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Why Some Men Are Big Losers

A hedge-fund billionaire thinks moms can't compete on Wall Street. Science says he's wrong

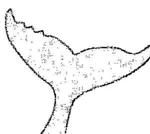
IF YOU HAVEN'T VIEWED THE VIDEO of hedge funder Paul Tudor Jones telling a symposium at the University of Virginia how women lose their ability to be good financial traders after giving birth, go watch it now; it must be seen to be believed. As Jones puts it, "You'll never see as many great women investors or traders as men" because the hugely emotional experience of having kids is simply too distracting. To be fair, he also says he notices a 10% to 20% performance drop in employees of either gender when they are going through the turmoil of divorce. But the point in either case seems to be that good traders shouldn't be at the mercy of their emotions or biology.

That's actually true over the long haul, which is what makes Jones' views about women so fascinating and so flawed. Evidence is growing that women do indeed approach trading differently from men. In short: if you look at longer-term returns, women are just as good if not better. What's more, understanding the mechanisms that apparently drive the gender differences could help us develop rules to make our markets safer. It all stems from research into the relationship between emotions and trading. That topic has attracted eminences from Robert Shiller to George Akerlof to David Tuckett in recent years. But some of the most interesting studies have been done by a former Goldman Sachs and Deutsche Bank trader turned neuroscientist, John Coates, whose book *The Hour Between Dog and Wolf* lays out the biochemistry of the Big Trade.

WHEN COATES SWITCHED FROM FINANCE TO neurological research (he's now a fellow at the University of Cambridge), he was stunned to learn about a phenomenon that biologists call the winner effect. Animals that win one fight are more likely to win another, as the winner enjoys higher testosterone levels, which provide an edge in subsequent battles. It's a concept at odds with the notion in financial circles that there is no such thing as a hot hand—a winning streak that becomes a self-fulfilling snowball of profits. In this view, a trader's success simply reflects statistical probabilities bolstered by the time and effort spent trading, not by anything chemical. Financial economists prefer to see their dismal profession as a cool, clean discipline à la physics rather than a messy pseudoscience dependent on humans.

SMALL FRY AND BIG FISH

DIVIDENDS Hedge-fund titan Paul Tudor Jones says female traders lose their focus once they have kids, but statistics show that's not true. Women trade less frequently than men but just as successfully.



TAKING A DIVE Traders with the biggest wins and losses, like JPMorgan's famous London Whale, are likely to be men. Female traders take more time with decisions and hold stocks longer.

Intrigued, Coates began running tests on a group of high-frequency male traders in London—and found what he had long suspected. Their morning levels of testosterone predicted their afternoon returns. The higher their T levels, the more money they made. Over the short term, that is. The higher T levels and the cocktail of other risk-encouraging hormones that went along with them pushed the traders to become excessive risk takers and resulted in major losses. "That's why most traders who lose north of a billion dollars and shake their bank to its foundations are coming off a big winning streak," Coates told me. Under the confident, macho exterior of top traders was, as Coates puts it, "an endocrine system on fire."

ALL THIS HELPS SHED LIGHT ON SOME OBSERVATIONS about gender and finance. The biggest winners and losers, like JPMorgan's London Whale, tend to be male. Female traders, meanwhile, often do better in the long term by avoiding the highs and lows. In a study of more than 35,000 traders by Brad Barber and Terrance Odean of the University of California, Berkeley, from 1991 to 1997, women outperformed men in large part because they didn't trade as frequently. A 2009 study by Chicago-based Hedge Fund Research, in which female traders trumped men over a nine-year period, had similar findings.

The research has fascinating policy implications for firms and even governments. Certain hedge funds have begun automatically pulling traders off their desks when their losses go beyond 3% of capital, which makes them vulnerable to enhanced risk taking in an effort to make up their losses. (Coates would like to see pre-emptive breaks for top traders on winning streaks to give them time to decompress from the snowballing T-level effect before they start losing money.) Deutsche Bank has announced that bonuses for top managers will be deferred for five years to incentivize long-term thinking. Some politicians and investors (including Warren Buffett) are pushing tax policies that would penalize short-term trading. As markets begin to think longer term, I hope we see a kind of natural affirmative-action effect: women and older workers (who are also less likely to go on testosterone-fueled trading binges) will start to look better and better. And if Paul Tudor Jones is lucky, a few of them may still be willing to work for him. ■

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