LIVING ON THE HEDGE

Young investor made $3 million, but all is not roses

BY KURT MOFFETT
REPUBLICAN-AMERICAN

Timothy Sykes wants to take the mystery out of hedge funds.

Sykes, who grew up in Orange and now lives in Hamden, is a former hedge fund manager who has learned the ups and downs of investing in a relatively short time. He's only 26 and in just a year's time, the value of his hedge fund, Cilantro Fund Management LLC, fell from $3 million to $1.2 million.

On Oct. 1, he closed his fund and released his first book, "An American Hedge Fund: How I Made $2 million as a Stock Operator and Created a Hedge Fund," with his own publishing company. The book details his surprisingly rapid gains in wealth to his sudden losses. Now he wants to tell the public his story so people can learn from his mistakes.

"I'm still worth $600,000 or $700,000 and that's pretty good," he said. "I want to inspire people, but I also want to show them the reality of the marketplace."

Sykes, a tall, slender man with curly brown hair, has never held a regular job. He has made his money playing the stock market.

His career as an investor, in a sense, started by accident. He

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T.J. KIRKPATRICK REPUBLICAN-AMERICAN

At Amity High School in Woodbridge, Timothy Sykes often skipped class and used a library computer to check the stock market.

MONEY: It’s in a book for all to read

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was the top tennis player at Amity High School in Woodbridge until he had Tommy John surgery on his left elbow during his senior year.

Bored, he started investing the $12,415 he was given for his Bar Mitzvah. He frequently skipped class and spent hours in the high school library checking online stock market message boards. He traded penny stocks — shares valued at less than $5 each — because that was all he could afford. His experience trading baseball cards as a youth, he said, was remarkably similar to playing the stock market.

By the time he graduated, he had made $50,000. Over the summer, his earnings jumped to $80,000 and by the end of the year, $130,000.

That success continued in college in late 1999 and early 2000, when stock market values skyrocketed from the growth in the Internet sector. In February 2000, while a freshman at Tufts University in Massachusetts, he made $123,000 in one weekend and invited all the students in his dormitory out to dinner.

When the dot-com boom fizzled by the spring of 2000, Sykes continued to experiment with different investment strategies. His competitive nature drove him to hit the $1 million mark. He learned how to short sell, a risky strategy of selling borrowed shares that are expected to decrease in value and yet make a profit.

The risk paid off and by the end of 2002, he had turned $12,415 into a pre-tax sum of $1.65 million.

“This was how I got my ego,” he said. “I didn’t know if I was genius or just lucky.”

By the spring of 2003, he was investing for friends and family members. He decided to start a hedge fund so that he would not have to put all of his assets at risk.

Barclays PLC, a global financial services provider, ranked his hedge fund as the No. 1 short-bias fund for 2003 to 2006 and Trader Monthly recognized him as one of the top 30 investment professionals under the age of 30 in 2006.

But his cockiness finally caught up to him. Despite having trouble luring big investors to his hedge fund, the fund’s value still increased by 20.4 percent in 2004 and 23.6 percent in 2005. He anticipated 2006 to be even better, but his investment into an e-ticketing company did not boom as he expected. He lost roughly a third of his fund assets on that one ill-fated venture.

With investors bailing on him and market adjustments making short selling unprofitable, Sykes was stuck. But he started making contacts with journalists and in September 2006, CNBC invited him for a five-minute interview.

TV comes calling

His charisma led to an invitation on a reality show called “Wall Street Warriors,” which aired on the high-definition online network, www.mojo-hd.com.He became a star as the frustrated investor. He kicks over a fan in one scene and gets drunk on a golf course in another.

"I had nothing to lose," he said. "My fund was dead. My strategy was dead. It was a total change from my earlier years."

His success on the show, though he was not paid, led to interviews with other media outlets, from CNN to Businessweek to Forbes.com. He said he's in high demand because he's the only hedge fund manager willing to talk about his failures. He said he has thrown away his future as a fund manager because investors don't trust managers known for making mistakes.

"You can't be yourself and disclose all the boneheaded moves that I do and be taken seriously," he said.

There are approximately 9,000 hedge funds in the world, with the U.S. having the most, according to Ralph Lambiase, the director of the securities division at the state Department of Banking. Greenwich is home to the third most hedge funds in the world, behind New York City and London. Hedge funds, therefore, are a very important part of the Connecticut economy, funding salaries more than any other financial source, he said.

But hedge fund managers are not going to disclose their investment strategies because they might lose money to competitors, Lambiase said. While hedge funds can provide a great boost to the economy, the lack of regulation can also lead to fraud or the closure of a fund because of overly aggressive investors taking one too many risks.

If regulatory changes are to be made, Lambiase said they should be made at the federal level because hedge funds involve so many different types of investments, from credit to equity to commodities.

"I have mixed feelings about hedge funds," he said. "They can be good for the economy, but there is the potential for some disruptive problems."

Sykes, meanwhile, believes the experiences he had with his hedge fund have presented him with another opportunity. He said he can teach the general public, through his book and appearances on television, about what a hedge fund is and how to invest without losing tons of money.

"People want to know about financial speculation — it's in their blood," he said. "They might not make $2 million, but I can least let them know about all the risks and rewards."

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