Learn From the Generals of the Markets

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SAMPLE

CHAPTER 1

Julian Robertson: The Father of Hedge Funds

"A Trader's worth is based on how well he dealt with losing trades." – Paul Wallace

Born on 25 June 1932, Julian Robertson is thought of as a father of hedge funds. He graduated from the University of North Carolina in 1955 and then served as a US naval officer, a position he held until the year 1957. After this, he worked for a stockbroking firm named Kidder, Peabody & Co. He eventually travelled to New Zealand. On his return, he started Tiger Fund Management, one of the earliest hedge funds. Between 1980 and 1990, he turned $400 million into $22 billion. But this was followed by serious drawdowns which made investors withdraw their money. Thus the fund was closed in the year 2000. In 1993 he had personal profits of more than $300 million. In the year 2003, he was worth more than $400 million. In the year 2011, he was worth up to $2.3 billion. He went short in some financial markets in the year 2008 and made about 150% on his two hundred million dollar portfolio.

It's noteworthy to say that after he closed Tiger Management in the year 2000, he kept on investing by funding and supporting new hedge funds. Now called an erstwhile funds manager (for he's retired), he still invests in the markets through his former workers who are now fund managers. These funds managers are doing well.

Julian Robertson is highly philanthropic in nature. He founded Robertson Scholars Program, a body which awards full scholarships to many students. He's also pledged a portion of his assets to charity (following the example of Bill Gates and Warren Buffet). He's an astute investor and a developer in New Zealand. As a result of this, he was knighted by the Government of New Zealand in 31 December 2009. In May 2010, the New York Stem Cell Foundation (which is a private body) made it public that Julian and his sweetheart (now late) gave them a gift of $27 million. In January 2012, Julian generously donated $1.25 million to fund Mitt Romney presidential race.

Lessons

What can you learn from Julian Robertson?

1. As his quote at the end of this article testifies, he made colossal profits from going short on weak instruments and going long on strong instruments. Clearly, this is trend following. So we can say that Julian Robertson is a trend follower. In the year 2008, in which many people lost their shirts, Julian thrived. In what some claimed to be one of the worst financial years, sane traders saw that the markets were trending downwards and went short or smoothed their positions. Insane traders continued to buy in the context of downtrends or refused to close their losing trades. Can you see the difference? Follow the line of the least resistance!

2. Why did Tiger Management get liquidated in the year 2000? The reason why is because Julian suffered seemingly unbearable roll-downs (which could have been seriously mitigated by conservative position sizing and risk control techniques). Sometimes Julian bet too big, as revealed in the following quotes attributed to him: "Hear a [stock] story, analyse and buy aggressively if it feels right," and "When Robertson is convinced that he is right," a former Tiger executive notes, "Julian bets the farm." Betting too big isn't a good thing because it causes big losses when you're wrong, and this is bound to happen. Betting small leads only to small losses, which are very much more bearable and easy to recover when the market conditions become auspicious again….

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