THE BIG WIN

LEARNING FROM THE LEGENDS TO BECOME A MORE SUCCESSFUL INVESTOR

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author of *The Billion Dollar Mistake*

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To Lauren, Shelby, and Lindsay
My BIGGEST WINS

Disclosure

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S.W.

Introduction

If you have flipped open the cover of this book, or tapped the screen on your iPad or Kindle to arrive at this introduction, I hope you won't be disappointed by not having found another dry, dull how-to book on investing. *The Big Win: Learning from the Legends to Become a More Successful Investor* has been written to read like a collection of entertaining short stories while providing invaluable insights, culled from the experiences of some of the best investors in the business, that you can integrate into your investment strategy in order to drive greater profitability.

My first book, *The Billion Dollar Mistake: Learning the Art of Investing Through the Missteps of Legendary Investors* (John Wiley & Sons, January 2010), profiled 11 top investors, their life stories, their paths to success, and their biggest mistakes. While virtually all investment books lay out a step-by-step strategy that, if adhered to, will allow for the achievement of "financial independence" or "success beyond your wildest dreams"—sarcasm intentional—*The Billion Dollar*

Mistake is unique in its approach—focusing on what *not* to do. It is a "don't do what I did and get rich" kind of book. The mistakes in each chapter are the garden-variety missteps that we all make, investors big and small, the only difference being the number of zeros to the left of the decimal point. In fact, most professional investors assiduously relive their mistakes, dissecting them over and over both as involuntary penance and, more productively, in an effort to understand what went wrong so that it doesn't happen again. George Santayana put it best[1] when he said: "Those who cannot remember the past are condemned to repeat it."

This follow-up, *The Big Win: Learning from the Legends to Become a More Successful Investor*, possesses many of the same characteristics of my first book. In fact, I used the same criteria for selecting those profiled on the following pages: compelling life stories, awe inspiring financial achievements, and most important, investment philosophies that could be successfully and relatively easily assimilated by the average investor in order to achieve greater profitability. But I also wanted to add a touch of diversity to the investments I examined while ensuring that the underlying tenets of each strategy were transferrable to and from all asset classes including stocks, bonds, real estate, and commodities. And to really spice it up, I added one of the best short sellers into the mix, offering you, the reader, the opportunity to make money in any type of market—bull, bear, or sideways. Importantly, each chapter concludes with *takeaways* that make it easy to grasp how you can—in fact, should—take advantage of each lesson. As noted, the core principles of any investment discipline should be transferrable to different asset classes; there are many ways to generate return on your capital, and stocks may not always be the best vehicle for wealth creation. In fact, one of the professional investors featured herein remains skeptical of the ability to consistently generate return by owning any stocks.

Virtually all those included herein blazed new trails in finance: Renée Haugerud, a woman, is an extremely successful hedge fund manager, a minority class if there ever was one; R. Donahue Peebles is perhaps this country's wealthiest African American real estate developer; Martin Whitman was at the forefront of distressed debt investing; Chuck Royce, a pioneer as a value investor in small capitalization companies; Jim Rogers, a former partner of George Soros, was an early hedge fund innovator in commodities; Jim Chanos is perhaps the best short seller of all time; Lee Ainslie started out working for Julian Robertson at Tiger Management and now runs one of the world's largest equity hedge funds; and Alfred Taubman is a multibillionaire real estate investor and inventor of the modern shopping mall.

The Big Win examines the other side of the trade discussed in *The Billion Dollar Mistake*. This book illustrates what went right for the eight investors featured, explaining how they parlayed their personal strengths into fortunes. Each chapter provides an analysis of an investor's biggest win, not necessarily in terms of monetary gain, although that is also present, but rather in terms of an investment that epitomizes their style. The chapters conclude with a takeaway laying out the most important aspect of each legend's strategy.

I hope you will find this book informative and entertaining—learning by osmosis, so to speak—as you enjoy the personal stories of these individuals who all came from humble backgrounds to achieve great wealth and success. Most of all, you should come away from this book with an appreciation of how you can use your personal strengths to profit in any market in any asset class.

Note

1. George Santayana (1863–1952) was an American philosopher. Historians, librarians, and trivia experts have engaged in spirited debate over his exact words, but the meaning is very clear.

Chapter 1

The Legends I Have Met

A Behind the Scenes Look at What Makes a Legend

Writing a book is work, hard work at times. So why do it? Well, no one said that work can't be enjoyable and I enjoy writing. In some respects, writing fiction is easier because you can just make stuff up, which is great for people who drink a lot or use mind-bending drugs. Fortunately, or unfortunately as the case may be, I don't imbibe to excess with the former and have never partaken of the latter so I am left with an unimpaired yet fertile imagination that occasionally lets me down by being very infertile. Such is the difficulty with fiction: The occasional inability to create something from nothing and then having to toil laboriously to make it sound coherent and interesting. But, I write fiction because I enjoy letting my mind wander and putting those thoughts down on paper, fictitious thoughts that no one can say are incorrect. I enjoy the vacation from reality.

Nonfiction, on the other hand, is easier on the creative engine in terms of developing the material. Sure, you still have to make the book interesting and entertaining, no doubt about that, or people may read the phone book instead, a literary tome that arrives free of charge. But with nonfiction, at least the track is already in place, the basic content available if you know where to get it. In fact, what I enjoy most about writing nonfiction is the process of gathering material. It provides me the opportunity to meet some of the best investors who ever put a dollar at risk and some of the best business people who ever sat in a CEO's chair. Getting to know them in a rather informal setting, exchanging thoughts and ideas, but most of all, listening to them tell their stories and espouse their philosophy on life, investing, and business—often overlapping thoughts—is what interests me. Then, when I sit down to pull it all together, I enjoy reflecting upon these conversations, discerning whether there is a causal relationship between the people they were, the people they have become, and their success; how their life stories have served to create their approach to investing. I enjoy breaking down each piece of their strategy and then putting it all together, crafting it into a story that culminates with a practical application. I am rarely at a loss for what to write about in my business books. If writer's block rears its ugly head in one chapter, I move on to another individual. With fiction, that's not possible since the story line has out be fleshed out and followed.

With all this in mind, the following pages tell the story of my selection process, how I approached each person about being in the book, and my impressions of them as individuals and professionals. The purpose of this chapter is to entertain, provide insight into these professionals as individuals, and painlessly pull together the commonalities that have made them successful and show how you can adapt these qualities into your investment style.

Wanted: The Truly Successful and the Truly Interesting

On the surface, many portfolio managers appearing on television are like the doctors you entrust your care to; some docs graduated in the top of their class, some barely made it through medical school in Guadalajara, but their grades are never included in the laminated diploma framed on the wall. It's sort of the same thing with portfolio managers—their record of performance is usually nowhere to be found on the television screen as they preach investment advice. So instead of focusing my search for candidates to interview on name value alone, I sought out individuals who had accomplished something special, who did things differently perhaps, who were pioneers, original thinkers, *and* had great performance. I wanted those who had a definable strategy. Most of all, however, those profiled in this book had to invest within a strategy that I could break down and relate to individual investors for them to assimilate into their market activities. The starting point was people whom I was somewhat familiar with—either personally or professionally.

When I wrote *The Billion Dollar Mistake*, I actually found it easier to find those who had committed a severe misstep than being able to source true outperformers; bad news always gets more press. I also confirmed something I had already known—that a lot of mutual funds with an awful lot of money are pretty mediocre performers. Few actually outperform the market. It was more difficult to get a bead on hedge fund performance, but I have pretty good access to various reports that provide return information. The problem with these individuals is that most of them did not want to speak on the record; it just was not worth it to them in the post-2008 environment where successful capitalists are treated as modern-day lepers. And most of these people did not need the publicity to raise assets or they already had accumulated significant wealth. What I had going for me was that I was somewhat of a known commodity from my regular appearances on CNBC and Bloomberg, my first book, and a two-and-a–half-decade career on Wall Street. Chances were that I knew someone who could vouch for me—it was a bit like playing six degrees of separation—and that got me in the door. It was important to them that they could trust that I would not tarnish a reputation they had built through many years of hard work, that they would be portrayed fairly. However, this book is not a commercial for any of these people; in fact, most of their funds are closed to new investors.

The first person to agree to cooperate was Alfred Taubman, the founder of shopping mall developer Taubman Centers. I was in Florida with some friends for a weekend of golf, and Taubman was kind enough to host our group of seven for a round at Trump International in West Palm Beach. We drove our rented Explorer up the long driveway that contained more exotic cars than either the garage of a Bahraini prince or of a platinum record selling rapper. I was fortunate to play in Alfred's foursome, and the first thing I noticed was that he had an incredible swing for an 86-year-old. My instinct was to turn my 9 iron on him for having cost me a small fortune by building and operating a high end shopping mecca close to my home, but he was far too nice to be the subject of my misdirected anger. My family, much to the delight of American Express and to the detriment of my savings, has spent significant time helping The Mall at Short Hills achieve unmatched sales per square foot. As the round went on and our strokes piled up, I discovered he was very good at math, but the advantage of shooting high scores was that it gave us more time to discuss his career and his philosophy on retailing and investing. Taubman is not only a top real estate developer and retailing expert but he is also an inventor, the inventor of the modern enclosed mall. He spoke about the precision required in his business, the attention to detail, to finances, and to creating a value proposition to draw tenants and keep them. As with most great business people, he was very detail oriented, focused on costs and driving revenue. We discussed the book I was writing, this book, and without hesitation he agreed to participate. He immediately offered the Irvine Ranch as his biggest win, aside from Taubman Centers, that is. But what he spoke about with more pride and excitement was what he was doing with stem cells and other medical research. After the first 10 holes, the skies opened and our foursome headed into the clubhouse. The others braved the elements and continued on. On the way in, Alfred stopped to say hello to David Koch, one of the wealthiest men in the world. I admit to being impressed. We continued to chat and I continued to learn. Sitting down to lunch, we spotted The Donald in the corner, but he was too busy to notice us at the time. I had met Trump at another golf course, Wing Foot in Westchester, New York, and I wondered if all he ever does is play golf; I am fairly certain he did not wonder the same about me. As for Alfred Taubman, between traveling to his many homes in the United States and Europe, his business interests, charitable endeavors, and his desire to spend time with his family, it would be a few months before we were able to get together again to drill down into his story and his biggest win. In the interim, I read his book, *Threshold Resistance*, and researched his story.

I reflected on my conversations with Alfred and came away with the following insights into this multibillionaire that took him from nothing to one of the richest people in the country. He was focused from day one on his pursuit of success, employing a skillset, architecture, as the tool to get him where he wanted to go. He was an entrepreneur and brilliant individual who saw a need in America and filled it. Away from Taubman Centers, he has had many successful investments, including Sotheby's and the focus of his chapter, the Irvine Ranch, a truly interesting story that provides many lessons. He also has a great sense of humor. As we discussed the challenging macro environment, he said he prefers one-handed economists. I looked at him quizzically, and he explained that such physically challenged forecasters would have to possess serious conviction in their views since they could not present an alternate proposal. I got it. On the one hand if this happens, then . . . , but on the *other hand*; actually, there would be no other hand. As I said, Alfred is a man of precision and humor.

Jim Rogers is someone I have admired for a very long time. I would doubt that anyone knows more about commodity investing broadly or has done it as successfully for as long; or has taken the time to travel to virtually every part of the world to flesh out the investment case in practical terms. He partnered with George Soros in starting Quantum Funds and retired early, an action I very much admire. But he never really retired; he just went into business for himself. I admire that too. Well, Rogers and I have the retiring early and going into business for ourselves in common but it would have been nice to also have had Soros as a partner in common, so I could have more fun with the other two. Two out of three is not bad, I guess. I had no idea how to contact Jim, so I Googled him and found his e-mail address. I sent a message describing my background and he responded almost immediately—from Singapore. We set up a time to speak by telephone; I believe 1900 hours was what we settled on (I guess that's how they tell time in Singapore). Never having had any military training, I counted out the hours on my watch just to be sure. Yup, 7 P.M.—got it. I called at the appointed hour and told him a bit more about the project and he was in. Since Jim had written a number of books, I was sure he felt sympathy for a fellow author. He agreed to schedule some time when he visited New York in a few weeks. A week before he arrived I received an e-mail suggesting we meet at seven in the morning in the gym at his hotel. This would have been the second gym meeting I had in my career, but after the first, which was an impromptu meeting with Lee Cooperman in Omega's gym, I vowed never to do it again; there are more productive ways to have a discussion. Instead, we agreed to meet in the hotel lobby at two o'clock. He was fairly punctual, arriving at the hotel with his accountant in tow. We shed the number cruncher, hopped into a black Lincoln Town car supplied by Fox News, and headed to their studio a few blocks away. Go ahead, he said, and our interview began as I put the tape recorder on the armrest between us and started to fire questions.

As someone under contract to CNBC, I took pleasure in having the competition pay for my transportation, and I felt like a spy behind enemy lines as I walked into Fox's building. We continued with the interview in the elevator, into the lounge, and into the make-up room. People dropped by to say hello and I got the feeling this was not his first media event (no kidding). We then moved into the studio for Jim to be interviewed by the Fox Business anchor. I recorded that, too. Another stop, this time at Reuters, I believe. From my own television appearances, I was recognized everywhere and felt bad about taking the spotlight from Jim. Well, not quite the spotlight, more like an occasional and polite nod from someone else in the trenches. After a few hours, I had to head to the CNBC studio and genuinely felt bad about it. Jim wanted to talk more and I wanted to listen more, so we agreed to set up a time to finish the conversation when he returned to Singapore after traveling to other parts of the world to give a speech and likely to explore a new investment opportunity. It was an incredibly enjoyable afternoon as I moved in the wake of his incredibly fast pace. He does not look 69 years old and sure does not act like it with a schedule of international travel that few could handle. The follow-up call was scheduled, but I blew it. That damn military time! I called him late and can tell you he does not suffer fools particularly well. Duly and deservedly chastised, we moved on and finished the interview.

When I asked for his biggest win he said "my children." Admirable, understandable, and endearing but I asked for his second choice because I was writing an investment book, not one on family values. I came away more convinced about the commodities boom driven by growing economies in China and India but not as sure of the timing. For Rogers, investing is a way of life, every day an opportunity to explore and observe socioeconomic behavior that can either support or detract from a thesis. From Yale to Oxford and