a.m., Bloomberg picked up the Janus press release, and the message, *Bill Gross leaves for Janus* began circling in the ticker on the electronic ticker board above us.

Days later, outflows began, and they didn't stop. PIMCO assets under management fell over $500 billion in the following 12 months—that is more in assets than the entire firm managed when I joined in 2004, and more money than most asset management firms will ever see. We did the best we could to mask our status as a better seller; but, everybody on the street knew when we asked for two-way markets (where the dealer would both bid and offer a bond), in all likelihood we were selling. Anxiety was high, but executives attempted to alleviate fears by giving all IPs a vesting retention bonus. Frustrated by Bill's treatment and concerned with the firm's direction, I wrote Bill a note two months later. In part of this letter, I told Bill (reprinted with permission):

> *"A friend asked me several weeks ago if the firm was different now that Bill was gone. I told him it was and it wasn't. I likened my work experience to losing a parent. I asked my friend to imagine the departed parent was the family's patriarch. He was a great resource and leader; his knowledge and experience immense. But with him gone, does it mean the family will dissolve? Not necessarily. Good fathers instill in their family a sense of morals and ethics that the next generation will follow. The patriarch's DNA can also be found in the family. PIMCO was, and still is, your family. Your dedication, drive, and commitment to clients, are still here. You have made a permanent mark on us and most of us carry on as you would like."*

The following week, Bill replied to my note. He thanked me for the note and stated that my comments had given him a little solace. Meanwhile, I redoubled my efforts at PIMCO. As JFK once noted, "In the Chinese language, the word *crisis* is composed of two characters, one representing *danger* and the other, *opportunity*." As it turns out, that isn't true, but it didn't change my belief that I could use the crisis at the firm as a personal opportunity. For the next year, I worked harder than I ever had in my career. I was the first in and last out. I assumed more trading responsibilities; the year-end data showed I had executed 40% of the nonfinancials trades, while three other traders split the remaining 60%. I managed all but two of the mega-issues that year. I wrote two Viewpoints (thought pieces) that were published on the website, distributed to clients, and picked up by several news outlets. I also continued to contribute to the firm's discussion of Federal Reserve policy. While taking my (only) one-week vacation, I penned a note and distributed it to the same distribution list of traders, analysts, and PMs that I had used several years earlier when discussing the

LIBOR fixing scandal, discussing why I thought the Federal Reserve continued to overstate the future path of the policy rate and how we should trade this. When I returned, I was invited to debate my view at the investment committee meeting. After the first day, I was asked to return the second day to continue the discussion. Kiesel seemed to appreciate the points I raised and my willingness to push back against the firm's view; he gave me a shout-out at a CFA conference presentation the following week.

My year-end evaluation went as I had hoped. "You had a really good year, Dave. You're the most active trader on the desk, and we execute your trade ideas on a weekly basis. You told us to avoid Valeant, and that was the right call. Several of your RV (relative value) trades have worked out. You put promotion to SVP on your year-end objectives. I don't know how things will look—as you know this has been a challenging year for the firm. So, we'll have to see how the numbers shake out and discuss it again when we have our compensation discussion."

"Fair enough," I told my manager. "Anything I can be doing more or better?"

"Just keep putting out more RV trades. More is better."

"Got it."

A few weeks later, at exactly 7:00 a.m., my manager called me and asked me to come to a conference room on the third floor. I ran downstairs and found him and someone I had never seen before waiting for me. "Dave, please take a seat." Speaking slowly and in a monotone voice, my manager said, "Dave, thank you for all your work this year. As you know it has been a bad year for the firm. This is Mary from HR to talk about our separation." And with that explanation, he stood up and walked out of the room. My ten years at PIMCO came to an abrupt end. An hour later I drove home, and during my twelve-minute commute, I took stock of my situation (and I noticed a strange pattern). Three weeks ago, I thought I was going to be promoted. Now, three months after buying a house, and three months before my third child was due, I was three months away from financial distress. I walked up to my pregnant wife, told her the news, reassured her that we'd be okay, retired to my bedroom, vomited, and went to sleep.

Fortunately, this story has a happy ending. Dozens of former coworkers offered to help me find a new position despite many of them having recently been let go themselves. Additionally, my sales coverage and the traders at broker dealers with whom I had regularly interacted also facilitated introductions and discussions with fixed income firms throughout the country. One week after my third child was born, three members of the investment grade credit desk unexpectedly paid me a visit and dropped off balloons, a card, and a full envelope. Laura and I were floored by their generosity. I found a position shortly thereafter, literally across the street, at Pacific Life. To say it is a soft landing would be an understatement; for the second time in my career, I work at a firm that is growing, places the client first, and is located in Newport Beach, California. Most important, I work for a manager who supports, promotes, and encourages me to excel.

SUMMARY AND IMPLICATIONS

So why am I relaying my story? Since this book is primarily targeting investment professionals early in their careers, I hope that sharing this account, which includes both success and failures, may help others safely navigate the investment management industry. Additionally, I hope that any reader who finds him or herself on the beach, might find solace in knowing that this fate can befall anybody (even if your name is Bill Gross, Jeffrey Gundlach, or Jack Bogle).

I close this chapter with two thoughts from others whom I deeply respect.

On Learning from Adversity

Commencement address given by Chief Justice John Roberts at his son's ninth grade graduation ceremony:

> *From time to time in the years to come, I hope you will be treated unfairly, so that you will come to know the value of justice. I hope that you will suffer betrayal because that will teach you the importance of loyalty. Sorry to say, but I hope you will be lonely from time to time so that you don't take friends for granted. I wish you bad luck, again, from time to time so that you will be conscious of the role of chance in life and understand that your success is not completely deserved and that the failure of others is not completely deserved either. And when you lose, as you will from time to time, I hope every now and then, your opponent will gloat over your failure. It is a way for you to understand the importance of sportsmanship. I hope you'll be ignored so you know the importance of listening to others, and I hope you will have just enough pain to learn compassion. Whether I wish these things or not, they're going to happen. And whether you benefit from them or not will depend upon your ability to see the message in your misfortunes.*

On Risk Taking

Bill Gross (personal e-mail, reprinted with permission):

> *Risk takers usually are life's winners—I wish that for you as well.*

CITATIONS

i. *SIFMA Fact Book 2018*. pp. 51 and 55.
ii. 1963–2018A. Candidate Examination Results. https://www.cfainstitute.org/-/media/documents/support/programs/cfa/cfa-exam-results-since-1963.ashx.