Stock and Company Experience (Hedge Funds)

Interview preparation summary · HF track

IN THIS SUMMARY

- Telling the story of a stock or trade
- Defending and critiquing
- Limited or no track record

INT.HX.1.a · Telling the story of a stock or trade

Tell the story of a stock you pitched or followed in a clear order: the idea, the variant perception, valuation, catalysts and risks.

When an interviewer says tell me about a stock you pitched, they are testing whether you can turn research into a short argument and whether the work is really yours. A strong story runs in a fixed order. First the idea in one sentence: long or short, the price, the target and the time frame. Then the variant perception, meaning what the market believes, what you believe instead, and the evidence for the gap. Then valuation, with the multiple or cash yield, the peers or history you compared against, and a bear, base and bull value. Then the catalysts, dated and observable, that would make the market change its mind. Then the two or three risks that could break the thesis, and what you would watch to know. Keep company description to a sentence. Common mistakes are opening with history, calling cheapness a thesis, naming catalysts that are only hopes, and listing every risk with equal weight. Say I for what you did and we for what the team did.

WORKED EXAMPLE: TURNING A LIST OF FACTS INTO A PITCH STORY

A candidate describes Corvane Lifts, an invented lift maker and servicer, like this: it has been listed for decades, makes lifts, has a service arm, trades at £6.40 and looks cheap. Rebuild this as a story with idea, variant perception, valuation, catalysts and risks. Facts: 50m shares, net debt £80m, EBITDA £50m. Peers trade at about 10 times EV to EBITDA. Consensus assumes service margins stay flat, but service contracts renew over the next 12 months at higher prices than the old ones, which should lift EBITDA to £58m. Net debt should fall to £60m. In a bad case, renewals slip and EBITDA falls to £44m with net debt of £90m. Conventions: ignore tax and dividends; enterprise value is market capitalisation plus net debt.

Answer: Long Corvane at £6.40, base target £9.24, bear case £4.36. The market is pricing flat service margins while renewal pricing is already contracted. The half-year results are the catalyst, and flat service margin there would tell me I am wrong.

> **Interview tip:** Give the one-sentence idea first, then the gap between your view and the market, then the numbers. Say the bear case out loud, because it shows you have thought about being wrong.

INT.HX.1.b · Telling the story of a stock or trade

Explain what the price did and why, say whether you were right for the right reason, and present a track record honestly.

The second half of a good story is what happened. Describe the price path against your thesis: when you entered, what the stock did, which of your catalysts arrived, and where you exited or still are. Then separate outcome from reasoning. Being right for the right reason means the profit came from the mechanism you described, such as earnings rising or the multiple closing the gap you identified. Being right for the wrong reason means the stock rose because of a takeover bid, a sector move or a lucky event while your thesis did not play out, and an honest candidate says so. A useful tool is to split the return into change in earnings, change in multiple and change in net debt, and compare each with what you predicted. For a track record, give the number of ideas, how many worked, average gain and loss, the position sizes, the period, and whether returns were real positions or paper. Claim a hit rate only with its denominator. Never present a small sample as a skill, and never hide the ideas that failed.

WORKED EXAMPLE: CHECKING WHETHER A WINNER WAS WON FOR THE RIGHT REASON

A candidate says: I bought Tallis Components, an invented parts maker, at £12.00 and sold at £15.00 a year later, a 25% gain, so the thesis worked. The thesis was that EBITDA would rise from 75m to £90m. Facts at entry: 50m shares, net debt 150m, EBITDA 75m. At exit: share price 15.00, net debt 140m, EBITDA 74m, and a sector takeover bid for a peer had lifted valuations across the group. Decide whether the candidate was right for the right reason. Conventions: enterprise value is market capitalisation plus net debt; ignore dividends and tax.

Answer: The 25% gain came entirely from the multiple moving from 10.0 to 12.0 times, helped by a peer takeover. EBITDA fell from 75m to 74m instead of rising to 90m. I was right on the price and wrong on the reason.

> **Interview tip:** When a position made money, ask yourself out loud which part of your thesis played out. Interviewers trust a candidate who volunteers a lucky win more than one who claims every gain.

INT.HX.2.a · Defending and critiquing

Defend a pitch against probing challenges on why now, what is priced in and what happens if the thesis is only half right.

After the story comes the challenge, and the interviewer is testing judgement more than the idea itself. Three challenges recur. Why now asks what changes in the next few months that makes this the time and not last year or next year. A good answer names a dated, observable event, or admits that the timing is uncertain and the position would be sized small. What is priced in asks you to reverse the valuation: at today's price and a reasonable multiple, what earnings is the market already assuming, and is your forecast above or below that. What if you are half right asks what happens if only part of the thesis plays out, and the answer must be a number, because when half of the improvement is already in the price a half-right thesis may earn nothing. Defend with evidence, concede points that are fair, and say what fact would change your mind. Rigid defence and instant collapse both fail.

WORKED EXAMPLE: ANSWERING WHAT IS PRICED IN AND WHAT IF HALF RIGHT

You have pitched Brannock Valves, an invented valve maker, as a long at £18.00. Facts: 50m shares, net debt £100m, EBITDA £80m this year, your forecast of £125m in two years, and a mid-cycle multiple for the sector of 10 times EV to EBITDA. The interviewer asks: what is priced in, and what if you are only half right? Conventions: enterprise value is market capitalisation plus net debt; ignore tax, dividends and discounting.

Answer: The market already assumes about 100m of EBITDA, a quarter above today's 80m. My 125m case is worth £23.00, 28% up. If I am half right, EBITDA of 102.5m gives £18.50, so I earn about 3%. The edge is in the second half, and I size accordingly.

> **Interview tip:** Never answer what if you are half right with a feeling. Compute the half-right value, say what it earns, and say what you would watch to learn which half you are getting.

INT.HX.2.b · Defending and critiquing

Account for a mistake of your own, and critique someone else's described pitch or trade by the same standard.

Interviewers ask about mistakes to see whether you learn. A strong account has five parts: what the thesis was, what happened, what you got wrong, what it cost in pounds or percent of the portfolio, and what you changed afterwards. Typical mistakes are a thesis that broke while you waited for a recovery, a stop you moved or ignored, a position held long after the catalyst passed, adding to a loser without new evidence, and sizing too large for the uncertainty. Name the mistake plainly and avoid disguised strengths such as I cared too much. The change must be specific: a written exit rule, a review trigger, a size limit. The same standard applies when you critique someone else's pitch. Look for a claim without evidence, cheapness offered as a thesis, a catalyst with no date, a missing bear case, risk not sized, a result judged only by its outcome, and ask what you would need to know before deciding. Judge the process, not whether the trade happened to win.

WORKED EXAMPLE: OWNING A POSITION HELD THROUGH A BROKEN THESIS

Describe a mistake. Invented example: you were long Penrose Textiles at £50 at 3% of the portfolio. The thesis was that a new contract would lift margins. Your written rule was to reduce if the stock fell 15%. The company then lost the contract, and you kept the position, telling yourself the price already reflected it. The stock fell to £30 before you sold. Quantify the cost and build the answer. Conventions: ignore costs, dividends and any other holdings; losses are measured against portfolio value.

Answer: I held a 3% position through a broken thesis and lost 1.2% of the portfolio, where my own 15% rule would have cost 0.45%. The mistake was discipline, not research. Now thesis-break events are written down at entry and trigger a cut the same day.

> **Interview tip:** Put a figure on the cost and name the specific rule you changed. A mistake story with no number and a vague lesson sounds rehearsed.

INT.HX.3.a · Limited or no track record

Present a company you follow with a fully worked view, even without a position, including entry price, scenarios and what would make you act.

If you have never run money, the interviewer still wants to see how you think, so bring a company you follow closely and treat it as if you were deciding today. A fully worked view has a business in one sentence, the variant perception or a clear reason there is none, a valuation with scenarios, a price at which you would buy or short and a price at which you would not, catalysts with dates, the main risks and the evidence you track. Give probabilities and values for bear, base and bull cases and compute the probability-weighted value. The strongest candidates also say when the answer is pass: a good company at the wrong price is a perfectly good conclusion, and shows that you separate quality from price. Say how long you have followed it, what you read, what you got wrong in your early view, and what you would check next. Do not pretend it is a live position, and do not offer a view with no numbers.

WORKED EXAMPLE: A WORKED VIEW THAT ENDS IN A PRICE TO ACT AT

You follow Ostrava Foods, an invented packaged foods group, which trades at £50. You have no position. Your scenarios for 18 months ahead: bear £35 with 25% probability, base £58 with 50%, bull £72 with 25%. The interviewer asks: would you buy it today? Conventions: ignore dividends, costs and discounting; use the probability-weighted value as the expected value.

Answer: My probability-weighted value is £55.75, an expected return of 11.5% at 50, with a poor skew of £8 up in the base case against 15 down in the bear. I would pass at 50 and start buying at 44, where the expected return is 27%.

> **Interview tip:** A pass with a price to act at is a complete answer. Avoid forcing every followed company into a buy or a short.

INT.HX.3.b · Limited or no track record

Analyse a public trade as if you had taken it, and be honest about what you did and did not do yourself.

Another way to show your ability is to take a public event, such as a profit warning, a takeover bid or a results reaction, and analyse it as if you had held the position. The discipline is to reason from what was knowable at the time. State the information available then, the thesis you would have had, the entry, the risk and the exit, and only afterwards the outcome. Use hindsight honestly: what the event taught, and what was luck. Always label the exercise: this is a hypothetical, I did not trade it, and I did not have the position under real loss. Include costs such as borrow for a short. Do not claim a hit you did not make, do not describe a team's work as your own, and do not call a back-test a track record. When asked what you personally did, separate research you carried out, numbers you built, decisions you recommended and decisions someone else took. Honesty about the limits tends to build more credibility than inflated claims, because every follow-up question is easier to answer.

WORKED EXAMPLE: A HYPOTHETICAL SHORT, LABELLED AS SUCH

A public example for analysis: Dunmore Retail, an invented chain, traded at £5.00. It then issued a profit warning and fell to £3.90. Analyse a hypothetical short taken the week before at 5.00, sized at 2% of a portfolio, with a stop at 5.75 and a target of 3.75. Assume borrow cost of 3% a year for three months. Conventions: ignore other costs and dividends; the exercise is hypothetical and no position was taken.

Answer: As a hypothetical, the short at 5.00 with a stop at 5.75 and target at 3.75 risks 15% to make 25%. The actual fall to 3.90 would have netted 21.25% after borrow, 0.425% of a 2% position. The thesis was inventory build, the timing was luck, and I did not trade it.

> **Interview tip:** Label the exercise as hypothetical in your first sentence. Interviewers forgive limited experience much more readily than they forgive a claim that falls apart under one follow-up.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.