CHAPTER 1

CATCH A WAVE

The recruiter's message was garbled and vague: *Large, well-known private equity player looking to launch multi-strategy hedge fund.*

It was late November 2006. I already worked for a large, well-known hedge fund firm, Magnetar Capital. Magnetar was launched in April 2005 by a 39-year-old numerical savant named Alec Litowitz, formerly the Head of Equities at Citadel Investment Group and considered to be a master of merger arbitrage. Litowitz had joined forces with ex-Glenwood Capital Partners president Ross Laser. Man Group Plc had acquired Glenwood in 2000, producing a nice windfall for Laser; Litowitz, meanwhile, had been producing handsome profits at Citadel. Together, the two set up headquarters in Evanston, Illinois, outside Chicago and not far from Northwestern University. Magnetar opened its doors for business with $1.7 billion in assets under management. At the time, it was one of the largest hedge fund startups ever. Less than two years later

Magnetar's assets neared $4 billion, it had expanded its reach to open offices in New York and London, and it was charging after numerous forms of portfolio strategies not limited to merger arb or equities.

Around the time Magnetar was forming, I launched, along with my partner Harry Schwefel, a hedge fund management company called Falconhenge Partners, and a flagship hedge fund of the same name. We put up some impressive numbers, which eventually came to the attention of Laser, who proposed folding our team into Magnetar. Laser wasn't alone in his pursuit during the first half of 2006. Dan Och of Och-Ziff Capital Management was also courting Harry and me. Deciding which offer to take put us in an enviable position, although it was still a difficult choice. In May 2006, we chose Magnetar.

The recruiter called not long after I'd joined Magnetar's New York office, and I wasn't looking to leave. So I ignored the message.

Most hedge fund portfolio managers (PMs), if they're any good, can expect to hear from a headhunter now and again, perhaps every other month. In the latter half of 2006, with hedge fund mania spiking, it seemed like I was getting calls from PM-seeking recruiters every other week.

Later that same November afternoon, the recruiter called again, and I let her go to voice mail again. This time, she mentioned the name of the firm looking to get into the hedge fund business: The Carlyle Group.

After the close, I called her back.

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In terms of sheer size and clout, few investment firms are on Carlyle's level. Around the time it set out to conquer the hedge fund business, Carlyle's total assets under management were nearing $60 billion, spread across 50-plus funds, mainly in private equity vehicles, and via those funds Carlyle controlled huge stakes in hundreds of companies all around the world. With alternative asset management rivals The Blackstone Group and Fortress Investment Group both preparing to go public, it was hardly a secret that Carlyle might be entertaining a similar course.

Based in Washington, DC, the firm was setting up its new hedge fund arm, Carlyle-Blue Wave Partners, in the heart of Midtown Manhattan, securing prime commercial real estate on the Avenue of the Americas just south of Central Park, the New Wall Street, post-9/11. I was told Carlyle was sparing no expense, setting a launch target of $1 billion. Considering the firm's access to institutional channels, corporate and state pension funds, nonprofit foundations, and university endowments, not to mention the world's wealthiest individuals, such a goal did not seem like a stretch. To Carlyle, $1 billion was strategically nimble.

My curiosity sufficiently aroused, and having apparently passed the recruiter's smell test, I soon sat down with the two ex-Deutsche Bank executives who had been tapped by Carlyle CEO David Rubenstein to create Carlyle-Blue Wave. Rick Goldsmith and Ralph Reynolds had formed a joint venture along with Carlyle that August and promptly set about building one of the largest, most ambitious hedge fund startup teams yet created in an era marked by a series of sizable, noteworthy hedge fund startups.

Reynolds had been Deutsche Bank's global head of proprietary trading and would serve as Carlyle-Blue Wave's CIO; Goldsmith, who had been in charge of a highly profitable hedge fund division of Deutsche Bank, would be the Chief Executive. They teamed up on fundraising and recruiting fund managers. They made quite a pair—Reynolds reserved to the point of saying next to nothing but listening intently, Goldsmith doing all the talking, amiable and sharp. Following a second episode of the "Rick and Ralph Show," I found myself on an impromptu tour of Blue Wave's new digs, completely empty at the time except for some workers doing renovations. The trading floor would be top flight, ultramodern, and it would be enormous, taking up the office tower's entire 16th floor. The space previously had been occupied by Archipelago Holdings, the electronic trading platform which one year earlier merged with the New York Stock Exchange. Around the floor's perimeter were several spotless glassed-off rooms, earmarked for various sector teams that were in the midst of being assembled. Carlyle-Blue Wave, I'd been told, was building a dream team, and I didn't doubt it. A few months earlier, after hedge fund heavyweight Amaranth Advisors imploded, a number of hedge fund competitors scrambled to pick off the firm's most talented traders not based in Calgary, Alberta.* Several of them, including long/short veteran John Bailey, would be joining.

I stared around the room at the rows of empty workspaces. Goldsmith said the floor plan had my group, Long/Short Global Consumer, situated in the dead center of it all.

At some point after that second meeting, Goldsmith was feeling me out for my "number," which meant my compensation requirement—what would get me to leave my current employer? Thankfully, this wasn't my first negotiation rodeo. In the end, "Rick and Ralph" came back with an offer that would be very hard for me to turn down.

But I'd had some other requirements as well. I would get to handpick my own investment team, whomever I wanted. *Of course.* Additionally, I would need to attend any industry conference event anywhere on the planet—travel anywhere my research led me. *Not a problem.* As a kicker, and since I commuted into Manhattan

*Amaranth, based in Greenwich, was felled in September 2006 by one trader's staggering losses—about $6 billion all told—linked to outsized, highly leveraged, long bets on the direction of natural gas prices. The aggressively bullish position, doubled down upon as prices were falling precipitously, was the handiwork of a 32-year-old trader named Brian Hunter operating from a satellite office in Calgary.

from Westchester County, I wanted to be put up one night a week in a four-star hotel, of my choosing, near the office. *Done.*

That night, I talked over Carlyle's offer with my wife Laura. She'd worked on Wall Street, too, and knew this was a rare opportunity. Few hedge fund jobs on the Street were of this magnitude. As a Carlyle-Blue Wave PM, my research team, my access to executives, *my sphere of influence*, would be scarcely matched. Corporate America was at my disposal.

"This is what you've always wanted, isn't it?" she'd asked.

I suppose. But the decision had come down to the money, the title, and the prestigious platform versus the satisfaction of working with a close, collaborative team. That's what I had with my existing colleagues, particularly Harry, my thought partner of nearly four years. Money and title versus loyalty.

I took the money and the title.

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That December, the Carlyle-Blue Wave gig largely secured, my bank balance about to reach a level I never dreamed possible, and the holidays approaching, I boarded a flight, along with my wife Laura, to Thunder Bay, Ontario. A snowy Christmas in Thunder Bay surrounded by family and friends had become an annual grounding ritual, no matter what was going on in my life. Certainly, I had come a long way.

In just under one year I'd gone from running a startup hedge fund with tens of millions, to overseeing hundreds of millions, to now, at age 31, becoming part of a group that was seeking to start off with $1 billion housed within a still larger group that managed north of $50 billion. My ascent through the hedge fund ranks had been a rocket ride at a time when the industry was erupting, in terms of numbers of funds, assets in them, and compensation totals for the guys in charge. Whether I realized it at the time—and in some ways I think I did—the apex of the hedge fund bubble was at hand. Sitting around the Christmas tree with my family, the Wall Street world, for the moment at least, did not exist. Apart from my dad and my younger brother Ryan, who asked me questions now and again about what it was that I actually did for a living, no one else back home knew much of anything about what I was up to in the Big City.

It's not that people from Thunder Bay disliked hedge fund managers; they just didn't give a hoot. Which was fine by me, and one of the main reasons why I always return there.