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Bear, Stearns & Co. Inc.

Melissa Ko – Senior Managing Director

Melissa Ko is a senior managing director at Bear, Stearns & Co. Inc. In her current position, she manages alternative investment strategies on behalf of Bear Stearns Asset Management.

Ms. Ko has been a leading emerging markets investor since the early 1990s. Prior to Bear Stearns, she was a partner at Blue Border Partners (BBP), a \$250 million macro hedge fund from 2000 to 2002. Prior to joining BBP, Ms. Ko was a director with Deutsche Bank in charge of Emerging Markets Proprietary Trading. She also built and led the Latin American currency desk at Bankers Trust.

Ms. Ko has a BS in chemical engineering from the Massachusetts Institute of Technology and an MBA from the Wharton School at the University of Pennsylvania.



Q&A with Melissa Ko

What are some steps that you took to get to the position that you are in now?

Education was always an important aspect of my life. Growing up, I excelled in math and went on to study chemical engineering as an undergraduate at MIT. After spending my first two years out of college as an information technology consultant for Price Waterhouse, I then went to business school at Wharton, where I really discovered my love of finance. Finance really spoke to me especially the trading part of it, so there was no question in my mind that finance was what I wanted to do for the rest of my life. Even so, the problem-solving skills that I honed in engineering have helped me tremendously in what I do today. Figuring out how the different pieces of the economic puzzle fit together definitely relates to the problem-solving skills that I've learned in the past. I think engineering is a great background, not just for becoming an engineer, but for a lot of other disciplines as well. To be an engineer, you need to think analytically and strategically, and figure out different possible solutions; so being open to different ways of looking at the same puzzle helps a lot in terms of looking at portfolio management.

What are some things that you learned on the job and not in the classroom?

Succeeding in portfolio management is really about having the ability to see things differently from the crowd. I think in some ways you have to go against your instinct a little bit. Human nature often says to hold onto your losses and give them a chance to turn around; likewise if you've made a profit, you want to realize it and feel happy about it. We remind ourselves here every day to take the opposite approach, so we try to let our profits run but to cut our losses early, and that goes against human instinct a little bit. But this is the way we try to maximize our profits on the winners, and limit our losses on the losers.

It's also important to have enough confidence to have strong convictions to be an excellent portfolio manager, I believe. If you don't have strong convictions with each trade you do, you're going to get in trouble. Being a strong, independent thinker is key, but you can only do that when you're confident that you've done all the due diligence and analysis needed. I think emigrating from Korea to America when I was 13 and having to adjust to the cultural differences and learn a new language defi-

nitely has contributed greatly to my ability to be able to see things from different perspectives, to not necessarily accept what someone else tells you, and not to be married to the consensus, but question it and prove it to yourself.

I think that confidence is developed over a long period of time. First of all, it starts with knowing your stuff, so once you've done your homework, have all the facts and know exactly what you're talking about, you feel confident that you're not missing any important pieces that could possibly throw your theory off a little bit. Also, I think that confidence is gained from working at different levels, at different positions. I remember starting out as a junior trader when I first got out of Wharton, and initially I knew very little. But over time, I took on greater responsibilities and I felt confident that I could do a very good job at the tasks that I was given. So confidence is not just heightened by fulfilling the task you're given, but by seeking out what more you can do. And I always thought it was important to try, at least, to go above and beyond the call of duty, and not just to complete the task and be satisfied with that. I suppose some of that is innate as well, but it's the ability to be able to trust in your instincts and to know that you've done the work that I think brings the most amount of confidence.

Do you think there is a glass ceiling in your industry? If so, how can minorities avoid hitting that glass ceiling?

I don't think there was ever a moment in my life where I thought to myself, "Gee, I want to be the best Asian female hedge fund manager there is." I just wanted to be the best, period. Now, I realize that I'm fortunate enough to be in a field where the way my work is judged is fairly black and white. If I outperform, I'll be rewarded. It truly is a meritocracy, and I realize not every business is that cleanly judged. However, I do firmly believe that cream rises to the top in any industry, and that talent, hard work, and perseverance is an unbeatable combination, and that combination is colorless and genderless. So I don't necessarily think that there is a glass ceiling, and I certainly haven't felt that being a woman or being a minority has hindered what I do today.

What is the most rewarding aspect of your career? What would you most like to change?

The intellectual challenge of my job is simply wonderful, with new puzzles to solve popping up all the time. We have a three-step approach to coming up with trade ideas. First, we develop a view of the global macro backdrop, and then we identify important macroeconomic trends. Next, we perform a more bottom-up fundamental analysis involving a country's credit, currency, interest rate market or equity market. Finally, within this framework, we drill into factors such as the market technicals or liquidity constraints. When all of this analysis is finished, that's when the real work begins.

Having a winning idea is only the beginning. Taking this idea and structuring it in such a way that the risk reward ultimately pays off for you is what's most important. Often times you can have a great idea and you may be right about the destination of a specific asset price, but it's not about the destination but the path that a certain asset takes that's going to be important in determining whether you make or lose money. Managing short term volatility and at the same time, trying to generate returns can be a tall order at times, which is why structuring an idea [so] that the risk reward pays off is what's really important. So when all of this comes together and results in a winning trade, it's obviously incredibly satisfying.

In terms of what I would like to change, I would like to see the hedge fund industry move toward more of a performance fee-based business and less of a management fee-based business. This way, managers are truly rewarded for out-performance and not merely for asset-gathering. In the hedge fund business, the fee structure is generally comprised of a management fee and performance fee. The management fee is charged on the assets that you have. Managers get paid irrespective of whether they make money. The performance fee is a percentage of whatever you make for your client. Assets under management in the hedge fund industry have really boomed over the last decade, and this has caused some portfolio managers to focus on gathering assets to have bigger and bigger-sized funds so that they can have bigger management fees rather than really beating the competition, out-performing, and taking a cut of what they make for the client. Basically, it comes down to getting paid for the "value" you create for your client and not necessarily for having a big business.

What impact has your career had on your personal and family life? Do you have any special techniques, methods and philosophies that help you maintain a work/life balance and be a successful professional?

I'm the type of person who enjoys juggling multiple challenges at the same time. I find it stimulating and exciting to be engaged in multiple ways in different parts of my life, and I think I tend to be more efficient when I have more things to do. Having said that, I don't get hung up on everything going as planned; I try to remain flexible and not stress out when unexpected things come up or when things don't go exactly as I might have imagined.

I think that support systems are absolutely critical both at home and at work. My number one support system is my husband. His flexible work schedule allows him to do some of the things that I wish I were able to but cannot do all the time. For example, he may take our daughter to the doctor when need be, he might pick her up from the nursery school, or he might run home at a moment's notice when there's a last-minute need. He has also been incredibly supportive of my having to work from home in the evenings when I have to trade Asian markets, and also he's been very supportive of my work-related travels. My nanny is also an important part of the support system. Knowing that there is someone reliable and loving looking after my child is a crucial part of what makes the balancing act possible.

Finally, my team at Bear Stearns is an incredibly important part of the support system. I lead a team of five co-portfolio managers. We have a very dynamic discussion approach in generating ideas and managing our portfolio where everyone is encouraged to play the devil's advocate and to try to poke holes in each other's theories, to help keep ideas flowing. There's constant communication, assessment and analysis of all of our ideas. I don't think there's a trade that any one of us has in our book that the rest of the team is not aware of. There's no way that I alone can know everything and there's no way that I alone can be right all the time. Having smart people around me who may look at things from a different perspective from me is what makes me a better investor. Having dependable people around me who can step in my shoes and keep the business flowing seamlessly when there's a need is what makes it possible for me to maintain a healthy work/life balance.

How do you cultivate something like that? What are some steps that you took to find these types of people that you're talking about?

It took some time to put it all together. When the fund was first launched, I had one other member on my team, and I actually met him by pure coincidence. He's been an instrumental part of this fund's success just in terms of trade execution, looking after day-to-day operational work, generating ideas. He wears many hats and he's been really great. And then the four other people that I hired subsequently I have known for a long period of time. I certainly had a bit of luck on my side with having good people right away, but I had a vision of the kind of team that I wanted to create and the kind of complementary skills that would be needed, and I took my time to create that vision. I didn't necessarily hire a person to fill a certain spot, but I waited for the right opportunity, for the right person to come onboard. And, that has all come together with my team at Bear Stearns.

Who is/was the most inspiring person to you in your career path?

I have admired entrepreneurs a great deal, especially those who have bounced back from earlier failures and gone on to succeed. Steve Jobs comes to mind as somebody who really loves what he does and dedicates himself wholeheartedly to his work. He didn't let his initial failure define him; he came back stronger than ever. I think that's the sign of someone great, someone who has the strength and resilience to bounce back from a setback and rise even higher.

What advice do you have for a young person considering a career within your company/industry?

More specifically within the industry, I would say to do what you love and the rest will follow. Don't get into the hedge fund industry because of the high-profile, well-paid individuals that you read about, but because you like analytical thinking and problem solving, enjoy cutting-edge intellectual challenges, and have a love of finance, for investing and trying to beat the market.

Do you find that those are the reasons people get into it, or do you see too many people getting into it for the monetary reasons?

I meet a lot of people who want to get into the hedge fund industry, but when you talk to them, they don't really know what it's about, so I think the lure of the monetary component is there. But the hedge fund industry is also a business where I don't think you can necessarily plan out your career. I think you have to follow your passion and it may lead you there. A finance, engineering or math background can be very helpful. But at the same time, I know of very highly educated, very smart individuals who have failed miserably at trying to run a hedge fund, so it's not just intellectual capacity. I think it's a combination of being a little bit smart, being very hardworking, having the courage to believe in your convictions, and being persistent in terms of going after what you're looking for. So, I don't know if it's necessarily a career you can map out, but I think if the love and the passion is there, it'll lead you to the right place.

Have you ever been mentored, or mentored others? How can someone find a mentor within their company/industry?

My biggest mentors were at my school, whether it was my high school chemistry teacher or my college economics professor; their love of what they taught was contagious and inspired me to become excited about what I was learning. I also had very supportive female mentors at Bankers Trust when I worked there a little while back. Bankers Trust had an unusually high number of very senior women professionals, and they always went out of their way to listen to me and answer my questions and guide me along the way.

I think seeking out mentors within Bear Stearns or within any company for that matter is a matter of taking the initiative. While there are formal mentoring programs throughout the company, you still need to take the first step to get involved. Another option is company affinity groups. Bear Stearns has a women's network, which is a great way to meet other women from all levels within the company. Outside of any formal programs, there are many senior people at Bear Stearns that I know who will gladly take on the challenge of being a mentor when asked. Also, when you join a company like Bear Stearns in a training program right out of college or business school, there will be many willing and helping hands. You could also seek out alumni from your alma mater. But really, I think it's a matter of finding someone that you admire and going up and asking them to be a mentor.

If you were not in your current position, what would your dream career be?

I would be an entrepreneur of some kind. In a lot of ways, running a hedge fund is like being an entrepreneur. If I weren't running this hedge fund, I'd be running some business, whether it's a small business or a big corporation. It's likely I wouldn't necessarily be the CEO of a big existing business or anything like that, but I would be creating a business from scratch and trying to make it work, and after I made it a viable business, I would move on to creating another business again. So I like the challenge of starting something from nothing and making it into a profitable, workable business.

What kind of business would you have?

I don't know. Even when I was in business school, I dabbled a little bit in retail here and there, but that was more of a hobby when I was going to school. If I were going to seriously think about it, I think it would be an everyday consumer type of business. Something that's tangible, something that people can relate to.