Chapter 1

The Legends I Have Met

A Behind the Scenes Look at What Makes a Legend

Writing a book is work, hard work at times. So why do it? Well, no one said that work can't be enjoyable and I enjoy writing. In some respects, writing fiction is easier because you can just make stuff up, which is great for people who drink a lot or use mind-bending drugs. Fortunately, or unfortunately as the case may be, I don't imbibe to excess with the former and have never partaken of the latter so I am left with an unimpaired yet fertile imagination that occasionally lets me down by being very infertile. Such is the difficulty with fiction: The occasional inability to create something from nothing and then having to toil laboriously to make it sound coherent and interesting. But, I write fiction because I enjoy letting my mind wander and putting those thoughts down on paper, fictitious thoughts that no one can say are incorrect. I enjoy the vacation from reality.

Nonfiction, on the other hand, is easier on the creative engine in terms of developing the material. Sure, you still have to make the book interesting and entertaining, no doubt about that, or people may read the phone book instead, a literary tome that arrives free of charge. But with nonfiction, at least the track is already in place, the basic content available if you know where to get it. In fact, what I enjoy most about writing nonfiction is the process of gathering material. It provides me the opportunity to meet some of the best investors who ever put a dollar at risk and some of the best business people who ever sat in a CEO's chair. Getting to know them in a rather informal setting, exchanging thoughts and ideas, but most of all, listening to them tell their stories and espouse their philosophy on life, investing, and business—often overlapping thoughts—is what interests me. Then, when I sit down to pull it all together, I enjoy reflecting upon these conversations, discerning whether there is a causal relationship between the people they were, the people they have become, and their success; how their life stories have served to create their approach to investing. I enjoy breaking down each piece of their strategy and then putting it all together, crafting it into a story that culminates with a practical application. I am rarely at a loss for what to write about in my business books. If writer's block rears its ugly head in one chapter, I move on to another individual. With fiction, that's not possible since the story line has out be fleshed out and followed.

With all this in mind, the following pages tell the story of my selection process, how I approached each person about being in the book, and my impressions of them as individuals and professionals. The purpose of this chapter is to entertain, provide insight into these professionals as individuals, and painlessly pull together the commonalities that have made them successful and show how you can adapt these qualities into your investment style.

Wanted: The Truly Successful and the Truly Interesting

On the surface, many portfolio managers appearing on television are like the doctors you entrust your care to; some docs graduated in the top of their class, some barely made it through medical school in Guadalajara, but their grades are never included in the laminated diploma framed on the wall. It's sort of the same thing with portfolio managers—their record of performance is usually nowhere to be found on the television screen as they preach investment advice. So instead of focusing my search for candidates to interview on name value alone, I sought out individuals who had accomplished something special, who did things differently perhaps, who were pioneers, original thinkers, *and* had great performance. I wanted those who had a definable strategy. Most of all, however, those profiled in this book had to invest within a strategy that I could break down and relate to individual investors for them to assimilate into their market activities. The starting point was people whom I was somewhat familiar with—either personally or professionally.

When I wrote *The Billion Dollar Mistake*, I actually found it easier to find those who had committed a severe misstep than being able to source true outperformers; bad news always gets more press. I also confirmed something I had already known—that a lot of mutual funds with an awful lot of money are pretty mediocre performers. Few actually outperform the market. It was more difficult to get a bead on hedge fund performance, but I have pretty good access to various reports that provide return information. The problem with these individuals is that most of them did not want to speak on the record; it just was not worth it to them in the post-2008 environment where successful capitalists are treated as modern-day lepers. And most of these people did not need the publicity to raise assets or they already had accumulated significant wealth. What I had going for me was that I was somewhat of a known commodity from my regular appearances on CNBC and Bloomberg, my first book, and a two-and-a–half-decade career on Wall Street. Chances were that I knew someone who could vouch for me—it was a bit like playing six degrees of separation—and that got me in the door. It was important to them that they could trust that I would not tarnish a reputation they had built through many years of hard work, that they would be portrayed fairly. However, this book is not a commercial for any of these people; in fact, most of their funds are closed to new investors.

The first person to agree to cooperate was Alfred Taubman, the founder of shopping mall developer Taubman Centers. I was in Florida with some friends for a weekend of golf, and Taubman was kind enough to host our group of seven for a round at Trump International in West Palm Beach. We drove our rented Explorer up the long driveway that contained more exotic cars than either the garage of a Bahraini prince or of a platinum record selling rapper. I was fortunate to play in Alfred's foursome, and the first thing I noticed was that he had an incredible swing for an 86-year-old. My instinct was to turn my 9 iron on him for having cost me a small fortune by building and operating a high end shopping mecca close to my home, but he was far too nice to be the subject of my misdirected anger. My family, much to the delight of American Express and to the detriment of my savings, has spent significant time helping The Mall at Short Hills achieve unmatched sales per square foot. As the round went on and our strokes piled up, I discovered he was very good at math, but the advantage of shooting high scores was that it gave us more time to discuss his career and his philosophy on retailing and investing. Taubman is not only a top real estate developer and retailing expert but he is also an inventor, the inventor of the modern enclosed mall. He spoke about the precision required in his business, the attention to detail, to finances, and to creating a value proposition to draw tenants and keep them. As with most great business people, he was very detail oriented, focused on costs and driving revenue. We discussed the book I was writing, this book, and without hesitation he agreed to participate. He immediately offered the Irvine Ranch as his biggest win, aside from Taubman Centers, that is. But what he spoke about with more pride and excitement was what he was doing with stem cells and other medical research. After the first 10 holes, the skies opened and our foursome headed into the clubhouse. The others braved the elements and continued on. On the way in, Alfred stopped to say hello to David Koch, one of the wealthiest men in the world. I admit to being impressed. We continued to chat and I continued to learn. Sitting down to lunch, we spotted The Donald in the corner, but he was too busy to notice us at the time. I had met Trump at another golf course, Wing Foot in Westchester, New York, and I wondered if all he ever does is play golf; I am fairly certain he did not wonder the same about me. As for Alfred Taubman, between traveling to his many homes in the United States and Europe, his business interests, charitable endeavors, and his desire to spend time with his family, it would be a few months before we were able to get together again to drill down into his story and his biggest win. In the interim, I read his book, *Threshold Resistance*, and researched his story.

I reflected on my conversations with Alfred and came away with the following insights into this multibillionaire that took him from nothing to one of the richest people in the country. He was focused from day one on his pursuit of success, employing a skillset, architecture, as the tool to get him where he wanted to go. He was an entrepreneur and brilliant individual who saw a need in America and filled it. Away from Taubman Centers, he has had many successful investments, including Sotheby's and the focus of his chapter, the Irvine Ranch, a truly interesting story that provides many lessons. He also has a great sense of humor. As we discussed the challenging macro environment, he said he prefers one-handed economists. I looked at him quizzically, and he explained that such physically challenged forecasters would have to possess serious conviction in their views since they could not present an alternate proposal. I got it. On the one hand if this happens, then . . . , but on the *other hand*; actually, there would be no other hand. As I said, Alfred is a man of precision and humor.

Jim Rogers is someone I have admired for a very long time. I would doubt that anyone knows more about commodity investing broadly or has done it as successfully for as long; or has taken the time to travel to virtually every part of the world to flesh out the investment case in practical terms. He partnered with George Soros in starting Quantum Funds and retired early, an action I very much admire. But he never really retired; he just went into business for himself. I admire that too. Well, Rogers and I have the retiring early and going into business for ourselves in common but it would have been nice to also have had Soros as a partner in common, so I could have more fun with the other two. Two out of three is not bad, I guess. I had no idea how to contact Jim, so I Googled him and found his e-mail address. I sent a message describing my background and he responded almost immediately—from Singapore. We set up a time to speak by telephone; I believe 1900 hours was what we settled on (I guess that's how they tell time in Singapore). Never having had any military training, I counted out the hours on my watch just to be sure. Yup, 7 P.M.—got it. I called at the appointed hour and told him a bit more about the project and he was in. Since Jim had written a number of books, I was sure he felt sympathy for a fellow author. He agreed to schedule some time when he visited New York in a few weeks. A week before he arrived I received an e-mail suggesting we meet at seven in the morning in the gym at his hotel. This would have been the second gym meeting I had in my career, but after the first, which was an impromptu meeting with Lee Cooperman in Omega's gym, I vowed never to do it again; there are more productive ways to have a discussion. Instead, we agreed to meet in the hotel lobby at two o'clock. He was fairly punctual, arriving at the hotel with his accountant in tow. We shed the number cruncher, hopped into a black Lincoln Town car supplied by Fox News, and headed to their studio a few blocks away. Go ahead, he said, and our interview began as I put the tape recorder on the armrest between us and started to fire questions.

As someone under contract to CNBC, I took pleasure in having the competition pay for my transportation, and I felt like a spy behind enemy lines as I walked into Fox's building. We continued with the interview in the elevator, into the lounge, and into the make-up room. People dropped by to say hello and I got the feeling this was not his first media event (no kidding). We then moved into the studio for Jim to be interviewed by the Fox Business anchor. I recorded that, too. Another stop, this time at Reuters, I believe. From my own television appearances, I was recognized everywhere and felt bad about taking the spotlight from Jim. Well, not quite the spotlight, more like an occasional and polite nod from someone else in the trenches. After a few hours, I had to head to the CNBC studio and genuinely felt bad about it. Jim wanted to talk more and I wanted to listen more, so we agreed to set up a time to finish the conversation when he returned to Singapore after traveling to other parts of the world to give a speech and likely to explore a new investment opportunity. It was an incredibly enjoyable afternoon as I moved in the wake of his incredibly fast pace. He does not look 69 years old and sure does not act like it with a schedule of international travel that few could handle. The follow-up call was scheduled, but I blew it. That damn military time! I called him late and can tell you he does not suffer fools particularly well. Duly and deservedly chastised, we moved on and finished the interview.

When I asked for his biggest win he said "my children." Admirable, understandable, and endearing but I asked for his second choice because I was writing an investment book, not one on family values. I came away more convinced about the commodities boom driven by growing economies in China and India but not as sure of the timing. For Rogers, investing is a way of life, every day an opportunity to explore and observe socioeconomic behavior that can either support or detract from a thesis. From Yale to Oxford and every day in between, Rogers just never seems to stop learning. He is intense, but unless you screw up, as I did, that intensity never detracts from his southern grace. He is brilliant without any hint of condescension. But most interesting of all is that, having uprooted his family and moved to Singapore, he is living out his investment thesis.

As with the others, my first contact with Marty Whitman was by e-mail. I followed up with a phone call and spoke to Bridget Wysong, the director of public relations for his firm. She responded that Marty gets lots of requests but doesn't like to do interviews. I mentioned that I was an investor in one of their funds and that if he did not agree to meet with me I would redeem my money. Okay, I didn't say the last part but I actually was an investor at the time. I gave Bridget my pitch and she said she would get back to me. Subsequently, my editor at Wiley called and mentioned she had taken a referral call from Marty's office. Soon I received an e-mail saying that Marty would be happy to participate in the book. When I arrived, I was escorted into his office and was greeted by a casually attired man in tennis sneakers, sweat pants, and a golf wind jacket; I felt a bit overdressed. The recorder was turned on and the conversation began. It was a very interesting few hours. I had done my research beforehand, filling in the pieces of information that I did not know, but our conversation was like a history lesson. As he recounted the personal side of his journey and then moved on to how he sort of stumbled into distressed investing, I felt like a family member listening to the patriarch's life story. As befitting someone who wrote the seminal book on distress investing and has been an adjunct professor at Yale, Syracuse, and Columbia University Graduate School of Business, Marty is one hell of a teacher.

I was looking for a woman to include in *The Big Win* (see sidebar in Chapter 3), and found Renée Haugerud rather quickly, the pool of possible candidates insufferably small. Renée was guarded about participating, and our scheduled time to get together had been moved around a few times to accommodate her ever-changing calendar, but eventually we met at five o'clock one afternoon. The idea was that we would spend an hour or so and then reconvene at another time. The hour turned into two, then three, and into the fourth. I am convinced I suffer from undiagnosed ADD because after two hours I am usually either nodding off or begging for mercy, but I do not recall even once attempting to discretely twist my wrist to steal a look at the time. I have been around the best and the brightest money managers in the world, and I would be hard pressed to recall someone who had the command of every global asset class—currencies, bonds, equities, and of course, commodities—that Renée has. But it was her enthusiasm, her passion after having done this for almost three decades, which kept my interest. That, and her propensity to wander off subject a little bit. As someone seeking to find out as much about my subject as possible, her digressions were more than okay with me.

Lee Ainslie is a legend in the long/short equity hedge fund universe. Not many people outside of Wall Street know him because he assiduously maintains a very low profile. In fact, not many people on Wall Street really know him other than by reputation because he is very committed to insulating his firm from some of the more intrusive ways and occasional time-wasting efforts of the sell-side. Humble, he offers no indication of his incredible success when you meet him. Lee started his hedge fund career at Tiger Management about the time that I started covering them as a salesperson at Salomon Brothers, but we never got to know each other. When Maverick started to emerge as an important account, I spent more time focusing on them from my perch in management but always found them somewhat aloof—polite, but aloof. There was no getting in bed with them like other firms; the insulated culture was stronger than any other I had seen. I remember receiving a letter from Lee while I was at Lehman Brothers wherein he set forth his firm's commission rate, which was an astonishingly low number, about 75 percent less per share than any other firm with whom we did business. Fine, we said, we have limited resources and we will send them elsewhere where we can earn a better return. Fine, he said, we do our own work anyway. Ultimately, we met somewhere in the middle and enjoyed a cordial firm-to-firm relationship, but I had never met with Lee until our interview. When I decided to write this book, he was one of the first people I thought of and one of the last I thought would cooperate. I sent a few e-mails but did not receive a response. Unfortunately, this was not unusual and I had long ago hardened myself to rejection, perhaps the only enduring benefit of having been an insurance salesman while I attended law school at night. If you want to have any success selling a product that no one wants, surrender is not an option so I decided to give it one more shot with Lee. A few days later he called me on the way to a company retreat and I gave him my pitch. I mentioned all the people we knew in common and I have no doubt he checked with some of them. He is not one to shirk due diligence. During the hours we spent together he did not once leave the conference table to check on what was an incredibly volatile day in the market. Nor did he take any phone calls when his assistant walked in with various messages except for one occasion when it involved his family, a completely understandable response. I won't give away Lee's chapter in this book, but two things came through to me clearer than anything else: he values the process and the culture of his firm above all other factors.

I had never formally met Don Peebles but had watched a couple of his interviews on CNBC. I was impressed with his view on the economy, politics, and real estate investing, his power alley. I got to thinking about how investing in real estate is similar to other investments and concluded that all the same qualities are involved, albeit with different emphasis. What particularly attracted me to Don was that he had an amazing life story and ascent to success. As with women, African Americans are a minority that is under-represented on Wall Street and in finance. With Don being one of the wealthiest African Americans in this country, I thought he would be a tremendous role model for all minorities, but that was too narrow a view. He is a role model for anyone striving for success. I have to admit that I was very surprised that not once did he mention any possible disadvantage he had faced growing up due to race. I felt compelled to raise the question because it did not seem that his story could be complete without discussing this topic. He definitively said it was never a problem, never an issue. I believe his perception is directly attributable to his and his family's strength and determination to reach higher. Don grew up a person of privilege, not the type of privilege that money can bestow, but rather the privilege of being influenced by an entire family that was motivated to achieve. Capitalism is such a part of his DNA that he passed the gene down to his son. He related a story about how his son preferred to return to Florida after they uprooted to New York. Don explained that there is opportunity to become wealthy in Florida, but that you could make billions in New York. The son still wanted out and Don confessed to extreme disappointment. However, his son eventually came around and began on his path, making Don an extremely happy and proud parent. Don's focus on continuing to build his fortune while extending his vision is impressive. A no-excuses guy, he appears to always be looking forward to the next, better opportunity. He is incredibly driven.

I was extremely impressed with Jim Chanos but I admit to being swayed by the fact that he admitted to reading my first book and there it sat, on the bookshelf in his conference room. Being a dedicated short seller, I guess a book about people screwing up (he is usually on the other side of those missteps) is subject matter he could not resist. One of the most diligent investors there is, he makes his living tearing apart balance sheets, seeing the pop when everyone else sees the balloon, ignoring consensus to form his own views. And it is a good thing he has that demeanor because everyone hates short sellers except for their investors. He has testified in front of Congress multiple times and has never had a problem calling governments to task, publicly and loudly, for their missteps and arrogance. China is the current target of his suspicions.

Chuck Royce is also regarded as a pioneer in his chosen investment style: small capitalization stocks. I was shown into his office and he walked over to shake my hand. Where are the shoes, Chuck? Quietly intense, after five o'clock he unwinds. The bow tie comes undone, the top button opens, and he seems to deflate into the chair. Research reports cover virtually every surface in his office. The man loves what he does, and he will do it forever. I started the conversation with small talk and then apologized for taking his time that way. He told me to go on, that this was the only time of day he got to have a real conversation. What a nice guy. He did not show an ounce of stress, but did seem a bit tired. Maybe it was because the market was down more than 2 percent that day, a large drop, and he was busy seeing opportunity and putting money to work.

Tying the Common Threads Together—The Portrait of the Perfect Investor

So what are the common threads running through each of these personalities? What makes them so successful at what they do? And is it possible for someone to replicate these traits and processes with the goal of becoming a better investor? The obviousness of all this makes it almost too simplistic to catalog but, never one to pass up a fat pitch, I am going to proceed with a numbered list.

1. No emotion. Not one of the successful investors I know, and I know many in addition to those chronicled herein, expresses any emotion about the markets. Cool, calm, and levelheaded, they are confident in their strategy and process. In fact, they see the bright side of dislocation—opportunity. They do not get caught up in euphoria and chase stocks or markets, nor do they sell at bottoms because they panicked or were taken by surprise.
2. No ego. There are many big egos in this business and I have seen ego destroy a fund more often than I have seen it work in its favor. No one in this book had any evidence of ego. Self-confidence, yes, but ego, no. They all recognize that they can be wrong at times.

3. Long-term investors. Who really makes money actively trading? Not these people; they have too much money to whip around effectively. And, they profess to not being smart enough to trade the market. Very, very few traders are smart—or lucky—enough to consistently make money trading in and out of positions, particularly with the way the markets have evolved. It takes time for an investment thesis to mature, particularly if you are a value investor and usually early to a story.
4. Discipline. Disciplined risk management and a disciplined investment strategy that they never veer from, ever. Style drift is one of the most popular ways to lose money.
5. Thorough research process. They all have it: the real estate investors, the equity investors, the commodity investors. Diligent, thorough, and disciplined (that word again). They do not buy anything they don't know and will not even look at what does not fit into their style.
6. Passion and work ethic. With unseen opponents and unexpected pitfalls, investing is too tough an endeavor to pursue unless you have passion. Despite the length of time they have been investing and the long days they still put in and the incredible wealth they have all built, they all work extremely hard. Taubman has stepped away from the day-to-day of the company he founded, although he is still the largest shareholder. Instead he has channeled his work ethic to other pursuits, charitable pursuits, working just as hard to find a cure for cancer as he did to build malls and wealth through investments.
7. Drive. They all want to be the best and devote whatever effort it takes to get there. They all have enough money, so wealth is not the motivator except for what it can do for their families and philanthropically. Moreover, it is the challenge of doing well against the markets, of figuring them out and coming out ahead; of being engaged and having a focus.

Drive. Passion. Process. Equanimity. Discipline. Humility. These are the commonalities between all those profiled in this book and the qualities that make for a great—and legendary—investor.