

More money than God
Sebastian Mallaby

Genius is a sometimes thing, but stupidity is a constant.

I tell my kids there are two ways to make money in this world. The hard way is to develop a new product or service that adds to the well-being of the world, like Bill Gates or Henry Ford. The easy way is to take advantage of the stupidity of government.

Genius is a sometimes thing, but stupidity is a constant. You just have to keep your eyes open. The majority of the stories that Mallaby tells so well have to do with pricing anomalies resulting from government policy. Currency pegs that no longer made sense; restrictions on short selling; the regulations that allowed banks to equate AAA rated mortgage debt with treasury bonds in terms of risk; the sudden reversals, such as the ban on short selling in 2008. The policy trap that virtually required the government to bail out the banks that were too big to fail, saving them from their own stupidity.

I hope my kids are geniuses, but I will be satisfied if they can feed themselves and their families. I will encourage them to look for stupid things that governments do and to line up at the trough. If they do turn out to be bona fide geniuses, then I would encourage them to emulate the real heroes of Mallaby's opus, the guys like Jim Simon and Julian Robertson who are able to use pure intellect to capitalize on pricing anomalies left by other investors

Regulation is an arena in which government stupidity is on constant display. The banks had been regulated since the Glass-Steagall act of 1933. Prior to deregulation the banks were pretty clever about getting around it, then they were clever at manipulating the political process to have it removed, and clever once again at circumventing whatever restrictions were still imposed on them. Campaign finance reform, which might have restricted the flow of Wall Street money to members of Congress who oversaw the financial sector, was a predictable fiasco, actually designed by the legislators to fail.

Mallaby argues that the hedge funds are better off largely left unregulated. While in an ideal world this may not be totally true, given the sad history of regulation and regulators, I am sure he is right.

Other reviewers have noted that Mallaby tells his story by choosing a select group of successful hedge fund operators. I believe that this selection works well. It shows the great variety of strategies used by hedge funds, and illustrates the fact that there would be no form of regulation that would be anywhere nearly applicable to all of them. He concludes in saying that the hedge funds today fill the role that was once played by the privately held merchant banks such as Lehman Brothers and Solomon, rapidly and efficiently deploying private capital to the benefit of both society and the capitalists. I agree with his conclusion.