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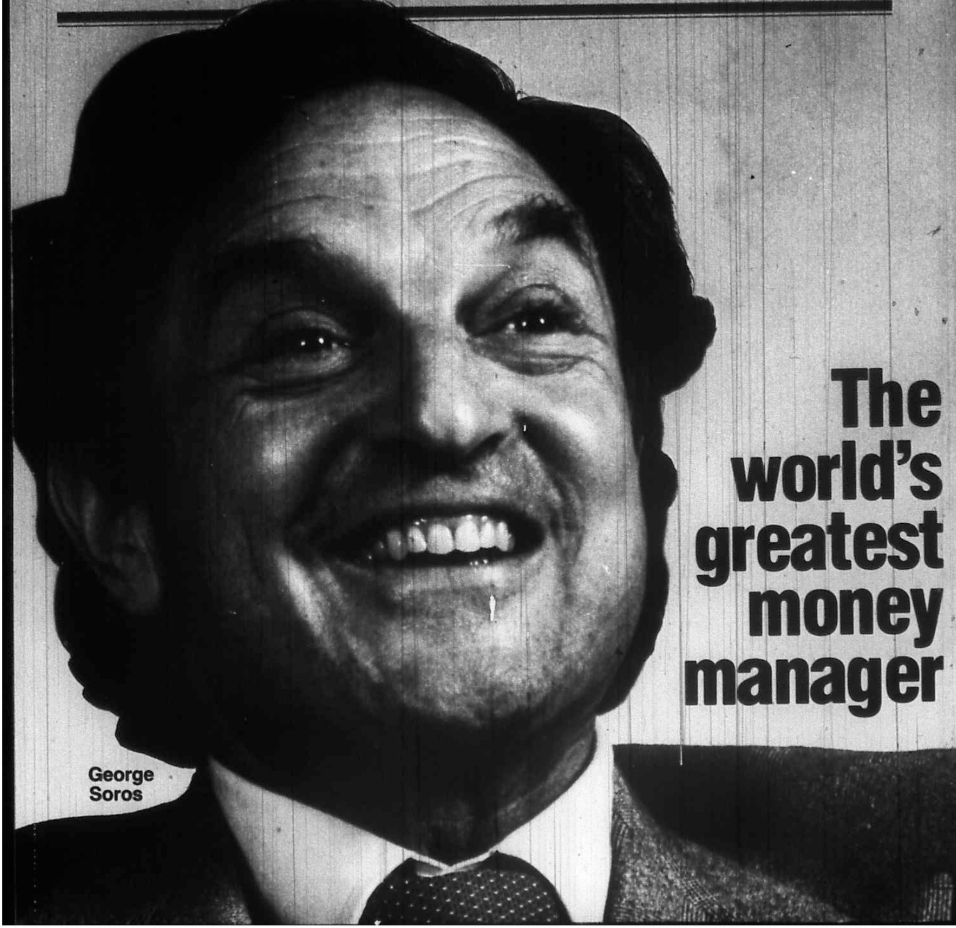

George Soros

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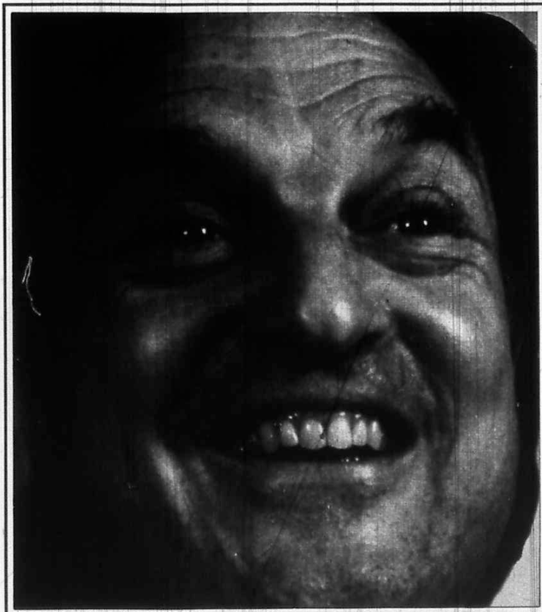


cover photo by Jook Leung

The world's greatest money manager

George Soros has never had a down year, and his up years have been awesome. Here's a look at how he has bucked the money-management trends of the past decade and built himself a personal fortune worth $100 million in the process.

by Anise Wallace

When the name George Soros is mentioned to professional money managers, their responses tend to echo the remark once made by Ilie Nastase about Bjorn Borg: "We're playing tennis and he's playing something else." As Borg is to tennis, Jack Nicklaus is to golf and Fred Astaire is to tap dancing, so is George Soros to money management. "I don't know of anyone who is as good," says Robert Wilson, who is no slouch at running a hedge fund of his own. "George is the all-star."

The word "star" is not, of course, something one often hears to describe money managers these days. The difficult markets of the 1970s littered the corners of oblivion with the bygone champions of money management and produced little in the way of new heroes. Yet, since 1969, George Soros has earned an estimable reputation as the money manager's money manager. Assets in his Curaçao-based Quantum Fund have grown from $12 million in 1974 to more than $381 million at the end of last year. In a dozen years of running money for such clients as Pierson, Heldring & Pierson in Amsterdam and Banque Rothschild in Paris, Soros has never had a down year; last year the fund was up a staggering 102 per cent (see page 42). And in the process, observers estimate, Soros has turned his fee income into a personal fortune worth $100 million.

For all his personal and professional success, however, Soros has remained something of a mystery man, a Howard Hughes of investments. Aside from his occasional — and uncharacteristic — appearances in *Barron's* annual forecast panel, few on Wall Street or in the financial community at large know much about the reclusive fund manager. Yet few *haven't* heard of his record. "He has everyone in awe of him," says the sales head of a major Wall Street firm. "Even people who have never met him are in awe of him, just from his reputation."

The object of these breathless phrases is an energetic, fast-talking, blue-eyed Hungarian, a globe-trotter and a truly global investor, who jumps among international markets and currencies. And adding to the mystery surrounding his record is the fact that no one is ever quite sure where Soros is making a move or how long he stays with an investment. As manager of offshore funds, he is not required to register with the Securities and Exchange Commission. He avoids Wall Street professionals. And those in the business who *do* know him personally admit that they have never felt particularly close to the man. As for fame, it's widely agreed that he can happily do without it. "He doesn't like publicity or need it," says a Paris-based money manager. "I don't think he wants recognition." Indeed, in a rare interview for this article, which he had long ducked, Soros said in his thickly accented voice: "You're dealing with a market. You should be anonymous."

For someone who has been so successful, Soros goes to great lengths to downplay his record, report those who deal with him. "Most money managers tell you how smart they are and how much their accounts are up for the quarter," says Barton Biggs, partner in charge of research and money management at Morgan Stanley. "To hear George talk, you'd think he was always *losing* money. He always tells you how early or how late he was."

Fox in the Street

Humility is as rare a commodity on Wall Street as customers' yachts. But then George Soros shares little with Wall Street — he's in it, but not *of* it. Soros ignores Street research and has antagonized the major block-trading houses with what many consider an abrasive and arrogant manner. Other observers, however, attribute such criticism to plain jealousy; they say that Soros, to date, has simply been able to outfox the most cunning Wall Street traders. "Fundamentally, traders are in competition with Soros," explains the executive vice president of one Wall Street firm that deals with his fund. And the head of trading for a major Wall Street block firm tacitly confirms this. "If you buy something from Soros, you'd better run for cover," this trader says. "He's too smart for us."

Soros is exceedingly businesslike and doesn't waste time on small talk or with those from whom he can't derive some benefit. He is usually polite but distant, and one can almost see his mind racing from one idea to another. In a two-hour interview with *Institutional Investor*, he seemed most reserved when discussing his work. But he became much more animated when talking about the philosophical underpinnings of the market and the two books he says have been most influential on his thinking (*Gödel, Escher, Bach* by Douglas Hofstadter and *Step to an Ecology of Mind* by Gregory Bateson). A demanding employer and business associate, he is also universally described as fair and willing to admit his mistakes. Those who know him on a more personal basis refer to him as "charming but distant."

The pattern of Soros' success can, in part, be traced to his youth. A Hungarian Jew born in 1930, he and his family stayed two steps ahead of the Gestapo during World War II. They often spent weeks in friends' attics or basements, never knowing if they would be there for hours, days or weeks. "I'm sure that has something to do with the fact that George feels there is no safe haven in the world," contends one business associate.

After the war, Soros left Hungary for Paris at age 17 and never returned. He gravitated to England in part, he says, because he has always been an anglophile (he still feels very strongly about Great Britain and recently sponsored a Brookings Institution paper on the economic prospects of Great Britain). He wound up attending the London School of Economics and wanted to stay on as a professor, but his grades simply weren't good enough. He then worked for a London investment firm and came to the United States in 1956. After a few years at F. M. Mayer & Co. and Wertheim & Co., he joined Arnhold and S. Bleichroeder as an analyst in 1963. "George was a courteous, genteel plugger of his ideas," recalls Morgan Stanley's Biggs, who was on the receiving end while at Fairfield Partners. And Stephen Kellen, president of Bleichroeder, who hired Soros, today looks back and says: "I always hope anybody I hire will be good, but he was clearly outstanding."

Soros' Eastern European background fit in perfectly with this old-world firm and its clients. He speaks four languages (English, Hungarian, French and German) in addition to a smattering of Italian and Esperanto, the hybrid world language created 80 years ago. And in 1969, Soros began running Bleichroeder's Double Eagle Fund, an offshore fund for international

Money manager Soros: He talks as if he's always losing money, but his performance over the past twelve years has been spectacular. Even people who haven't met him are awed by his reputation. So are those who do deal with him. "If you buy something from Soros, you'd better run for cover," says one trader. "He's too smart for us"

clients. Like many offshore funds, it was run out of Curaçao, where the tax rates on dividend and interest income are lower than in the U.S. and where funds are not subject to U.S. tax and securities laws. Many of the clients of these funds are wealthy Europeans, Arabs and South Americans (the minimum investment in the Quantum Fund is $100,000) and tracing the money is, at best, difficult. "The only thing you can be sure about with that kind of money is that a lot of it ends up in Swiss banks," says one Wall Streeter. Yet Soros, with his Eastern European background, was well versed in the tradition of elaborate methods of making and sheltering private wealth.

During the early days of the fund, Soros and his partner James Rogers, a Yale graduate from a small town in Alabama, scored heavily not only in the U.S. market but also overseas — and by taking large short positions. In 1971, for example, Soros had 25 per cent of the portfolio invested in Japanese securities, one of his highest such percentages ever, he says today. Other investments of those early days included bank stocks in 1971 and real estate investment trusts — on both the long and short sides — from 1969 to 1974. (Soros even wrote and published a paper on the subject of REITs in 1969, outlining in three acts the scenario in which they would become attractive to investors and then go "belly-up.") In 1969, he concluded that since Act III "was at least three years away, I could safely buy the shares." He did, rode them up twice and then shorted them again in 1974, making more than $1 million on the short side.

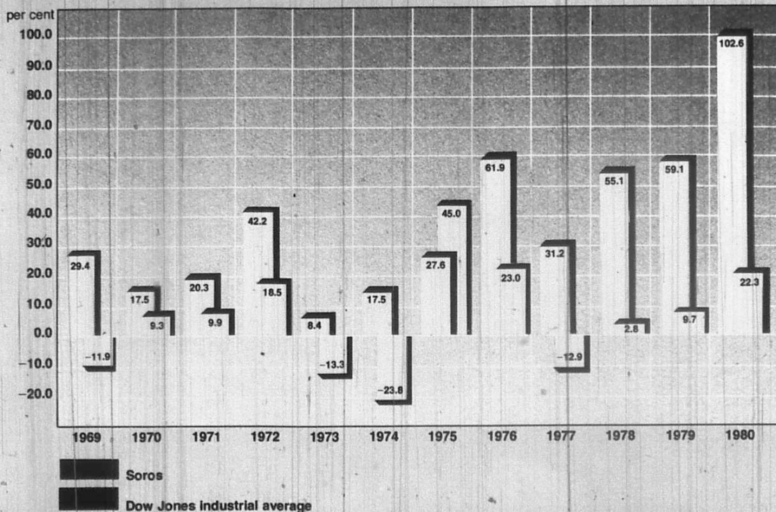
His own boss

By 1973, Soros had decided he wanted to be his own boss, so he and Rogers left Bleichroeder to set up Soros Fund Management in an office overlooking New York's Central Park. This combination of a Hungarian Jew and an analyst from the backwoods of Alabama then proceeded to turn out what just may be the best record ever in money management. While the large institutions were on the verge of seeing half the value of their holdings wiped out in the next two years, Soros and Rogers were prepared for the growth-stock debacle. They had made a big play in smoke-stack stocks along with other issues and the fund recorded gains of 8.4 per cent and 17.5 per cent in the debilitating years of 1973 and 1974. Meanwhile, they also bet against the large institutions and shorted such favorites as Tropicana, Disney and Polaroid. The fund earned more than $1 million by shorting one stock alone — Avon at $120. As Soros told *The Wall Street Journal* one year later: "We start with the assumption that the stock market is always wrong, so that if you copy everybody else on Wall Street you're doomed to do poorly."

Soros is hard pressed to explain what exactly is involved in his decision-making process. He eschews professional economic analysis and decides interest-rate trends by "reading the newspapers." When pressed to explain how he decides on his investment themes or concepts, he only

George Soros versus the Dow

George Soros' performance in the U.S. market and international stock markets and in currencies has earned him his reputation as the world's best money manager (story). As an offshore manager, he is not required to publicize his performance, but he provided figures — audited by Price Waterhouse — for the first time ever to *Institutional Investor*. One caveat: Quantum Fund's performance was actually better than the numbers charted here because they are adjusted for his performance fee, which is reportedly 20 per cent of what Soros returns above the Dow Jones industrial average. The figures are calculated as of the last day of each year and the net asset value of the fund is for one class "A" share.



says: "Basically something clicks. When you have a certain view of the world, you are sensitive to certain possibilities that are triggered off by certain kinds of change."

By all accounts, the key to the successful partnership was the combination of Soros' trading skills and perception of market trends and Rogers' analysis of changes within specific companies. "George was the trader and I was the analyst," is the way Rogers puts it today. Soros himself admits that he is more interested in the fundamental changes that occur within markets. "I'm not terribly interested in playing a game by certain rules," he explains. "I'm much more interested in looking for changes in the rules of the game or, if possible, even changes in the way the changes in the rules of the game occur. When I identify something like that, then I really like to move in."

In late 1977 and early 1978, for example, Soros and Rogers decided to move in on technology and defense stocks. Although Soros, in characteristic fashion, moans that he was late getting into technology, most Wall Street veterans remember that few on the Street were even *looking* at technology and defense-related issues at the time. "They were dead," says Morgan Stanley's Biggs. "Remember, you had Jimmy Carter as President talking about human rights. George was talking about those stocks eighteen months before the Street was."

Making big bets

Spotting such trends early helped, of course, but there was more to it than that. When Soros decides to move he concentrates his bets and swings in with conviction. Based upon the extremely large positions it took, the fund's performance soared in 1979 and 1980. By the end of 1979, according to SEC data compiled by the firm Computer Directions Advisors, the fund owned 8 per cent of M/A Com, one of the biggest winners of the past two years. The fund also owned 11 per cent of Bolt, Beranek and Newman in 1979 (that was increased to 23 per cent by the end of 1980). And numbered among the other large bets were 5.3 per cent of Chem Nuclear Enterprises, 3.4 per cent of Planning Research and 2.6 per cent of Todd Shipyards.

But performance in U.S. stocks is only a part of it. Last year, for example, he sold short the British pound at the top, and Soros also made two major moves into British gilts. These bonds, which can be purchased for only a fraction of their full value, are the perfect kind of speculative vehicle for someone like Soros, observers say. The bonds were in huge demand at the time, and Soros, with the help of a British broker, rounded up an extraordinary number of them. While Soros refuses to disclose how big his play in gilts was, one source close to the firm says that by leveraging his position to the hilt he purchased almost $1 billion of the bonds — and earned almost $100 million on the move.

Obviously, Soros has made his mistakes, too. Two recent examples include his November 1980 move into energy stocks and his year-end move into long bonds. After reportedly losing about 10 per cent in his energy position, Soros got out of the energy stocks — before they fell another 30 to 40 per cent. He also claims now that he has retreated from his long bond position. "A recent mistake," is all he will say when asked for an explanation. But his ability to get out before the bottom collapses is also indicative of his success, say those who have watched him work. "George never gets himself in a position where he can get killed," says Bob Wilson. "The remarkable thing is when he's right, he makes a lot of money. And when he is wrong, he almost never loses any." This investment style means that Soros is often early into a theme or concept. When asked if it ever makes him nervous, he said no. "I'm much more nervous when I'm late."

Soros is able to cut his losses early, sources say, because he frequently changes his mind and doesn't let his ego get involved. "He's willing to move a huge amount of money and then let everyone know he changed his mind," points out Biggs. "It's embarrassing to take a position and walk into the trading room three days later when you've lost a couple of million dollars. You feel like a jerk."

If others admire his selling record, however, Soros actually claims that it is one of his weakest points. He contends that he is a much better buyer than seller. Since he has no formal sell disciplines, he often dumps his portfolio simply because he doesn't like the looks of the market in general. "He would just come in in the morning and change everything," recalls one former employee. Soros says that twice in the past two years he reduced his equity exposure and "both times I was wrong. Usually I get nervous about the market, so I weed out the portfolio, and stocks that I don't have strong convictions about get cleaned out." This often means that stocks are sold — typically at a profit, but long before they reach their highs. Such was the case with GCA, which was sold in the 30s long before it ran to its high of $84.

If he does have a weakness at selling, most people attribute it to Soros' isolation from the other players on Wall Street. For example, like Bob Wilson, he shorted Resorts International when the Street was pushing the gambling stocks to unthinkable highs in 1978 and 1979. Soros was caught in that bind, says one who watched his situation, because "he had no idea what Wall Street was doing." Unlike Wilson, who shorted the stock and then went on a six-month vacation before the stock took off, Soros changed his mind, went long and made a small profit. "You see, you never know when a concept becomes public property and how far it might carry. So generally I don't know when to sell," he says.

Power plays

As is not unusual in the world of hedge fund managers, Soros has not been untainted by the whiff of scandal. Brokers, of course, have long complained about the power of hedge funds; they say that with their ability to leverage and sell short, they are capable of manipulating the prices of securities. And in 1977, Soros was charged by the SEC with manipulating the price of Computer Sciences. At that time, the fund held approximately 28,000 shares of the stock and he had circled more of a new offering. Before the offering, however, he dumped his shares and the SEC charged him with attempting to depress the price of the offering. Soros claims that he simply changed his mind about the market and the stock — and didn't want to uncircle the offering, for fear of damaging his reputation with the underwriters. "The SEC can't believe that one can perform as well as I did without doing something wrong, so they looked for something to latch onto," he says. After deciding that it would cost too much in time and money to fight the SEC, Soros signed a consent decree.

Needless to say, Soros' power in the market is not lost on corporate officials, especially those most concerned about the price of their companies' stock. "I used to get the red-carpet treatment when I called on companies," recalls one staffer. "If they didn't know the name Soros when I called, they usually found out in about five minutes and called right back."

On the other hand, this power is considered something of a mixed blessing by the brokerage community. There is, of course, the eyebrow-raising at the SEC that some of his activity has caused. And even though sources estimate he doles out more than $2 million in U.S. commissions a year to the 40 brokers he deals with, he is not well liked. "George Soros cares about only one person — George Soros," grumbles one Wall Street trader. Says another: "Soros doesn't spend his time with someone unless he gets something in return." And traders complain that he often knows about blocks of stock before they are even offered. "You get a lot of information with a lot of commissions," says one broker.

In any event, because of the growth of his fund, Soros has lately been changing his perspective on Wall Street research, albeit only slightly. "We've always been anti-institutional and now we are becoming an institution ourselves," he says. "So there is a little paradox there that we haven't quite resolved." In the past, Soros says, the research was received but was then "thrown out." Now, he admits, "we try not to throw it out." Soros himself doesn't read a word of it, but he does have a staffer who is charged with staying on top of what the Wall Street firms are saying.

New ball game?

Inevitably, Soros' phenomenal record of growth also raises the nagging question of whether he can continue his past successes. After all, in the old days, with $20 million under management, he could take large positions in smaller, more illiquid stocks. But now, with the fund at $381 million, he will have to look in other places and be forced either to trade the fund more actively or to cover larger companies. In such circumstances, no one is quite sure whether Soros will be able to sustain his record, and almost everyone agrees that it will be more difficult for him to do so — even Soros himself. "Running a big portfolio is a new challenge," Soros admits. "It is a problem and I don't know how we will succeed in coping with it. Time will tell."

But, as Soros also admits, there is a deeper problem than that of the fund's size. A more fundamental challenge facing him today is the organizational change that must take place within the firm itself because of its growth. And in this respect, Soros finds himself in the same boat with every successful entrepreneur and businessman. In 1974, his firm consisted of himself, Rogers and an assistant; today, it employs eighteen individuals — many of them involved in administrative work. ("I never see them and I don't know their names," admits Soros.) Beyond that, he must find additional staff to help him manage the growing fund and to cover all the new companies it must consider. "You see, *that* is where the real problem is," Soros says. "I don't think that the size itself is the problem. The organizational problem is the foremost problem that's confronting me. And I haven't resolved it."

Three years ago, Soros says, he became aware that success would greatly alter his firm. Watching his assets compound, he realized that he would have to bring in another partner, preferably someone whom he could train as his successor. This — not to speak of the problems caused by the firm's growth and success — disturbed Rogers, say observers. Indeed, Rogers, who had a 20 per cent interest in the company, had special reasons for his concern, he says today. A follower of the smaller, more obscure stocks that were the hallmark of the firm's success in its more youthful days, Rogers says he didn't want to manage much more money — or to become part of a larger organization. And realizing that the fund would have to become more trading oriented ("trading was not something I was good at or liked") or have to invest in larger companies (something he says he didn't want to do), Rogers decided to leave in 1979. "I knew it was time to go," he says today.

According to others, however, personality differences between the two men finally began to get in the way of business. Rogers was well known on Wall Street for his temper and his volatile personality. One analyst relates an anecdote that demonstrates this. He recalls getting a phone call from Rogers, who was seeking information on a particular company. The analyst shared his ideas with Rogers only to receive ten minutes of verbal abuse, with Rogers finally telling the analyst his ideas were "stupid."

Rogers' attitude, Soros says, began to affect his ability to look around for another partner. "He didn't approve of anybody I considered and he didn't tolerate anyone else around," Soros says. "He made life extremely difficult for the other people." After much tension in the office, it finally came down to the question of "whether we would continue the two of us against the world or whether we would enlarge the team. The question that now emerges is whether he was difficult to work with or am I, since I haven't found another partner." In May of last year, Rogers left with $14 million, his share of the firm.

Yet, Rogers' contribution to the fund's success is unquestioned by those in the know. "Jim was crucial in George's development," says Bob Wilson. "But I don't think George will suffer without him." While Soros picked the general themes, molded the portfolio weightings and made trading decisions, Rogers did the legwork and analysis. For the dozen years they were a team, Rogers spent his days reading annual reports and more than 50 trade magazines trying to get ideas for exciting areas of possible investment. He spent more than ten hours a day, seven days a week — and never took a vacation, he says today.

Burnout?

The issue that emerges since Rogers' departure is twofold:

- Can Soros find someone to do the analytical work that Rogers provided?
- And will Soros find a partner/successor who can keep up the fund's success?

"It's definitely a tough act to follow Soros," says one fund manager. Even though Soros has two analysts, Anthony Roberts and Daniel Pfeffer, to cover U.S. securities and another pair exploring the Japanese markets, Soros claims to be overburdened and overextended. "I am, in fact, somewhat burned out, in my view, in the sense that I no longer enjoy doing the same thing I've been doing for the last twelve years over and over again," he says. "I don't do it as well as I used to because I don't enjoy it. I'm really just too busy to do a good job."

Despite his protestations, Soros quite obviously is still doing a good job. And while he claims that he is "burned out" and facing a "management crisis," you'd never know it from his performance of the last three years. "That's the funny part," he says. "It obviously hasn't stopped me from doing well on an operating level." Others say that Soros' performance has been better than ever simply because, in the last three years, he has become more confident, more comfortable with his success — and has been taking more risks with the portfolio. When asked if managing money has indeed become easier for him, he merely shrugs: "I suppose it must have become easier, but the task has also become greater because the size of the fund has grown. It's a treadmill."

So Soros, at 50, now confronts the chore of finding talented people and the challenge of keeping up his past success. Since he has not been able to attract another partner, he recently took the step of bringing in a headhunter to help. In a sense, his inability to find that partner stems from two factors. In the first place, since he has avoided Wall Street for so long, he says he does not rub shoulders with the "talented people of tomorrow." And more than that, he has a reputation of being a most demanding employer. "Working for George is out of the realm of a nine to five job," says one former employee. "It means long days and weekends."

Is George Soros worth $100 million?

In twelve years of running offshore money for his clients, George Soros has built up a sizable worth of his own (story). While Soros declines to discuss his own financial status, several facts emerged from the reporting for this article that enabled *Institutional Investor* to estimate the size of his fortune. Early in 1980, Soros' longtime partner James Rogers left the firm, taking with him his 20 per cent interest in the firm, which was then worth $14 million. This was amassed over the years from fee income and from market appreciation from investing that income. Soros owned the other 80 per cent of the firm, and his own stake was worth about $56 million at the time. Then, since Soros' capital is invested exactly like that of his clients, his own money probably doubled last year, when the fund itself was up 102 per cent. Based on this analysis, *Institutional Investor* estimates that Soros has amassed more than $100 million in the past dozen years. It should be pointed out, however, that this month Soros established a foundation, The Open Society Fund, which is starting up with one-half of his capital.

Soros recognizes the problem. "I'm sure I must be a very hard taskmaster because performance has to come before the satisfaction of the ego-massaging or whatever is necessary. Clearly performance in the portfolio has to take precedence over personalities," he says.

At the heart of Soros' desire for a partner/successor, he says, is his desire to pull back from the daily grind of the operation. "I really would love to now be able to bring young blood in and impart to them whatever I know, get their input and give them increasing discretion and authority," he says. "I really want to kick myself upstairs." But then he goes on to admit that even if he went "upstairs" he would not be out of touch. "I would always be here," he says. "And I'd always pitch in when something is on fire."

With one or maybe more new partners ("ideally I would like three," he says) Soros would have more time to devote to travel, skiing, tennis and to his other interests. "I believe that to be successful, you need leisure," he says. "You need time hanging heavily on your hands." More time would also allow him to devote further attention to what he calls the "philanthropy business on a larger scale." He recently established a foundation, The Open Society Fund, with approximately one-half of his capital. And he is a major supporter of New York's Nikolais Dance Theatre, was chairman of the Central Park Community Commission for a few years and supports other charitable organizations such as Amnesty International.

Many observers wonder why Soros, if he feels this so strongly, hasn't simply cashed in his chips and liquidated the fund. After all, with all his success, money would hardly be a problem. But Soros says he feels he can't do it. "It's a commitment that I can't really get out of," he says enigmatically. "I consider that I am committed to it and the only thing that I can do is to share the burden with somebody else." Others believe that ego could also have something to do with it. "Soros wants to be the first billion-dollar hedge fund," says one.

In any event, despite his wealth, Soros does not live lavishly (actually, he is only paid a salary by the domestic company and owns stock in the various offshore corporations connected with the fund). His favorite activities involve dinners with friends, fine wines and evenings at the opera. Although he owns a home in Southampton, Long Island, it is described as modest. "George lives well, but not extravagantly," says one source. Adds another: "He's not interested in making a big splash in New York society."

And even though Soros has achieved an investment record that by all accounts is second to none, and has made a fortune for himself along the way, one gets the feeling that he is not totally at ease — or even particularly content — with his success. The split with Rogers and a recent divorce have taken their toll. And then there's the widely held belief that Soros isn't really close to anyone. "George is friendly, but he isn't a friend," says one fund manager. A former Soros staffer admits that while he isn't the kind of person one "pals around with," he is extremely dedicated — if only to his three children and brother, Paul Soros, a successful engineering executive.

Actually, Soros says that he never really set out to become a money manager in the first place. "I would have liked to have been a university professor, but nobody asked me," he says almost wistfully. Then he adds: "I would have liked to have been a philosopher." But if George Soros had it all to do again, he says he wouldn't do anything differently. And despite his moaning and whining about his mistakes and weaknesses, he obviously takes pride in his achievements. "For many years I refused to identify with my performance," he says. "It was a means to an end. Now I'm much more willing to accept it — that this is, in fact, my life's work." And when he is asked the reporter's question of how it feels to be the world's most successful money manager, he lights up, smiles and says: "It's a pretty good feeling." ■