

Lynn Palmer

Mr. Speice

ISM I

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Interview Assessment 2

Name of Professional: Evan Troop

Profession/Title: Financial Advisor

Business/Company name: J.P. Morgan Securities

Date of Interview: October 27th, 2017

In the world of investment banking, the brokers and financial advisors are ultimately the messengers of the system, bringing in trades from hedge funds and mutual funds across the nation and giving them opportunities that they would not find in the public markets. During this interview, I got the opportunity to meet Mr. Evan Troop, a financial advisor at J.P. Morgan Securities in Dallas. In the interview, we began by speaking about the various aspects of his job, the Series 7 exam, the state of the global economy, and general trends in the market from 2008 to present day.

As a financial advisor, Mr. Troop helps advise institutions and some individuals gain access to products that are often not available on the public market, such as over-the-counter (OTC) derivatives. OTC derivatives are a special type of derivative that must be backed by a bank like J.P. Morgan, and their purpose has changed substantially over the past few years. Before 2008, these OTC derivatives were oftentimes used as strategic tools to ensure growth (such as a CDS), but over the years, they have been modified to hedge risk rather than produce

return. From our discussion, I found that over the past 10 years, the focus has shifted from strategic moves to more precautionary moves to mitigate risk. While strategic moves have made an average return of 7-8%, the low interest rate environment has allowed protectionary trades (like treasury hedges) to make nearly 10%.

This trend towards “safer” investments, however, could be a signal of weariness towards the new economy of the world. Mr. Troop and I agreed that the current economy is one we have never seen, with nearly the entire world moving in a slow lockstep. Movement like this causes various industries to fall out of line with generally accepted economic measures, such as the S&P or the NASDAQ. This means that diversification, a long-held belief that a portfolio consisting of many different types of assets will outperform concentrated portfolios, may not be true because the earnings of some assets will coincide with loss in others, ultimately dampening any existing profit.

Another subject that we discussed was the activity in the US from foreign investment companies. Mr. Troop has noticed that more Asian companies are flocking to the U.S. over the past few years, especially from Korea and China. Because of my competitive advantage in the Chinese market, I was very interested in this topic, and Mr. Troop’s confirmation of more Asian activity in the US further solidified my belief in Chinese investors’ desires to become more westernized. This also gave me an idea for my final product: to model a plan in which China could potentially make their economy more westernized while still focusing on their goal of self-reliability and maintaining financial stability. Although this will take an incredible amount of research and many mentors ranging across several different fields, I believe that if done well, this research could have a major impact on the perception of the Chinese economy.

Overall, this interview presented me with a good opportunity to get familiar with an occupation in finance that often isn't talked about other than passing references. I gained more information through sharing my own personal opinions with Mr. Troop and building them up to gain a higher understanding with the economy as a whole, but I also found many places where I need to improve. Because I invest exclusively in equities, I never really learned about bond investing, especially treasury hedges. In today's economic environment, however, treasury hedges may provide more return than previously expected, and if I learn more about it now, I can raise my average rate of return until the next bubble cycle. By using the information that Mr. Troop gave me and combining it with my existing portfolio and knowledge, I will be able to have a more well-rounded set of skills and broader scope of my portfolio in the economy as a whole.

1. Have you worked in a smaller firm? If so, what would you say the major differences are between Morgan and the smaller company?

Middle market, sell side

Carry trade – borrow short to lend long (fixed income), recommended prefers

2. Do you have one set investing style or does it change for every client? Are there just multiple portfolios you manage?

3. What type of clients would you say you primarily served?

4. What is your personal investing style?

Blue chips, esotericism,... prefers reverse REPO (cheapest cost of borrowing, has to use agency and treasuries)

5. When you're valuing a company, what are the key indicators that you look at/work with?

Relative value, PE, P to Book, DCF model,

6. Do you ever venture into some of the more "exotic" investments like ones in Asia or some of the more complex derivatives?

7. What are some of the ways that you manage risk?

Due diligence

Listed options- on the exchange... OTC- underwriting

- a. IF DIVERSIFICATION: There's been some arguments against diversification post 2008 because of the new economic situation we're in where we have more individualistic industries, would you agree with that and just use diversification as a cap on risk or to hedge crash exposure?

8. How often do you take short positions?

Shorting has gone down, rates haven't gone up dramatically because everyone is pouring into treasury

9. Do you invest in commodities? Would you say a call option is typical when you're placing these orders to mitigate risk?

- a. What's the purpose of having commodities in a portfolio at all?

PE: private equity 12-15%, sellers market, 7-10x EBITDA

Hedge: moving away from bigger funds, \$21 trillion with passive, coming down with market cap

Shorting the yuan and the yen

Barry and Greg Kit: SMU donor,

10. What would you say your specialty is?

Internationals: Korean, a few UK, US subsidiaries

Series 7: Use a program, take a lot of practice tests, know the options and formulas