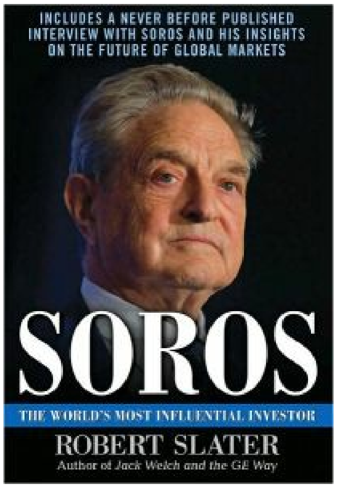

Book Soros

The World's Most Influential Investor

Robert Slater
McGraw-Hill, 2008
First Edition:1996

Recommendation

George Soros is a fascinating personality. As one of the greatest investors in history, he is worth studying for his investment ideas alone. But Soros has never dwelled on his incredible trading success or his astounding income. Instead, he has sought recognition for his worldwide philanthropies. Robert Slater intelligently presents the story of this complicated, controversial and quick-witted billionaire. His account includes details about Soros's investment strategies and achievements, as well as his vast philanthropic projects. *BooksInShort* considers this an intriguing biography of one of the century's most interesting investors and social philosophers – a remarkably complex self-made man.

Take-Aways

- George Soros may be the best investor in history.
- As a boy, he survived the Nazi occupation of Hungary by using false identity papers.
- Soros arrived in New York in 1956 and started his Quantum Fund in 1969.
- If an investor had put $100,000 into Soros's Quantum Fund in 1969 and had reinvested the dividends, the sum would have grown to $130 million by 1994.
- Soros developed the idea of "reflexivity," which avers that people's perceptions, and not just facts, shape the future of financial markets.
- In the 1990s, Soros donated half his annual income to charities.
- In 1992, his funds skyrocketed in value when he bet that the British pound would fall due to political and economic events. It was his most famously successful financial gamble.
- According to Soros, "trend-following behavior" causes financial bubbles.
- Soros advocates better regulation, rather than more regulation. He believes that some constraints make the financial system operate efficiently.
- Soros wants the public to recognize him as a "practical philosopher" and a philanthropist, not just as an investor.

Summary

The Revolutionary Philanthropist

George Soros became one of the world's most successful investors by making large bets on crowd psychology or "herd instinct" in the financial markets. He knows that positioning himself in front of a major monetary or social trend will generate huge profits. He shuns quantitative financial analysis, and is a contrarian investor. These ideas work well for him. By applying them, he has made billions.

> "As the world's greatest investor, [Soros] amassed more money than most people will ever see in one lifetime, or a hundred lifetimes."

Soros entered the investment business in 1956 and started his legendary Quantum Fund in 1969. He was involved in the fund's management for 25 years and it only lost money in one year, 1981. That gives him the best investment track record among all his competitors, including Warren Buffett and Peter Lynch. The Quantum Fund was one of the first offshore funds open to non-American investors. Through it, investors bet on changing stocks, currencies and interest rates worldwide. The fund soon grew to enormous proportions, making an average of $750 million in trades daily. It was phenomenally successful. If an investor had put $100,000 into the fund in

1969 and had reinvested all the dividends, that sum would have swelled to $130 million by 1994. That's a 35% compound growth rate. Soros reportedly owns about one-third of the entire fund.

> "George Soros kept up a frenetic pace out of a conviction that he was someone special, someone endowed with a special purpose in life."

Like many other successful investors, Soros developed an interest in philanthropy. But, unlike many other wealthy people, he did not just want to make a donation to an institution. He had bigger plans. He wanted people to know he could become an important player both in finance and in shaping political and social policy.

> "Soros was convinced that mathematics did not govern financial markets."

As the political and economic freedom in the U.S. had enabled Soros to become a wealthy man, he decided to help establish similar "open societies" elsewhere in the world. He established a foothold in Hungary in 1984 and, by the early 1990s, had donated $500 million to his foundations' projects and committed to donating another $500 million. In 1997, Soros again donated $500 million, this time to retrain military personnel for civilian work, improve health care and create more educational programs in Russia. That donation made him the largest donor in Russia, even greater than the U.S. government.

> "Soros was interested in the rules of the game but only in trying to understand when those rules were about to change."

In 1998, Soros lost a reported $2 billion due to his investments in Russia, primarily those linked to the telecommunications company Svyazinvest. He later attributed that loss to a combination of corruption, a failing economy and rising debt. Despite this setback, Soros was undeterred, and said his works had prevented Russia from falling into total chaos.

Soros's Harrowing Youth

George Soros was born as Dzjchdzhe Shorash in Hungary in 1930. His mother, Elizabeth, was fond of the arts and his father, Tivadar, was an attorney. Tivadar had been a prisoner in World War I and had spent 1917 to 1920 in Siberia evading capture. Drawing from that traumatic experience, Tivadar taught George that people will do anything to survive in frightening times. Tivadar encouraged self-confidence in his son, as well as the ability to handle difficult situations. He trained George to solve problems using nontraditional methods.

> "When Soros believed he was right about an investment, nothing could stop him."

When the Nazis invaded Hungary in 1944, they soon began deporting Hungarian Jews to concentration camps. Tivadar procured false identity papers for George. Yet, even with his documents, the 14-year-old lived in fear that someone would discover his true identity. He hid with his family in nearly a dozen locations. From this experience, Soros said he learned the value of taking risks, but in moderation. He also realized that perception and reality can differ widely.

> "Soros has taught me...that when you have tremendous conviction on a trade, you have to go for the jugular. It takes courage to be a pig." [– Stanley Druckenmiller, George Soros's successor at the Quantum Fund]

In 1947, at age 17, George left Hungary alone and went to London. He had little money and did not know anyone. He later said it was one of the worst times of his life. He held a series of odd jobs and, in 1949, he began studying at the London School of Economics, home to economist Friedrich von Hayek and philosopher Karl Popper. Both advocated open societies and Popper soon became Soros's mentor. Soros considered becoming an academic or an intellectual who could use some of Popper's philosophical insights to change the world. This idea later morphed into his decision to begin his charitable campaigns.

> "Soros has been different from many of the contemporary rich in one significant way: the degree to which he has engaged in intellectual life."

Soros arrived in New York in 1956. His father, mother and brother joined him that same year. When he first arrived, Soros had only $5,000, but his knowledge of the London markets made him a valuable addition to any New York trading firm and he soon found a job as an arbitrageur and, later, as an analyst. Choosing stocks successfully gave him the confidence to start his own funds, the offshore First Eagle Fund and the Double Eagle hedge fund, started in 1967 and 1969, respectively. These funds were not open to U.S. investors other than Soros.

> "Soros the aid-giver was a far happier person than Soros the money-maker."

In 1973, Soros joined forces with Jimmy Rogers, a Yale alumnus, and transformed the Double Eagle Fund into Soros Fund Management. This private-partnership hedge fund traded commodities, stocks and bonds. From 1969 to 1980, the fund increased 3,365%, compared with 47% growth for the Standard and Poor's index. In 1979, they renamed it the Quantum Fund. As it grew, tensions mounted between Soros and Rogers and, in 1980, the partners split. Rogers took away $14 million, and Soros kept 80% of the fund, a portion worth $56 million. Soros continued to make money, but encountered setbacks such as the 1981 bond market debacle and the 1987 New York stock market crash. In 1987, the Quantum Fund's net asset value fell 26%, more than the U.S. stock market's 17% drop. During this period, Soros himself lost $200 million in one day. Yet, despite the decline, the fund ended 1987 with a 14% increase.

> "Few people gave away as much money with such little fuss as George Soros."

Soros's most famous and profitable series of trades occurred in 1992, when he bet against the British pound. Soros had watched political and economic trends in Europe and predicted that London would raise interest rates to defend the pound, but that it would still eventually be devalued. He then bought currencies, bonds and stocks in various European markets. In September 1992, the economic scenario he forecasted unfolded, and the pound fell. Soros's funds made $1 billion. In 1993, *Financial World* reported that Soros was "the first American to earn more than a billion in a year."

> "Put simply, what Soros wanted was power."

By 1993, the Quantum Fund's profits, as well as those of other major hedge funds, attracted Washington's attention. Henry Gonzales, chairman of the House Banking Committee, called for an investigation into the Quantum Fund. In the months that followed, Soros's fund bet against the Japanese yen and bought European bonds in anticipation of falling interest rates. As economic events unfolded in both parts of the world, with results that contradicted the fund's projections, the Quantum Fund had to reverse its position. Turmoil broke out in markets worldwide and many currencies became volatile. The House Banking Committee realized that it needed to learn more about how hedge funds work.

> "But...the power to distribute large sums of money was not enough for Soros."

As various governments started to investigate hedge funds, Soros called for better regulation. He said that bubbles result from widespread "trend-following," more commonly pursued by "mutual funds and institutional managers" than by hedge funds. This harmful behavior involves "buying in response to a rise in prices and selling in response to a fall in prices." Soros said that hedge funds control less than 1% of the daily foreign exchange market, so other sources were causing the currency volatility. As part of his efforts to educate government regulators, Soros also disclosed that he put 60% of his investments in individual stocks; 20% in "macrotrading," or wagers on currencies and global stock indices; and 20% in Treasury bills and bank deposits.

Soros's Investment Philosophy

As a former philosophy student, Soros knows that economics is not a science, because humans are not objective. He developed an investment theory based on these points:

- **"What beliefs do is alter facts"** – This idea is at the heart of Soros's "theory of reflexivity." In economic terms, this means that market futures can change in response to investor biases. Investors' "flawed" perceptions and emotions become paramount in determining stock prices.
- **Misconceptions, great and small, shape events –** Gaps or "divergences" between people's perceptions and reality can be vast or slight. As an investor, Soros became interested in the phenomenon of "manias," when extreme misperceptions combine with quickly developing events. In these volatile scenarios, investors tend to create a "boom-bust sequence." The key for investing is to identify a market heading for a boom-bust sequence and then take a contrarian position. But, Soros cautions, reflexivity can produce varying effects, and you must combine reflexivity-based reasoning with intuition to achieve good results. //

> "By November 2003, unseating George Bush had become the central focus of George Soros's life."

// Soros has many qualities that make him an exceptional investor. He is stoic, open-minded, knowledgeable, self-confident and flexible enough to deal in world markets using various financial instruments. He understands economics and how market scenarios work, and he knows how to capitalize on the herd instinct.

> "In the spring of 2008 George Soros was a bundle of contradictions, and that is what made him seem so charming, so perplexing and so remarkable."

Those who have worked with Soros say he interacts individually with his traders. He encourages them to explore opposing opinions, asks them probing questions and urges them to rethink their assumptions and trading positions in light of new data. But, when it is time to act, Soros makes important decisions quickly, often within 15 minutes.

The Dilemma of Success

Soros makes sizeable contributions to charities each year – often donating close to half his annual income. He wants the public to recognize him as a "practical philosopher" and a philanthropist, not just a successful investor. Unlike other billionaires, he is not ostentatious or flashy. He takes public transportation and sometimes stays in college dorms when visiting university campuses. He enjoys socializing with intellectuals, especially those from Europe.

Soros's early philanthropies supported open societies in the Soviet Union and Hungary and were meant to destabilize communism and spread democratic ideas. By 1994, he had foundations operating in 26 countries and had given away hundreds of millions of dollars. Yet, he never asked that any of the buildings or institutions he financed bear his name. Nor did he require that his books be available in his foundation offices or in the university libraries where he was a donor.

Despite his widespread acclaim among investors, Soros has been dismayed to find that many people do not take his foreign policy expertise seriously. This was especially evident in his campaigns regarding Eastern Europe after the end of the Cold War. Even though he regularly met with high-level government officials worldwide, Soros never received an invitation to meet with the U.S. president or with members of Congress.

Soros Gets Political

Soros never liked George W. Bush. After the September 11, 2001, attacks, Soros accused Bush of using terrorism as an excuse to exert government control through the Patriot Act and the Bush Doctrine. He felt that Bush was pushing for more militarism, and Soros believes that people cannot spread democracy through military force. He hired liberal political consultants to create a strategy to trounce Bush in the 2004 election. He gave $27 million to this cause in 2004 alone. Soros was interested in the mechanics of door-to-door campaigns to mobilize swing voters. When the consultants said Bush's defeat was possible, Soros committed himself to that goal and helped fund America Coming Together, an organization dedicated to increasing voter turnout.

These activities made Soros the target of right-wing talk-show hosts as well as Republican Speaker of the House Dennis Hastert. When Bush defeated Democratic presidential candidate John Kerry, Soros was disappointed but not distraught. He treated the loss as if the democratic campaign had been a bad stock that lost value. However, the experience soured him on U.S. politics.

In 2008, Soros released his book, *The New Paradigm for Financial Markets,* which addresses how the housing and credit crisis ended a 25-year credit expansion cycle. In the book, Soros advocates better regulation, rather than more regulation, based on his belief that some constraints help the financial system operate more efficiently.

About the Author

Robert Slater is the author of 18 books, including *Jack Welch and the GE Way, Saving Big Blue, The Eye of the Storm*, and *Microsoft Rebooted.*