

# Soros and his hedge funds take a bath

by Scott Thompson

*EIR* was the first to state that hedge funds, like those run by billionaire George Soros, were the sort of Robin Hoods that robbed the poor to pay the rich. Having wrecked the currencies of nations from Southeast Asia to Russia, and, thereby, these sovereign nations' physical economies, the hedge fund operators are themselves beginning to collapse because of the very economic chaos that they helped cause. With a collapsing asset base to manage, the hedge fund operators are going belly up.

One of the worst hit so far, according to the Oct. 28 issue of the *Times* of London, is Soros himself, with whom Malaysian Prime Minister Mahathir bin Mohamad has crossed swords for destroying the currencies and stock values of the so-called "Asian Tigers." The *Times* writes that Soros took a big hit when Russia went into default following the collapse and default of Russia's GKO bond market on Aug. 17.

## \$2 billion lost in one blow

The *Times* notes that Soros has had to reorganize his hedge funds after major losses in Russia, even though Soros had been among the first free enterprise hedge fund operators in the recent period to warn that the crisis in Russia had reached "a terminal phase." By the end of August, Stanley Druckenmiller, the chief investment strategist at Soros Fund Management, was admitting a \$2 billion loss, the largest ever suffered by the Soros operation.

Soros's various enterprises are in the middle of a big shake-up as a result. Investors in his Netherlands Antilles-based Quantum Emerging Growth Fund are to be offered cash after it lost 31% of its value this year, reducing its net assets to \$1.5 billion. Quantum Industrial Holdings, another Russian casualty, has fallen 19%, and is to be combined with Quasar International, one of the hedge funds run by Nick Roditi.

## Top operator can't take the stress

It's tough being a hedge fund operator these days. No sooner had Soros merged his Quantum Industrial Holdings with Quasar International, than Roditi announced that he "needs to take a temporary medical leave of absence after six tiring years." Roditi, who works from small offices in Hampstead, North London, had been among the best-performing hedge fund operators. Born in Zimbabwe, Roditi

took a previous career break after contracting an infectious disease of unknown origin.

He is now expected to be away from work for several months, and sources report that the cause of his latest illness is "obviously stress-related," according to one hedge fund observer. Roditi has been unable to sustain his record in the global meltdown. His Quota Fund has lost about a third of its value since the end of June. From being 32% up on the year, it is now 13.6% down. Roditi lost \$1 billion in five weeks.

One critic suggests, according to the *Times*, that Quantum has failed to live up to Soros's reputation for several years. He said:

"The Quantum group results have been lackluster for some time. They do not appear to have had the necessary skills to make money—really since 1993. Maybe people should start becoming less patient. Quota was the only one that had done well. Roditi is really the only person who's added any value."

For example, Quota investors had enjoyed a 159% and 82% rise, respectively, in 1995 and 1996, earning an annual income of £80 million. Now, those profits are evaporating in the global financial meltdown which Soros and Roditi, among other hedge fund operators, had done so much to create.

Despite these losses, Soros Fund Management still manages \$20 billion, which can be leveraged many times over for killer moves, such as those Soros led against the Asian economies. But, Soros is rapidly becoming more and more of a "toothless tiger" himself.

Soros is not the only hedge fund big loser.

## Tiger Fund posts \$3.4 billion loss

On Nov. 2, the *Wall Street Journal* announced that Julian Robertson's Tiger Management, a major rival of Soros Fund Management, lost \$3.4 billion, or 17% of its value, in October, producing a net loss of 1% for 1998 to date. Tiger lost \$2 billion on Oct. 7 alone, when it bet on a continuing fall of the yen, but the yen rose strongly instead. Ironically, it was the ongoing collapse of the Long Term Credit Management (LTCM) hedge fund, which was partly responsible for that sudden and unexpected rise in the yen.

"In the wake of the Japan hit," according to the *Journal* report, "the firm began unwinding its Japanese positions, traders have said, which required it to buy yen to cover earlier borrowings. Coupled with similar moves by other hedge funds, that further contributed to the dollar's weakness. Last Friday, Japan's currency was trading at 116.15 yen to the dollar, up from a low of 147.61 in August."

Tiger says it has liquidated \$25-30 billion in assets, reducing its "loan ratio" from 5.5:1 to 4:1.

It is significant that Tiger's board includes former British Prime Minister, now Lady Margaret Thatcher.

It could not happen to a nicer bunch of people.