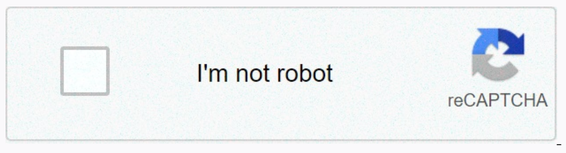

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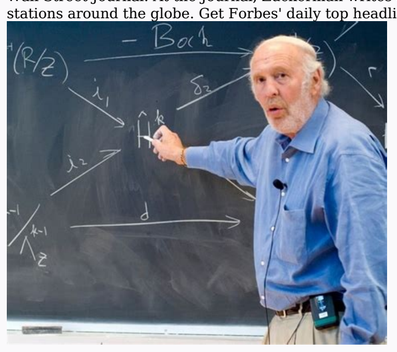
In the summer of 1978, Jim Simons was bursting with self-confidence. He had conquered mathematics, figured out code-breaking, and built a world-class university department at Stony Brook University. Now, he was sure he could master financial speculation.
Later that year, the 40-year-old mathematician, who had received his PhD from the University of California, Berkeley, launched his new investment company. He called it Monemetrics, combining the words “money” and “econometrics” to indicate that he would use math to analyze financial data and score trading gains. Simons would hire a team of big brains to pore through the market’s data to identify trends and develop mathematical formulas to profit from them. Simons wasn’t sure where to start, though.
All he knew was that currency markets had become unshackled, presenting profit potential. He did have an ideal partner in mind for his fledgling firm: Leonard Baum, a former colleague and mathematician who had spent time discerning hidden states and making short-term predictions in chaotic environments. Simons just had to convince Baum to risk his career on Simons’ radical, unproven approach. Penguin Random House Simons reached out to Baum, asking if he would spend a day at Monemetrics’ office on Long Island helping Simons set up a trading system to speculate on currencies. Baum chuckled at the invitation. He didn’t know much about trading, and cared so little about investing that he left the family’s portfolio entirely in his wife’s hands. Nonetheless, Baum agreed to spend some time assisting Simons, as a favor to his old friend. He began working with Simons once a week. By 1979, Baum, then forty-eight years old, was immersed in trading and eager to ditch his academic career, just as Simons had hoped. He had his first hire and was on his way. Simons himself wasn’t sure he’d stick with trading. Three years later, Simons changed Monemetrics’ name to Renaissance Technologies Corporation, reflecting his developing interest in these upstart companies. Simons came to see himself as a venture capitalist as much as a trader. He spent much of the week working in an office in New York City interacting with his hedge fund’s investors while also dealing with his tech companies. Baum was fine with Simons working from the New York office, dealing with his outside investments, and tending to family matters—he didn’t need much help. Baum was making so much money trading various currencies using intuition and instinct that pursuing a systematic, “quantitative” style of trading seemed a waste of time. Baum liked to purchase investments and sit on them until they rose, no matter how long it took. Courage was needed to hold on to investment positions, Baum told friends, and he was proud he didn’t buckle when others grew weak in the knees. His stubborn strategy enabled Baum to ride out market turbulence and rack up more than $43 million in profits between July 1979 and March 1982. His penchant for holding onto investments eventually caused sudden losses, however. “He had the buy-low part, but he didn’t always have the sell-high part,” Simons said. When the value of Baum’s investment positions plummeted 40 percent, it triggered an automatic clause in his contract with Simons, forcing Simons to sell all of Baum’s holdings and unwind their trading affiliation, a sad denouement to a decades-long relationship between the esteemed mathematicians. Baum’s losses in the 1984 trading debacle left deep scars on Simons. He halted his firm’s trading and held disgruntled investors at bay. The losses were so upsetting that Simons contemplated giving up trading to focus on his expanding technology businesses. Simons gave clients the opportunity to withdraw their money. Most showed faith, but Simons himself was wracked with self-doubt. The setback was “stomach wrenching,” he told a friend. “There’s no rhyme or reason.” Simons had to find a different approach. He began amassing pricing data, developing algorithms to predict the market’s next move, and building trading models that could run on their own.
It would take years, but he’d finally discover an investing formula capable of conquering financial markets. He’d work just as hard to keep his formula a secret.• • • By December 2018, Simons had spent more than three decades pioneering and perfecting a new way to invest. He had inspired a revolution in the financial world, legitimizing a quantitative approach to trading. By then, it seemed everyone in the finance business was trying to invest the Renaissance way: digesting data, building mathematical models to anticipate the direction of various investments, and employed automated trading systems. Simons’ success validated the field of quantitative reasoning. By then, quants and others in various industries had embraced Simons’ machine learning techniques. Indeed, he and his colleagues at Renaissance had anticipated the transformation in decision-making that’s sweeping almost every business and walk of life. More companies and individuals are accepting and embracing models that continuously learn from their successes and failures. As investor Matthew Granade has noted, Amazon, Tencent, Netflix, and others that rely on dynamic, ever-changing models are emerging dominant. The more data that’s fed into machines, the smarter they’re supposed to become. Just as Jim Simons predicted. In June 2019, Renaissance managed a combined $65 billion, making it one of the largest hedge-fund firms in the world. The firm represented as much as 5 percent of daily stock-market trading volume, not including high-frequency traders. Important lessons emerge from Simons’ story. For one thing, his firm’s success is a useful reminder of the predictability of human behavior. Renaissance studies the past because it is reasonably confident that investors will make similar decisions in the future. At the same time, staffers embrace the scientific method to combat cognitive and emotional biases, suggesting there’s value to this philosophical approach when tackling challenging problems of all kinds. They propose hypotheses and then test, measure, and adjust their theories, trying to let data, not intuition and instinct, guide them. The gains Simons and his colleagues have achieved might suggest there are more inefficiencies in the market than most assume. Renaissance showed that with enough data, computational power and modeling experience, it’s possible to deduce many of the hidden factors moving the security prices otherwise invisible to other investors. In truth, there likely are fewer inefficiencies and opportunities for investors than generally presumed. For all the unique data, computer firepower, special talent, and trading and risk-management expertise Renaissance has gathered, the firm only profits on barely more than 50 percent of its trades, a sign of how challenging it is to try to beat the market—and how foolish it is for most investors to try. Adapted from The Man Who Solved the Market by Gregory Zuckerman, published by Penguin Random House. © 2019 by the author. Gregory Zuckerman is the author of The Greatest Trade Ever and The Frackers, and is special writer at the Wall Street Journal. At the Journal, Zuckerman writes about financial firms, personalities, and trades, as well as hedge funds and other investing and business topics. He’s a three-time winner of the Gerald Loeb award, the highest honor in business journalism. Zuckerman appears regularly on CNBC, Fox Business, and other networks and radio stations around the globe. Get Forbes' daily top headlines straight to your inbox for news on the world's most important entrepreneurs and superstars, expert career advice, and success secrets. Download The Man Who Solved the Market by Gregory Zuckerman PDF book free online.



Jim Simons is the greatest money maker in modern financial history. No other investor–Warren Buffett, Peter Lynch, Ray Dalio, Steve Cohen, or George Soros–can touch his record. Since 1988, Renaissance’s signature Medallion fund has generated average annual returns of 66 percent. The firm has earned profits of more than $100 billion; Simons is worth twenty-three billion dollars. Drawing on unprecedented access to Simons and dozens of current and former employees, Zuckerman, a veteran Wall Street Journal investigative reporter, tells the gripping story of how a world-class mathematician and former code breaker mastered the market. Simons pioneered a data-driven, algorithmic approach that’s sweeping the world. As Renaissance became a market force, its executives began influencing the world beyond finance. Simons became a major figure in scientific research, education, and liberal politics. Senior executive Robert Mercer is more responsible than anyone else for the Trump presidency, placing Steve Bannon in the campaign and funding Trump’s victorious 2016 effort. Mercer also impacted the campaign behind Brexit.