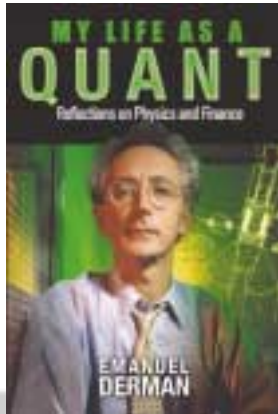


Book reviews

Alireza Javaheri reflects on what it means to be a quant, and what it should mean to your grandma



My Life As A Quant (Reflections on Physics and Finance)

Emanuel Derman
John Wiley and Sons

It was about time. At last, there is a book where a detailed description of the word “quant” is given. Now if your grandmother keeps asking you what it is that you do exactly, you can give her this book as a Christmas present.

As you know, there are a lot of physics, mathematics or engineering PhD converts to quantitative finance working for big investment banks or hedge funds. And they are called quantitative analysts or quants. But this is the short version.

Emanuel Derman, who incidentally writes better than John M. Coetzee, tells us his life story in the most enjoyable way. He starts with his coming to the United States, his loneliness as a graduate student in the Physics department of Columbia University, his aspirations and ambitions at the time. He then tells us about his life as an academic in various universities, his career as a technology researcher in Bell Labs and then his coming to Goldman Sachs.

Now, before going further, I must say a real literary effort has been made here. He tells us the story with a lot of fascinating details, and this is precisely what makes the

book remarkable. For instance he doesn't just write, “I was a graduate student and felt lonely”. He tries to describe the feeling, how it came back to him chronically, how he tried to deal with it by writing letters, why he could not call home frequently, what kind of room he was in, how the conditions were - he's got amazing recall.

Oh yes, I was saying. He joins Goldman Sachs. From here on, if you work on Wall Street, you cannot help drawing parallels between his experience and yours. For one thing, he says how different and yet similar the financial and scientific worlds are. Similar because you can use your technical skills to do problem solving, different because of the people you have to deal with.

He provides us with anecdotes about how his boss felt it was necessary to crack the whip *all* the time, how the traders and sales people tried to push him around *all* the time. To the point that one day he was so upset that he decided “No more Mr Nice Guy” and refused the simple favor of switching seats with someone on a plane. He later found out that that person was Robert Merton.

He tells us a good deal about Fischer Black, both the man and the quant. Many fascinating tales are told relating to Black. He tells us how the Black-Derman-Toy model came to life. And this is perhaps the most interesting part. You see, the book is not just a sequence of unrelated anecdotes. You can actually learn from it. It can be used as a method for work, model building and career enhancement: What to do and what to avoid.

He then tells us about his couple of years in Salomon Brothers, before going back to Goldman Sachs. He tells us about the cultural differences between the public company and the private partnership. Having worked for Goldman in 1994 to 1995 and for Lehman Brothers for four years after that, I noticed many similar differences.

But the book also contains many technical points. Where did Implied Trees come from? Why was the Quanto Option invented? All this will give you a historic perspec-

tive and an idea on the origin of things. Once again, this can help you find new ideas for future model development, which in my opinion is invaluable!

He finally tells us how and why he left Wall Street and joined academia again. I for one admire people who always look forward and try new things in life.

Emanuel Derman is the perfect example of a scholar and gentleman. Something that is absolutely striking and rare in his book is his complete and extreme honesty: Why he said something he had read in the newspaper during an interview and how he got yelled at, and how he later regretted it. It takes a lot of guts to look at oneself in such critical manner and put it in writing. He also tells us how nervous he was when he was being interviewed by John Meriwether and Co and was asked a ques-

tion about Asian Options, giving an answer which he found out to be wrong later. They did not offer him a job, but perhaps it was for the best!

As previously mentioned, the book constitutes a historical reference on Wall Street. Many allusions are made to Fischer Black, Robert Merton, John Meriwether, Bob Koprassch, Iraj Kani and whoever was somebody at Wall Street in the 1980s and 1990s.

So, my advice: Buy and read the book and learn from it. Learn how to think, how to advance. Learn who is who on Wall Street. Who succeeded and who failed and more importantly why. Learn what it is to have a *vision* for your career. And then go and buy another copy for your grandmother so that she stops asking you what you do.



The book featured on this page is available from the wilmott.com bookshop

www.wilmott.com
or telephone
44 (0)1730 233870