



## INVESTMENT UPDATE

We often read about “bond vigilantes,” as in “bond vigilantes force Italian policymakers to accept fiscal austerity” or “bond vigilantes move against the Japanese Yen,” or even “bond vigilantes battle extraterrestrial robot invasion in New Guinea.” Clearly, these are heroic people who stand for the good of all mankind, a collective bastion against those who flaunt the rules of macroeconomics. Apparently, they are also good at fighting mechanized alien invaders. So they’ve got that going for them.

Eager to find out more about these superhuman do-gooders, we were granted an interview with a man called “Ernie,” a real-life bond vigilante and hedge fund manager who works out of a non-descript storefront in Park Slope, Brooklyn. What follows is a transcript of some of that conversation.

IU: So, you’re a bond vigilante?

**Ernie: Yeah, that’s right, among other things. I’m also a mathematics genius. But I don’t really see myself as just a bond geek, since I’ll put my money any place where I can make a big score.**

Tell us a little about your educational background.

**Not much to tell, really. I have advanced mathematics degrees from MIT and Carnegie Mellon, and a BA in art history from Wellesley.**

Wellesley is a women’s college.

**I think you’re wrong.**

Wellesley has never had any male students. But let’s move on. Tell us about your work experience.

**Pretty typical. I started at a big NY insurance company as an analyst, then I moved to Citibank to work on the options desk, then to Morgan Stanley, then I did a stint at Goldman, then I worked for three different hedge funds before starting my own thing here. Oh, and I was a blackjack dealer in Atlantic City for two summers in college.**

Not counting the casino, that’s seven different places of employment. And how old are you?

**Twenty-eight.**

I see. And how much money are you currently managing?

**About \$250 million, but with leverage, it can look like \$50 billion.**

And how many employees do you have?

**Three—me, my receptionist, Carleena, and Bok Choy, my numbers guy.**

“Bok Choy?” That’s not a real name, is it?

**Well that’s what I call him; I can’t pronounce his real name. Nice guy. Been with me for about six weeks now.**

What about accountants, back office staff, tech people, compliance?

**Don’t like ‘em, don’t need ‘em. They’re just overhead.**

But what about the safety and security of your clients’ assets? With a typical “two and twenty” fee schedule, your revenues are at least \$5 million per year. Surely you’ve got sufficient income to pay for a little administrative staff?

**My clients get a monthly bank statement, and they get my “Letter From Me” quarterly write-up. That’s good enough.**

I’ve seen your last “Letter From Me” and quite frankly, I wasn’t too impressed. May I quote from it? “Good quarter, short the Euro, short Italian bonds, short Greek bonds, short Portugal. Up big.”

**Yeah, so? I like to be succinct.**

Yes, but that was the entire write-up. Some would say your clients deserve more disclosure.

**Hey, if they don’t like what I’m doing, there’s a line of people around the block ready to sign up. I’ve got a waiting list, you know.**

Tell us about your research process. As a self-described bond vigilante, quantitative guru, and options trader, you must have some pretty sophisticated computer models.

**Not really. Most of my ideas come from CNBC.**

You must be joking.



**Heck no. Why fight the crowd? I figure out what's making money and jump in with both feet. Look at Greece—they've been a mess since Helen of Troy was Prime Minister. It doesn't take a genius to see that they're going down the tubes, does it?**

Evidently not. But what about bond vigilante-ism? Aren't you committed to seeing these countries turn their economies around with your "tough love" approach to investing?

**I'll tell you what I'm committed to, and that's making as much money as I can. I really don't care about what happens to Greece. See, with these ETFs, I can put on huge short positions with the click of a mouse button. I don't have to travel to Greece, or read about their busted economy, or austerity programs or any of that other stuff. And I'm good at it.**

How do you figure?

**Well, I'm making lots of money, aren't I?**

I suppose so. But tell me, what happens when it goes wrong?

**Not worried. There's always a new trend that I can jump on. "The trend is your friend," you know!**

But nothing goes in a straight line forever; how do you know when to get out, and cover your short positions?

**Oh, I let Bok Choy do those trades; he's pretty good with the clean-up stuff. Now, don't tell my clients this, but if it really REALLY blows up, I'll just close up shop and start a new hedge fund. Happens all the time.**

OK, how about the US stock market; you've had some experience there. Are there any particular companies or sectors that you favor?

**Nah, individual stocks don't really interest me. Requires too much detail work. I'm a big picture guy, in case you hadn't noticed.**

OK, then—what are your best ideas for 2012?

**I've got a few ideas concerning volatility, as well as gamma and vega, depending on the delta of the trading environment. It's pretty complicated stuff.**

I'm beginning to see why your clients don't ask for more from your quarterly letters. Let me ask you a different way—what are your expectations for 2012?

**Too early to tell yet, but I can promise you one thing: my clients are gonna make double-digit returns, I guarantee it!**

Whoa, I thought making performance guarantees was a real no-no in your business?

**Who told you that?**

Well, the SEC cautions against even making soft promises to clients and prospective clients, and insists that advisors have language to that effect whenever they show investment returns—you know, the old "past performance is no guarantee of future results."

**I have no idea what you're talking about. I'll say whatever I want to say, and I'm guaranteeing my clients big returns in 2012— 20% or more.**

I would think in the post-Madoff era a manager like you would be wary of running afoul of regulators.

**Madoff? Who said anything about Madoff?**

Well, I wasn't going to bring this up, but according to information I found on-line, you once worked for Bernie Madoff, didn't you?

**This interview is over.**

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So what have we learned? It seems our bond vigilante turned out to be a different sort of guy than we expected. Not really heroic, if the truth be told. And not particularly committed to making the world a better place. Not terribly interested in enforcing discipline on profligate borrowers. In fact, he appears to be a self-centered, possibly racist, fool with sociopathic tendencies. Not all he was cracked up to be (and possibly, *on crack*).

And here's the not-so-funny moral of the story: The barriers to entry in the investment management business are low enough that even someone who is morally and intellectually crippled can occasionally hop over the fence and worm their way in. And, as we've seen in the case of Jon Corzine and MF Global, even a man of some reputation, without proper checks and balances, is capable of doing enormous damage.

With that, we'll wish you a joyous Holiday Season and a happy and healthy New Year!