

Unafraid In Greenwich Connecticut

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The President has just harshly castigated hedge fund managers for being unwilling to take his administration's bid for their Chrysler bonds. He called them "speculators" who were "refusing to sacrifice like everyone else" and who wanted "to hold out for the prospect of an unjustified taxpayer-funded bailout."

The responses of hedge fund managers have been, appropriately, outrage, but generally have been anonymous for fear of going on the record against a powerful President (an exception, though still in the form of a "group letter", was the superb note from "The Committee of Chrysler Non-TARP Lenders" some of the points of which I echo here, and a relatively few firms, like Oppenheimer, that have publicly defended themselves). Furthermore, one by one the managers and banks are said to be caving to the President's wishes out of justifiable fear.

I run an approximately twenty billion dollar money management firm that offers hedge funds as well as public mutual funds and unhedged traditional investments. My company is not involved in the Chrysler situation, but I am still aghast at the President's comments (of course these are my own views not those of my company). Furthermore, for some reason I was not born with the common sense to keep it to myself, though my title should more accurately be called "Not Afraid Enough" as I am indeed fearful writing this... It's really a bad idea to speak out. Angering the President is a mistake and, my views will annoy half my clients. I hope my clients will understand that I'm entitled to my voice and to speak it loudly, just as they are in this great country. I hope they will also like that I do not think I have the right to intentionally "sacrifice" their money without their permission.

Here's a shock. When hedge funds, pension funds, mutual funds, and individuals, including very sweet grandmothers, lend their money they expect to get it back. However, they know, or should know, they take the risk of not being paid back. But if such a bad event happens it usually does not result in a complete loss. A firm in bankruptcy still has assets. It's not always a pretty process. Bankruptcy court is about figuring out how to most fairly divvy up the remaining assets based on who is owed what and whose contracts come first. The process already has built-in partial protections for employees and pensions, and can set lenders' contracts aside in order to help the company survive, all of which are the rules of the game lenders know before they lend. But, without this recovery process nobody would lend to risky borrowers. Essentially, lenders

accept less than shareholders (means bonds return less than stocks) in good times only because they get more than shareholders in bad times.

The above is how it works in America, or how it's supposed to work. The President and his team sought to avoid having Chrysler go through this process, proposing their own plan for re-organizing the company and partially paying off Chrysler's creditors. Some bond holders thought this plan unfair. Specifically, they thought it unfairly favored the United Auto Workers, and unfairly paid bondholders less than they would get in bankruptcy court. So, they said no to the plan and decided, as is their right, to take their chances in the bankruptcy process. But, as his quotes above show, the President thought they were being unpatriotic or worse.

Let's be clear, it is the job and obligation of all investment managers, including hedge fund managers, to get their clients the most return they can. They are allowed to be charitable with their own money, and many are spectacularly so, but if they give away their clients' money to share in the "sacrifice", they are stealing. Clients of hedge funds include, among others, pension funds of all kinds of workers, unionized and not. The managers have a fiduciary obligation to look after their clients' money as best they can, not to support the President, nor to oppose him, nor otherwise advance their personal political views. That's how the system works. If you hired an investment professional and he could preserve more of your money in a financial disaster, but instead he decided to spend it on the UAW so you could "share in the sacrifice", you would not be happy.

Let's quickly review a few side issues.

The President's attempted diktat takes money from bondholders and gives it to a labor union that delivers money and votes for him. Why is he not calling on his party to "sacrifice" some campaign contributions, and votes, for the greater good? Shaking down lenders for the benefit of political donors is recycled corruption and abuse of power.

Let's also mention only in passing the irony of this same President begging hedge funds to borrow more to purchase other troubled securities. That he expects them to do so when he has already shown what happens if they ask for their money to be repaid fairly would be amusing if not so dangerous. That hedge funds might not participate in these programs because of fear of getting sucked into some toxic demagoguery that ends in arbitrary punishment for trying to work with the Treasury is distressing. Some useful programs, like those designed to help finance consumer loans, won't work because of this irresponsible hectoring.

Last but not least, the President screaming that the hedge funds are looking for an unjustified taxpayer-funded bailout is the big lie writ large. Find me a hedge fund that has been bailed out. Find me a hedge fund, even a failed one, that has asked for one. In fact, it was only because hedge funds have not taken government funds that they could stand up to this bullying. The TARP recipients had no choice but to go along. The hedge funds were singled out only because they are unpopular, not because they behaved any differently from any other ethical manager of other people's money. The President's

comments here are backwards and libelous. Yet, somehow I don't think the hedge funds will be following ACORN's lead and trucking in a bunch of paid professional protestors soon. Hedge funds really need a community organizer.

This is America. We have a free enterprise system that has worked spectacularly for us for two hundred plus years. When it fails it fixes itself. Most importantly, it is not an owned lackey of the oval office to be scolded for disobedience by the President.

I am ready for my "personalized" tax rate now.

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