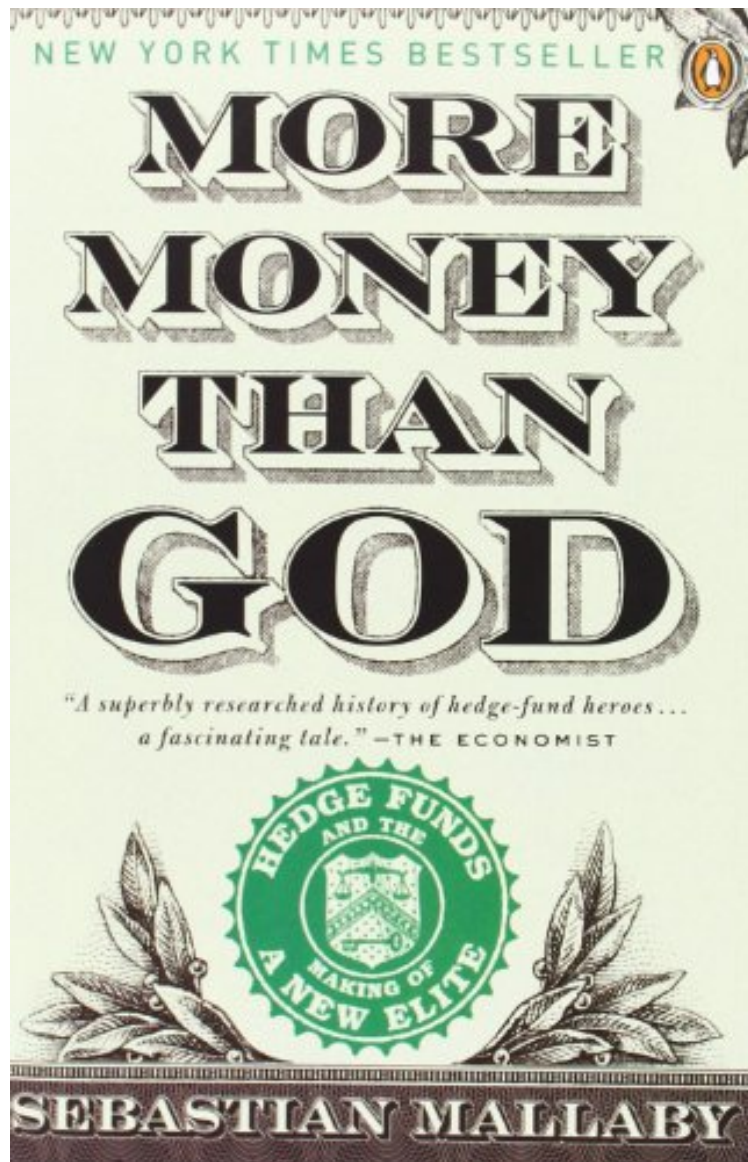


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## More Money Than God: Hedge Funds and the Making of a New Elite (Council on Foreign Relations Books (Penguin Press))

Sebastian Mallaby

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#30725 in Books Sebastian Mallaby 2011-05-31 2011-05-31 Original language: English PDF # 1 8.38 x 1.08 x 5.46l, .78 #File Name: 0143119419512 pages More Money Than God Hedge Funds and the Making of a New Elite | File size: 70.Mb

Sebastian Mallaby : More Money Than God: Hedge Funds and the Making of a New Elite (Council on Foreign Relations Books (Penguin Press)) before purchasing it in order to gage whether or not it would be worth my time, and all praised More Money Than God: Hedge Funds and the Making of a New Elite (Council on Foreign Relations

Books (Penguin Press)):

6 of 6 people found the following review helpful. Great read. Balanced, cohesive and enlightening. By CHARLES MCDONALDI really needed a book that summarised different investing approaches by world renowned figures and this book did it - perhaps even better than Michael Lewis's *Liars Poker*. Great summary of growth of hedge funds and how they've evolved. Don't think there's another book like it. If you want to learn on how big names invest this is the way to go.

6 of 6 people found the following review helpful. An Epic Contribution to the History of Finance. By William Dahl. This is the magnum opus on the hedge fund industry. As other hedge fund related books seek to either vilify the industry or brazenly praise the uncanny good fortunes industry insiders - this book does neither - which I found refreshing and a strategic positioning of this work from "the rest."

Sebastian Mallaby is currently the Paul Volcker Senior Fellow for International Economics at the Council on Foreign Relations. He's also a columnist at the *WA Post* and spent over a decade with *The Economist* responsible for international finance coverage - serving a bureau chief in Washington, Japan and southern Africa. He is the author of several noteworthy books on the political economy. This work is an epic contribution to the historical evolution of certain financial products and the global industry(s) spawned therefrom in primarily, the western world. Welcome to the hedge fund industry, including an amazing cast of characters, their thought processes, training, relationships and the outcome of their work - *The Making of A New Elite - with More Money Than God*. Admittedly, it is rare for me to dedicate myself to the reading of 400+ pages contained in any one volume, on any subject. Yet, the manner in which this book develops contains the unique qualities that inflame the desire within reader to come back for more. Incredibly well-written, researched, balanced and apolitical. This work is **REQUIRED READING** as an essential component in developing an understanding of global financial markets, risk assessment, risk management and the art of speculation. As I read the book, Mallaby makes some points that have been central themes of other authors (See *The WSJ's* Scott Patterson's - *The QUANTS*), regarding the miscues that fueled poor investment/risk management strategies. Listen to Mallaby to garner the essence of this observation as it relates to the "art of speculation" - "The art of speculation is to develop one insight that others have overlooked and then trade big on that small advantage." P.91 "After the 1971 debacle, Weymar set about rethinking his theory of the market. He had begun with an economist's faith in model building and data: Prices reflected the fundamental forces supply and demand, so if you could anticipate those things - you were your way to riches. But experience had taught him some humility. An exaggerated faith in data could turn out to be a curse, breeding the Sol of hubris that leads you into trading positions too big to be sustainable." "The real lesson of LTCM's failure was not that its approach to risk was too simple. It was that all attempts to be precise about risk are unavoidably brittle." P.231 (LTCM) Had misjudged the precision with which financial risk can be measured." p.245. The point is that an unrepentant belief in the quantitative modeling that provides that "one insight that others have overlooked and then trade big on it" can have enormous consequences in either capturing returns or accelerating a cataclysmic demise of the capital under management. How has that all worked out, in recent years? According to Mallaby, "Between 2000 and 2009, a total of about five thousand hedge funds went out of business, and not a single one required a taxpayer bailout." Ah yes, "bailouts" - what is Mallaby's take on this issue? Listen to the following: "Capitalism works only when institutions are forced to absorb the consequences of the risks that they take on. When banks can pocket the upside while spreading the cost of their failures, failure is almost certain." P.13. Mallaby is clearly not a proponent of "privatizing the gains and socializing the losses." What about our affection with history that drive financial and other forms of socio-economic modeling. Mallaby has some succinct insights: "Projections are based on historical prices, and history could be a false friend." P. 233. "In 1997, Merton and Scholes (LTCM) received the news that they had won the Nobel Prize for economics. The award was greeted as a vindication of the new finance: The inventors of the option-pricing model were being thanked for laying down a cornerstone of modern markets. By creating a formula to price risk, the winners had allowed it to be sliced, bundled, and traded' I thousand ways the fear of financial losses, which for centuries had acted as a brake on human endeavor, had been tamed by an equation." P.231. So, where does Mallaby leaves us at the end of this magnum opus? His analysis leads him to conclude "The worst thing about the crisis is that it is likely to be repeated." P. 377. However, to suggest that the hedge fund industry was the primary culprit in either the creation or magnitude of the Great Recession would be erroneous. Again, between 2000 and 2009, 5,000 hedge funds are to have ceased operations - none of which required a taxpayer bailout. Mallaby also takes a rather benign approach to the plausibility/practicality of regulating this industry ("The record suggests that financial regulation is genuinely difficult, and success cannot always be expected." P. 379). Yet, at the conclusion of this work, one quote from Mallaby continues to resonate with me: "It is the nonintuitive signals that often prove the most lucrative." p.302. However, the term "lucrative" as is as applicable to assessing risk and thereby avoiding potential losses, as it is to capturing returns on investment. Like I said, an epic contribution to the historical evolution of the hedge fund industry. An uncanny, incredibly thorough, balanced treatment - written in a way that is appropriate for both industry insiders, and the lay-person. A perfect volume for graduate coursework in finance -- one that focuses on human beings, as well as the quantitative financial services products they develop and deploy in the global markets today.

2 of 2 people found the following review helpful. A good read...money well spent. By Richard Williams. Over the

course of time I have created quite a library of books on the financial industry as well as tomes written by the likes of Bair Geithner. I've visited Bretton Woods and searched the maddening of crowds and manias. That said, very seldom do I feel the need to write a review, but in this case, I make an exception. Well researched, enlightening in its depth, yet readable in its flow. Familiar with all the players covered here but gained depth of understanding of what they did and how they functioned. Not since *The Seven Sins of WallStreet* have I had a can't put it down read. This qualifies. If you have an interest in the story of Hedge Funds, do yourself a favor and give this a read.

"Splendid...the definitive history of the hedge fund, a compelling narrative full of larger-than-life characters and dramatic tales." -- *The Washington Post* Wealthy, powerful, and potentially dangerous, hedge fund moguls have become the It Boys of twenty-first-century capitalism. Beating the market was long thought to be impossible, but hedge funds cracked its mysteries and made fortunes in the process. Drawing on his unprecedented access to the industry, esteemed financial writer Sebastian Mallaby tells the inside story of the hedge funds, from their origins in the 1960s to their role in the financial crisis of 2007 to 2009. Read Sebastian Mallaby's new book, *The Man Who Knew: The Life and Times of Alan Greenspan*.

.com Sebastian Mallaby on Hedge Funds I set out to write the history of hedge funds for two reasons. Explaining the most secretive subculture of our economy posed an irresistible investigative challenge; and the common view of hedge funds seemed ripe for correction. Hedge funds were generally regarded as the least stable part of the financial system. Yet they managed risk better than banks, investment banks, insurers, and so on and they did so without a safety net from taxpayers. Four years on, the book is done; and both my original motivations have been vindicated. Unearthing the story of hedge funds has been pure fun: From the left-wing anti-Nazi activist, A. W. Jones, to the irrepressible cryptographer, Jim Simons, the story of hedge funds is packed full of larger than life characters. Getting my hands on internal documents from George Soros Quantum Fund; visiting Paul Tudor Jones and reading the eureka emails he wrote in the middle of the night; poring over the entire set of monthly letters that the Julian Robertson wrote during the twenty year life of his Tiger fund; interviewing Stan Druckenmiller, Louis Bacon, and hundreds of other industry participants: my research has yielded a wealth of investment insights, as well as an understanding of why governments frequently collide markets. Meanwhile, the financial crisis of 2007-2009 vindicated my hypothesis that hedge funds are the good guys in finance. They came through the turmoil relatively unscathed, and never took a cent of taxpayers money. Since the book has come out, many readers have posed the skeptical question: Do hedge funds really make money systematically? The answer is an emphatic yes; and without giving the whole book away, I can point to a couple of reasons why hedge funds do outsmart the supposedly efficient market. First, hedge funds often trade against people who are buying or selling for some reason other than profit. In the currency markets, for example, hedge funders such as Bruce Kovner might trade against a central bank that is buying its own currency because it has a political mandate to prop it up. In the credit markets, likewise, a hedge fund such as Farallon might trade against pension funds whose rules require them to sell bonds of companies in bankruptcy. Its not surprising that hedge funds beat the market when they trade against governments and buy bonds from forced sellers. Second, the hedge-fund structure makes people compete harder. There is an incentive to manage the downside: hedge-fund managers have their own money in their funds, so they lose personally if they take losses. There is an incentive to seek out the upside: hedge-fund managers keep a fifth of their funds profits. This combination explains why hedge funds were up in 2007, when most other investors were losing their shirts; it explains why they were down in 2008 by only half as much as the SP 500 index. People sometimes suggest that hedge funds survived the subprime bubble by fluke perhaps their ranks include wacky misfits who are naturally contrarian. But there is more to it than that. John Paulson poured \$2 million in the research that gave him the conviction to bet against the bubble. The hedge-fund structure created the incentive to make that investment. Financial risk is not going away. Currencies and interest rates will rise and fall; there will be difficult decisions about how to allocated scarce capital in a sophisticated and specialized economy. The question is who will manage this risk without demanding a taxpayer backstop. The answer is hiding in plain sight: To a surprising and unrecognized degree, the future of finance lies in the history of hedge funds. --Sebastian Mallaby (Photo of Sebastian Mallaby Julia Ewan)