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## **TAKING STOCK**

### **Boy Wonder Tells Wild, Cautionary Trading Tale**

**By SPENCER JAKAB**  
A DOW JONES NEWSWIRES COLUMN

NEW YORK -- At a time when most teenagers are concerned with little else than their social lives or their SAT scores, Timothy Sykes became obsessed with getting rich and did so with astounding speed.

In his upcoming book, "An American Hedge Fund," Sykes tells the story of how he took \$12,415 of gift money he received for his Bar Mitzvah and turned it into a \$1.65 million fortune in a few years of frenetic stock trading. Giddy from his rapid ascent but still naive in many ways, Sykes went on to found a hedge fund and, after initial success, was stung by steep losses. Now just 26 years old and a budding media personality, Sykes is deluged by people looking to emulate his early success and says that's why he wrote the brutally honest tale of sudden wealth and hubris.

"It's inspirational but also cautionary," he said.

#### **Holden Caulfield Meets Larry Livingston**

The tale is "like a Catcher in the Rye for traders" in the words of Aaron C. Brown, an executive at giant hedge fund company AQR Capital Management and an author in his own right of the acclaimed book "The Poker Face of Wall Street." There's certainly a dash of Holden Caulfield to Sykes, but there's at least an equal part Larry Livingston, the trader in Edwin LeFevre's classic "Reminiscences of a Stock Operator." Though nominally fictional and written in the first person, Livingston's story is a thinly-veiled biography of Jesse Livermore, the "boy plunger" who captivated Wall Street in the early 20th century with his bold, instinctive trading.

To round out the package, there's a good bit of James Cramer in Sykes too. Just like the media mogul and former hedge fund manager, he is manic and somewhat eccentric but nevertheless an astute self-promoter. Sykes created a small scandal when he appeared on CNBC accompanied by three scantily-clad models who held charts for him and he was the star of the documentary Wall Street Warriors, in which he trades in his bathrobe and bares his emotions as he topples furniture in the wake of losses.

Most recently, Sykes landed on the New York Post's Page Six gossip column under the headline "Party's Over for Hedge King" after he was disinvited to a gala held by Trader Magazine. The magazine's editor took Sykes to task for his self-promotion and called his recent trading performance "laughably horrid."

Sykes' results weren't catastrophic -- after all, his Cilantro Fund outperformed much bigger and more sophisticated funds like the slumping Global Alpha run by Goldman Sachs (GS) and didn't blow up the way some funds run by Bear Stearns (BSC) did -- but they certainly weren't pretty. His roughly \$3 million fund, which had a short bias, took a huge long position in a single speculative software stock and sank by \$700,000. He said the losses "pain me every

day" and he lays blame on his huge early success and overconfidence.

"I was young, cocky and naive -- I had everything working against me," he said.

His fund will officially close on Oct. 1, partly due to poor results and partly to avoid SEC censure for discussing his performance in his book, which will be released the same day.

### **"I Had Much Bigger Dreams"**

What can a reader learn from someone whose performance was so volatile? Plenty. In addition to being an entertaining first-person account of shocking successes punctuated by brutal setbacks, Sykes outlines many lessons he learned the hard way and does an admirable job of probing his adolescent experiences and his personality for his weaknesses.

Though he didn't realize it, Sykes caught the trading bug as a preteen through his early business ventures. He speculated in baseball cards and set up a small tennis racket-stringing operation. Both were marred by his impatience and tendency to cut corners, particularly the stringing business. By drilling holes in his own racket frames to make stringing faster, he inadvertently killed his budding dream of tennis stardom by weakening them and injuring his elbows.

The upshot of the tennis injury was that he suddenly had time to try his hand at investing his Bar Mitzvah money. He soon began cutting classes and camping out in his school library, dashing between three computer terminals all day to monitor the action in bulletin boards for highly speculative microcap stocks, the only ones he could afford with his tiny account.

His timing to start trading was perfect -- November 1998 -- the beginning of the final, manic phase of the bull market that saw the tech-laden Nasdaq gain over 170% in 16 months. While most novices and pros alike focused on big tech names like Microsoft Corp. (MSFT) or Cisco Systems Inc. (CSCO), he traded stocks that would jump 30% in minutes on gratuitous press releases containing more hype than substance. These microcaps would become his specialty throughout his entire trading career, much to his detriment when he started playing with millions of dollars.

"It wasn't a scalable strategy," he said.

Sykes was both a phenomenon and an oddball at college and spent much of his time trading. By April 2000, with over \$500,000 in his account and the action in speculative tech stocks decidedly negative, he channeled his growing skepticism about penny stock promotions into short selling. Making negative bets on dodgy companies proved trickier, however, even when scandals struck.

"It's a lot more difficult," he said. "These stocks go from \$2 to \$8 in a day and not from \$8 to \$2. Even when the FBI raids their office, they only drop to \$4."

No one can accuse Sykes of being overly sentimental. Following disasters like the Sept. 11, 2001, terrorist attacks and the Asian tsunami, he said his thoughts quickly turned to what stocks would benefit or suffer. When he realized while still in college that he had made his first three quarters of a million dollars primarily off of exploiting "gap-up plays" in microcap stocks being touted by fraudsters, he quickly rationalized.

"I felt bad for the boiler rooms' many victims, but the victims' losses were their own fault: a direct result of greed, ignorance and laziness," he wrote.

While trading his own account, Sykes profits were both huge and hugely volatile: 910% in

1999, 560% in 2000, 47% in 2001 and 98% in 2002 according to an audit. But he did it with huge swings, making \$700,000 in his personal trading account one year by entering \$100 million in trades, most of which were only held for hours or minutes. Now he wanted to start a hedge fund and take things a notch higher.

"I thought it would be a cinch to raise a few million dollars," he wrote.

Again, his impatience and impulsiveness hurt him. His newly-launched Cilantro Fund had trouble luring big investors and he ignored advice by pros to try a less-volatile, more-sustainable strategy. After some choppy years his media star rose but his performance finally tanked. Will the losses at Cilantro end his investing career? Sykes predicts that, in an industry known for its short memory, he'll be back.

"People say: "Your career is over." I mean, it's a joke -- look at all those Long Term Capital Management guys who run billion-dollar funds."

It's conceivable that the money Sykes made by trading may one day pale in comparison to what he earns as a media personality. Craving the spotlight while being willing to bare his soul, he could be the twentysomething generation's answer to James Cramer. Even so, like many speculators, perhaps too much of his self-worth is tied up in his trading success, which he says he enjoys more for "the high" it gives him than for the riches. His losses seem to have tempered his still considerable self-confidence.

"I had much bigger dreams," he said. "Reality taught me a lot."

*(Spencer Jakab previously wrote the STREET SAVVY column, which has been rebranded as TAKING STOCK, a new global column which gives insightful analysis about equity-related topics around the world.)*

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