



More Money Than God: Hedge Funds and the Making of a New Elite

Sebastian Mallaby

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"Splendid...the definitive history of the hedge fund, a compelling narrative full of larger-than-life characters and dramatic tales." -- *The Washington Post*

Wealthy, powerful, and potentially dangerous, hedge fund moguls have become the It Boys of twenty-first-century capitalism. Beating the market was long thought to be impossible, but hedge funds cracked its mysteries and made fortunes in the process. Drawing on his unprecedented access to the industry, esteemed financial writer Sebastian Mallaby tells the inside story of the hedge funds, from their origins in the 1960s to their role in the financial crisis of 2007 to 2009.

More Money Than God: Hedge Funds and the Making of a New Elite Details

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Owen says

This was one of the best descriptions of how the financial system makes money that I have read. This could stem from the fact that it built on top of the earlier information I had, but, in any event, I came away from this book with a much clearer understanding of the workings of the stock market than I had before, and I actually went back and re-read some things I had read earlier and they made more sense.

The author is quite in favor of hedge funds. I'll stop short of saying he is in thrall, but it at least crossed my mind.

His point is a fair one- hedge funds are real, unfettered capitalism, that you get the benefits of a large institutional investment bank with much less of the moral hazard. Hedge funds create wealth (like investment banks), their traders get paid a significant cut of their earnings (less like an investment bank) and no independent hedge fund has ever been bailed out using taxpayer money (entirely unlike investment banks). The last point is a bit of a stickler- hedge funds that were started within investment banks have collapsed, bringing down banks themselves (Bear Stearns for example), but the author's contention is that these don't count as true hedge funds, as they always had the de facto backing of their parent banks, and they were really just a way for these banks to sell their services to large investors at ever-increasing buy-in amounts. It's a fair point given that, apart from the cost to buy-in it's difficult to discern a difference between the parent investment bank and the child hedge fund. So the 'moral hazard' of taxpayer reimbursement of bad decisions is not in play for hedge funds. I'll leave the discussion of the other moral hazards of the financial industry to the reader. (As does the author).

The book starts with the origin of hedge funds. Originally, they were called 'hedged' funds, as they hedged their positions and borrowed to increase profit, back in the 1950s. Eventually, they dropped both the 'd' (and the actual hedging), and became 'hedge funds.'

During the 70s and into the 80s, a sizable chunk of profits seemed to come from knowing about trades before they officially happened. This overt practice gradually went away (though was the progenitor of the high speed trading issue that broke with Michael Lewis' latest book, and was practiced by any trading entity that could do so- technically illegal, of course, so no one admits to it), but without the hedging, much of the profits came from the concept of asymmetric risk, a simple idea that is difficult to identify in reality. Those that did, prospered. Many did not and failed. Some identified it in a vacuum, then found themselves to large to get in and out of trades fast enough. This speaks to the never ending problem besetting all trading entities: you make a lot of money, then, because you now have so much money you make too much of an impact on the prices of what you buy and sell, leaving you unable to buy and sell as fast as you want. Then you have a 'liquidity' problem, and your competitors take you apart.

The takeaway I got from this book was the primacy of information. It surprises precisely no one that hubris swaggers through the hedge fund industry. Many of the titans have been brought low by people simply figuring out which trades they were making and making them as well. Some never spoke about their secret sauces; others published a monthly newsletter (this is basically what killed Tiger; it's much easier to spot your competitors patterns when he publishes a list of trades every month). Everyone is operating under incomplete information conditions; if your information is slightly less incomplete, you can turn that into an advantage.

This is a fun book, an easy read and definitely worth reading if you want to know more about the financial

industry. You'll learn a bunch and not even realize it.

One final note- I was staggered by the change in scale in a decade and a half- in 1992 Soros broke the pound sterling by going in with \$10B (others followed). He couldn't buy more when he tried (tragically, he only made \$1B in that deal). Just before the mortgage crisis, Michael Lewis details an investor dropping \$25B against CDOs and the market not flinching. I understand that currency speculation and aggregated mortgages are not identical, but the spike in scale is shocking to me.

Owen Gardner Finnegan

Cheng Dang says

A history lesson on the origins of hedge funds, back when hedging was still a pre-requisite for the moniker, to George Soro's giant \$10 B pound short, to the implosion of the Long Term Capital Management quants, to the misunderstood role of hedge funds during the financial crisis in 2008. The author argues that hedge funds as they are present a less systemic risk than the large public bank institutions in place where moral hazard runs rampant. Not recommended for a general audience but a worthwhile read for finance geeks

Corey says

This book is an accessible history of hedge funds that is easy enough to follow for those of us not experts in the field of finance. It covers the different characters involved in the evolution of hedge funds from the first fund through the 2008 recession. All in all I feel like I learned quite a bit about how hedge funds work, what type of people run them, and how they operate.

But this book also comes off as a defense of hedge funds. As if the whole world has a negative view of them (maybe it does), its as if this author set out with a mission in his mind: "No, hedge funds are awesome and I'll prove it to everyone." Certainly some of his arguments are solid, but there were plenty of claims made for why their potentially economy wrecking behavior (see Soros shorting the British pound) was actually good for the greater economy and for those countries specifically that I just don't buy.

Henry Barry says

More Money Than God was one of the most educational and interesting finance books I've read. Mallaby has really done his homework here, and it shows. The history of hedge funds, by the very nature of hedge funds, gives a lot of general market history as well, and I often found myself realizing that Mallaby was telling of market incidents that I'd read about in other books. In that sense, this was a very high-level overview to both hedge funds and markets. This is a very holistic text. Not only that, but it is written as a pageturner, or as much of a pageturner as you can make a history of hedge funds. The 389 pages of main body text went by relatively quickly, and I was never bored or considering putting the book down.

I took away a few useful bits of information from this book. Hedge funds, despite their bad reputation, are actually often better for the economy than big banks with proprietary trading desks (though prop trading isn't done much anymore, partially because of the Volcker Rule) because hedge funds are smaller and don't have the resources of big banks and the government to bail them out if they fail. Hedge funds are kind of like the

startups of the finance world. They are often using a significant amount of their founders' and employees' capital, meaning that they have their own skin in the game and are less likely to take gigantic, stupid risks like some banks did in 2007 which led to the mortgage crisis. Also, the book explained the gaps in the efficient-market hypothesis, or idea that every stock is accurately priced because investors have digested information. In the long term, the EM hypothesis is true, but in the short to medium term, it often isn't because it takes time for all investors to find and react to information. Thus, there is money to be made in investing, despite what some people say. Mallaby gets into this a great deal in the book. The bottom line that I concluded about beating the market is that it can be done, and will be done, and when it happens, the firm that does it first will make a killing until other firms begin to imitate, drive the market to saturation, and take away the opportunity to beat the market. Then, another new method will come about, and the process will repeat each other. Thus, a good hedge fund will always be innovating and finding new opportunities before others do. Another sad truth about hedge funds is that they often fall victim to their own success: once reaching a certain huge size, their positions will be so big that they will control entire markets, meaning that if they want to buy or sell they may not be able to at all, or without making a huge impact on market prices, which defeats the purpose.

Thus, the ideal hedge fund would be one financed with founders' money, so they wouldn't take unnecessary risks, that was small enough to not take over markets, and low-key enough that no one was emulating its strategies, which would work well if they are not being copied by everyone else. So, though Mallaby doesn't get into this, perhaps there are a lot of small hedge funds that remain small and refuse to disclose anything about themselves because doing so is the only way that they can continue to beat the market.

Ushan says

In 1949, an American sociologist and a former diplomat and anti-Nazi operative decided to get rich. He organized a "hedged [sic] fund" that bought shares in the companies he deemed promising, and sold short shares in the companies he deemed unpromising, doing all this on borrowed money. The top marginal income tax rate at the time being 91%, he took 20% of the profits on the investments, which were taxed at the much lower capital gains rate of 25%. If all of the original \$100,000 had stayed with him, he would have increased it to \$5 million by 1966. Hedge funds multiplied in the 1960s, burned in the subsequent market crashes, and have persisted to this day; now they manage a total of over a trillion dollars. In addition to equities, they now bet on prices for all sorts of assets. In 1992 George Soros bet on the British pound to drop against the European Exchange Rate Mechanism (the precursor to the euro); in the devaluation, he made £1 billion at the expense of the British taxpayer. In 1997 Soros bet on the Thai baht to devalue; he was reluctant to bet as much as he could, since if the Thai government's foreign currency reserves were exhausted, this would plunge millions of Thais into abject poverty. The baht did devalue, the economy of Thailand did crash, and Soros did make money (but he lost money on the Indonesian rupiah). In the early 1990s, the U.S. Federal Reserve tried to stimulate the economy by having very low short-term interest rates, so businesses could refinance their debt and hire more workers; a hedge fund borrowed short-term and lent long-term, with only a fraction of the reserves that a normal bank would have to have. In the early 1970s, the Nixon administration imposed price controls, among other things, on plywood; a hedge fund manager saw that the controls would soon have to be abandoned, and made a lot of money on plywood futures. There are lots of stories like that in this book. These people did make more money than God. Who lost it? Ordinary unsophisticated investors, taxpayers of different countries, and people who trusted their governments. Yet with all their faults, hedge funds are not too big to fail; they won't be bailed out by the government, and their managers know it; the managers usually have their own money in the fund, and thus are not gambling with other people's money.

Vaishali says

Despite a spicy title, one of the few books where I've no notes to share. Reason? Unlike the Ivy League teams heading VC/PE firms and investment banks, a hedge fund is more often the brain-child of one highly charismatic individual with a revolutionary, aggressive trading ethos. Or so the book claims... and then focuses solely on Soros' Quantum, Robertson's Tiger, and Meriwether's LTCM. Nil is said about the hundreds of other funds aggregating gazillions into highly leveraged options/futures/currency bundles... or any beans spilled on trading strategies. In short, a book about a few oranges...but nothing about the juice.

Ravi J says

Its insane when Hedge funds can lose hundreds of million dollars per hour in some cases and still come out on the right side of the trade.

It does try really hard to show the Hedge funds in a good light (providing liquidity, making prices more efficient etc.), But it is really hard to fathom the cases of Soros and Druckenmiller when they willfully killed the Sterling and then the Thai Baht.

Loved reading the book, these guys (hedge fund managers) are hyper alpha males, and willing to go all out to get a single penny. Nicely written. I have new found respect for Druckenmiller after this. Soros, a bit less - he is a philanthropist with an agenda.

Shoti says

I always thought of hedge funds as the private playground of multimillionaires, which help the wealthy to become even more wealthier. It turns out my belief was not completely unfounded. Nevertheless, Mallaby proves that there is much more to the overall story of hedge funds. He does a great job by walking his reader through the history, development, types, boom and bust cycles of hedge funds, also explaining their role and impact to the health of the global financial system.

Clearly, hedge funds may come in a great variety. Just as one can admire astonishingly different animals in a zoo, like a gecko or an elephant, visiting an imaginary zoo of hedge funds would leave the visitor with similarly mixed impressions. Mallaby's tales about the most prominent hedge fund superstars, their biggest killings and steepest falls constitute an amusing story. More importantly though, Mallaby, by looking at the broader picture, puts forward compelling arguments about why hedge funds, contrary to the general public opinion and political sentiment, tend to represent lower risks for the globalized financial system than, for instance, banks. Despite the huge disparity in the level of regulatory controls over hedge funds and banks, the combination of incentives, pressures and dynamics faced by hedge fund managers serves to ensure that hedge funds can overall better manage risks than complacent, badly incentivized and ineffectively regulated bankers. After finishing this book, I cannot help but wonder to what extent the ever-increasing pace of development in computer sciences and AI will influence and refine investment strategies - in essence, speculation - followed by hedge funds.

Khaleel says

Nice overview of the hedge fund industry. A bit tedious though and debate around regulation of the hedge fund industry is not too robust. That part of the book was not worthwhile.

Recommended if you want to understand the US hedge fund industry and how it became what it is today. Heavy going and a little slow but a good read nonetheless.

Aiman says

Makes you feel like opening your own hedge fund. What are the odds?

Charvak Patel says

If you aspire to get a job in this industry, this is perfect for you.
Also got to know about some geniuses.
Crisis of Citadel and Quantum's bet on GBT are the best parts

Anand Iyer says

As the title suggests it's a book on evolution of hedge fund industry. How it started with Alfred Jones' leverage system to modern quants and momentum traders will be a fascinating read to any financial service aspirant. However, he's littered it with so much of his preclusion and selection errors, it paints a rusty picture over a darker canvas. Mallaby has used same argument for and against the industry, sometimes in the same page. While it's certainly not an academic material, its careful curative of data and confirmation biases warrant further analysis. As history has a habit of repeating itself, especially in financial sector, it's prudent to consider it a medium read on industry.

Tim O'Hearn says

MMTG provides an insider's take on the history of hedge funds using language that is appealing to the outsider. Sebastian Mallaby presents colorful characterizations ("[Robert Mercer] never recalled having a nightmare") of the major players behind some of the largest financial undertakings you have never heard about. Extremely detailed research is reduced to a cascade of brilliance--a triumph of tight editing. Sebastian introduces new ideas and debates criticisms without ever skirting myopia. The LTCM and Quantum (George Soros) chapters are especially good, but reading any less than the entire book would be doing yourself a disservice. And this is coming from someone who took three years to finish reading it.

One of my favorite extractions from the novel is that the author Tom Wolfe invested in The Tiger Fund and used his experience with writing the book *The Right Stuff* to convince a Goldman Sachs analyst, whose father was an aviator, to jump ship to Tiger. This is interesting to me because Tom also wrote *The Bonfire of the Vanities*, which was a work of satire criticizing 1980s New York with the main character being a bond trader. I can't help but wonder how Tom's criticism would play out in an era where one or two hedge funds collaborating closely could destabilize an entire country.

See this review and others on my blog

Jon says

Mallaby not only presents the definitive history of hedge funds, starting with the first one (created by A.W. Jones in 1949), and continuing through the recent financial crisis, but he also makes the argument that hedge funds are the best alternative to the megabanks on Wall Street.

That's a pretty controversial claim. Certain funds (like Long-Term Capital Management) have completely imploded, and some hedge fund managers have been fined for fraud. And yet, after reading this book, I'm sympathetic to Mallaby's case. He argues that hedge funds:

- 1) Include their manager's own money in the fund (most of the time)
- 2) Haven't taken taxpayer money in bailouts when they fail
- 3) Shine a light on fraudulent and incompetent companies through short-selling their stock
- 4) Have an entrepreneurial, startup spirit

It's a testament to the merit of Mallaby's book that I now have some sympathy for financial traders. Up to this point, the books I've read about Wall Street have all been scathing. This one takes an approach of measured praise.

Ryan Stambaugh says

The book is a first-rate piece of non-fiction. Mallaby scans the history hedge funds over the past 60 or so years, with most chapters focusing in on an economic event and particular fund manager or hedge fund responding to such. (One minor quibble is Mallaby never quite says why A.W. Jones gets credit for developing the first hedge fund over, say, Benjamin Graham or John Maynard Keynes.)

Along the way you learn quite a bit, also, about the financial scene going on at the time; from the commodities boom of the 70's, to currency pegs in the 90's, to today's sub-prime meltdown/aftermath and points in-between. And, for good measure, the Efficient Market Hypothesis (and its proponents) come in for some well-deserved criticism.

In the end, you will marvel at what these men and their funds can accomplish (and he does touch, near the end, briefly on Survivorship Bias inherent in such a book).

Mallaby clearly admires many of the hedge fund managers covered, and concludes with a compelling reason why hedge funds are needed and necessary. Further he pushes back at some of the criticism aimed their way while allowing they are far from being faultless. In advocating hedge funds, I wish Mallaby would have tackled whether, say, investment banks could learn from them. For one thing, investment banks used to be partnerships (not publicly traded), could they go back to (via regulation even) such a structure? The capital structure is touched on, but more as it relates to an advantage for hedge funds rather than advocating investment banks reverting back.

If you enjoy the financial markets, I suspect you will greatly enjoy this book.
