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A Cautionary Note for Traders Looking to Jump to Hedge Funds

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Since Washington's mandated that banks significantly scale back on prop trading, their traders probably won't earn as much as they traditionally have. And once banks begin divorce proceedings with their private equity groups and other "risky" businesses, many are bound to jump ship. No surprise, the Street expects a lot of them will move into hedge funds.

If you're one of them, you'll have to get in touch with your inner business owner. Bruce Lipnick - who runs Asset Alliance, an investment manager that acquires, seeds and grows hedge funds - notes that "trading and running a business are two different things." Plus, **he says**:

It’s possible that many traders just want to trade – it’s what they do best – not necessarily worry about marketing their funds, managing overhead and building their platforms or working directly with limited partners or institutional investors.

None of which means Lipnick thinks traders can't make the jump. He does. "I believe that good traders can be converted into successful hedge fund managers, and that they will increasingly see value in building equity in their own fund," he says.

As for those who stay behind: Banks are trying to figure out ways to keep their prop-trading businesses, which may mean more competition for those not willing to strike out on their own.