Twitter Thread by Ming Zhao



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Day in the Life of a Hedge Fund Analyst

Few live to tell the tale.

"Was it like Billions?"
"Describe ur investment process?"
"What did u learn?"

I get these questions all the time, but for a while I was afraid of answering publicly. No more!

Hedge fund story time.
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1/ ■ 6AM Pre-Market Review

Wake up thinking about ur overnight positions.
What happened during London/Asia trading?
Scan the major news on ur way to office.
■■■■■■

Think about how ur getting screwed by beta (general macro, FOMC, inflation, etc.) cuz ur net long (or net short).

2/ 7AM Portfolio Review

U'll typically have ~250 names in the portfolio "universe" (stocks w/ active positions & those on watchlist but already modeled).

Review each thesis vis-a-vis new market conditions. Anything changed?
Should u downside/upsize any?

New trade opportunities?

Here's a checklist of top items to check per company:

- Any earnings calls this week?
- Any product releases?
- Any new sell-side reports? Downgrades/Upgrades?
- Any M&A rumors in the space?
- Any management change announcements?
- Any guidance revisions?
- Any legal happenings?

3/ 8AM Plan out your daily/weekly agenda

Major types of events that'll populate ur calendar:
- Investor day at XYZ
- Q1-Q4 earnings call
- XYZ road show
- Dinner event w/ IR (investor relations) at XYZ
- Private buy-side bus trip (w/ mgmt @ XYZ) arranged by GS
- JPM conference

4/ 9AM Team meeting just before markets open

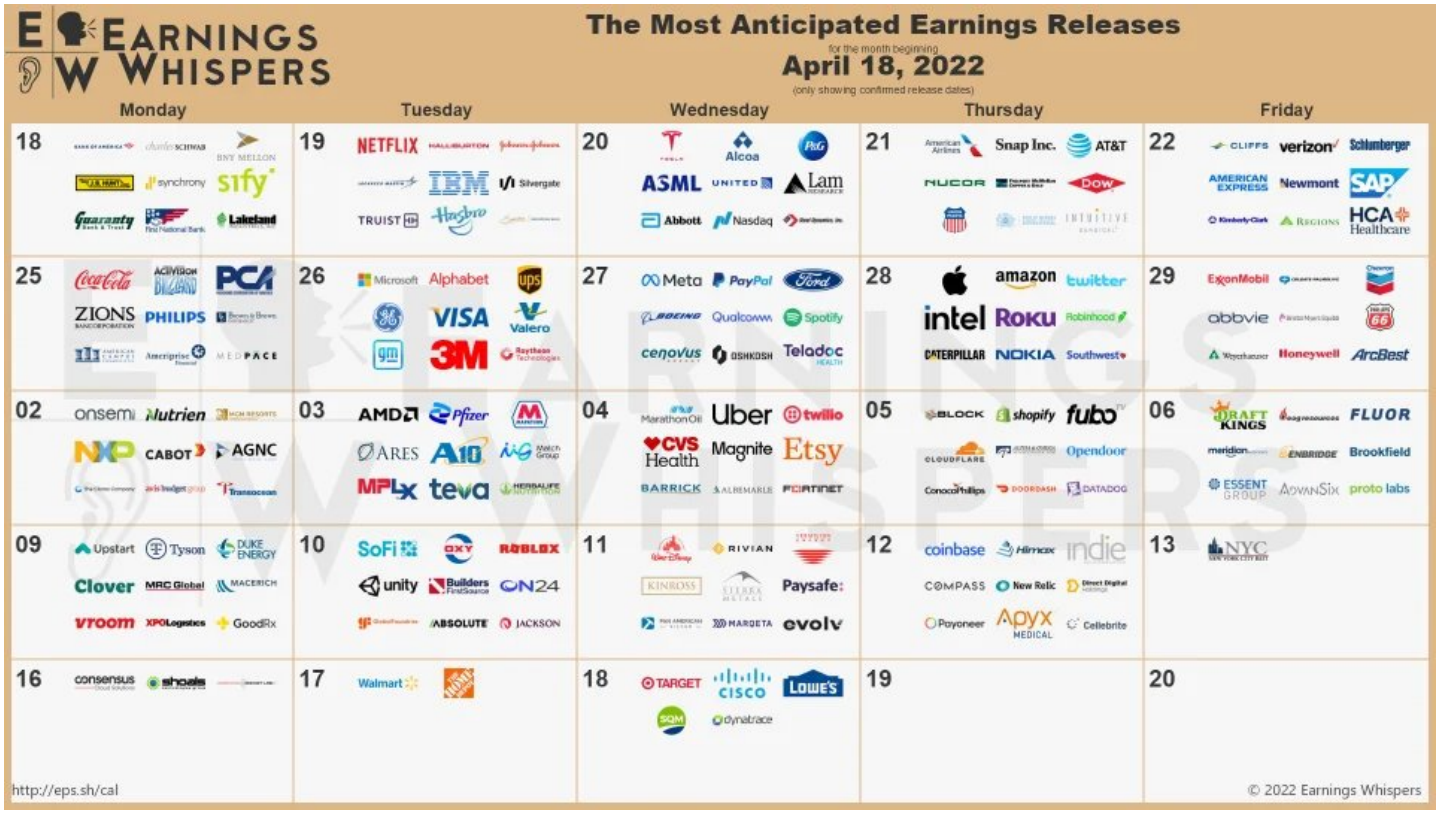
Discuss w/ ur PM:
- whether overnight news impacts/changes ur thesis on each open position
- prep work & questions u compiled for XYZ upcoming event later in the day
- pre-mortem on some new positions ur considering adding to the book

5/ 10AM Listen to XYZ earnings call

Every day a subset of the ~250 companies in ur universe will have earnings calls.

When start:
pre-market, during, or post-market

Structure:
- first CEO gives his spiel
- then CFO gives his spiel
- then sell-side analysts ask dumb questions



6/ 11AM - 3PM: Read/make/revise financial models

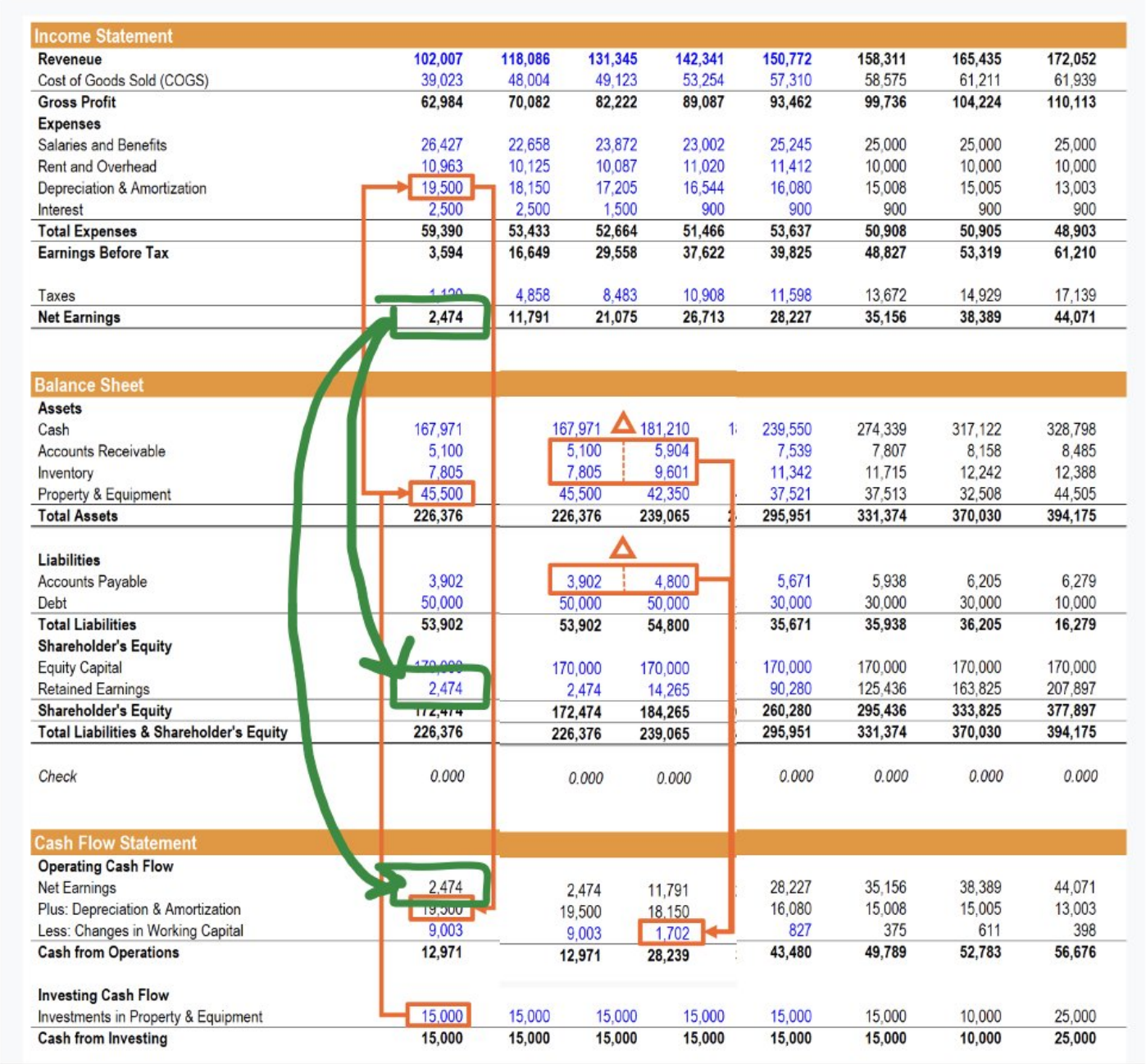
This is the crux of ur job.
So lemme describe what exactly this entails.

A "financial model" is just 3 accounting statements stacked on top of each other in Excel:
- income stmt (IS)
- cash flow stmt (CFS)
- balance sheet (BS)

Why & how to "link" the 3 statements:

The reason why analysts stack all 3 on top of each other is cuz all interwoven:

- net profit:
flows from bottom of IS to retained earnings in BS & first line of CFS
- working capital:
from CFS, is the diff btw current assets & liabilities



Income Statement								
Reveneue	102,007	118,086	131,345	142,341	150,772	158,311	165,435	172,052
Cost of Goods Sold (COGS)	39,023	48,004	49,123	53,254	57,310	58,575	61,211	61,939
Gross Profit	62,984	70,082	82,222	89,087	93,462	99,736	104,224	110,113
Expenses								
Salaries and Benefits	26,427	22,658	23,872	23,002	25,245	25,000	25,000	25,000
Rent and Overhead	10,963	10,125	10,087	11,020	11,412	10,000	10,000	10,000
Depreciation & Amortization	19,500	18,150	17,205	16,544	16,080	15,008	15,005	13,003
Interest	2,500	2,500	1,500	900	900	900	900	900
Total Expenses	59,390	53,433	52,664	51,466	53,637	50,908	50,905	48,903
Earnings Before Tax	3,594	16,649	29,558	37,622	39,825	48,827	53,319	61,210
Taxes	1,120	4,858	8,483	10,908	11,598	13,672	14,929	17,139
Net Earnings	2,474	11,791	21,075	26,713	28,227	35,156	38,389	44,071
Balance Sheet								
Assets								
Cash	167,971	167,971	181,210	1	239,550	274,339	317,122	328,798
Accounts Receivable	5,100	5,100	5,904		7,539	7,807	8,158	8,485
Inventory	7,805	7,805	9,601		11,342	11,715	12,242	12,388
Property & Equipment	45,500	45,500	42,350		37,521	37,513	32,508	44,505
Total Assets	226,376	226,376	239,065	2	295,951	331,374	370,030	394,175
Liabilities								
Accounts Payable	3,902	3,902	4,800		5,671	5,938	6,205	6,279
Debt	50,000	50,000	50,000		30,000	30,000	30,000	10,000
Total Liabilities	53,902	53,902	54,800		35,671	35,938	36,205	16,279
Shareholder's Equity								
Equity Capital	170,000	170,000	170,000		170,000	170,000	170,000	170,000
Retained Earnings	2,474	2,474	14,265		90,280	125,436	163,825	207,897
Shareholder's Equity	172,474	172,474	184,265		260,280	295,436	333,825	377,897
Total Liabilities & Shareholder's Equity	226,376	226,376	239,065		295,951	331,374	370,030	394,175
Check	*0.000*	*0.000*	*0.000*		*0.000*	*0.000*	*0.000*	*0.000*
Cash Flow Statement								
Operating Cash Flow								
Net Earnings	2,474	2,474	11,791		28,227	35,156	38,389	44,071
Plus: Depreciation & Amortization	19,500	19,500	18,150		16,080	15,008	15,005	13,003
Less: Changes in Working Capital	9,003	9,003	1,702		827	375	611	398
Cash from Operations	12,971	12,971	28,239		43,480	49,789	52,783	56,676
Investing Cash Flow								
Investments in Property & Equipment	15,000	15,000	15,000	15,000	15,000	15,000	10,000	25,000
Cash from Investing	15,000	15,000	15,000	15,000	15,000	15,000	10,000	25,000

Where do you get financial models from?

Typically, u buy from sell-side & modify as necessary.
Historical statements are found in all 10K/Qs. Easy to verify.

But what u really want to modify are the projections of FUTURE metrics.
After all this is the fundamental analyst alpha.

7/ 4pm Coffee & gossip

Markets just closed. Your PM is doing some intense clean-up/post-mortem or squeezing in post-market adjustments.

You get coffee, run into other analyst, & complain/brag about headcount at other teams, who's allocations getting slashed, who's doubled, etc.

8/ 4:30pm Post-Mortem

Markets just closed, so u got some reflecting to do:

Any major gains?
Any major losses?
Why did the moves happen?
Did u anticipate them?
How can u better anticipate & respond going forward?

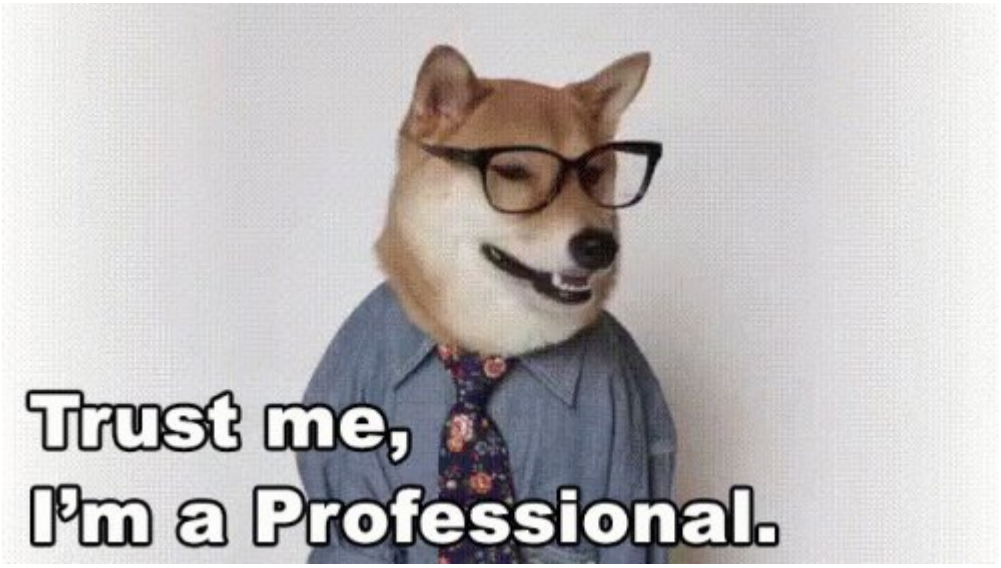
See ■ below on how to do a post-mortem:
https://t.co/G3jzYCb6Qf

> \U0001fa9eHow Hedge Funds Do Post-Mortems\U0001fa9e
>
> "Pain+Reflection=Progress" ~Ray Dalio
> The post-mortem is the hedge fund PM's leg day: can't skip.
>
> Done right, it's a systematic exercise that mega boosts performance. Yet ppl never explain how to do one.
> So @SeifelCapital(CS) & I teamed up
> \U0001f447 pic.twitter.com/mHKF93bIma
>
> — Ming Zhao (@FabiusMercurius) May 14, 2021

9/ 7pm-9pm

[--- Insert Boring Mandatory Dinner Event ---]

U tell ur boss ur there for info gathering.
U tell urself ur there to hobnob in case book blows up tomorrow 'n u gotta jump ship to Millennium.
Ur really there to stuff ur face w/ schnapps & salmon heuer d'oeuvres.



10/ 9:30pm Asian markets open

I will not check markets.
I will not check markets.
I will n---

HOLY SHIT! BABA DOWN 9% ALREADY?!?!

WTF tere's like no news.
Damn retail stocks!

U whip out ur laptop & start planning how u'll respond tomorrow. More post-mortems in the queue...■■■■

11/ 12AM Existential Musings

Wonder if ur life would've turned out easier if u'd taken that Google software engineering internship instead of GS banking internship sophomore year in school.
JK.
Life is way more exciting now & u'll never regret it.