

‘Hell hath No Fury’

Posted on

George Soros is a dirty word in many countries in South East Asia. The Thai Baht has fallen from GE 25 to US\$1 to 36 in the last 3 months. Malaysian Prime Minister Mahathir, finding that alongside the Baht, the Philippine Peso and the Indonesian Rupiah the Malaysian Ringgit was also slipping, said, ‘All these countries have spent 40 years trying to build up their economies and a moron like Soros comes along with a lot of money. If Soros was involved, Mahathir has reason to be sore because the Ringgit has slipped 16% against the US dollar in the last three months. Mahathir did not stop there. He called Soros a criminal.

But few know that this was not the first tryst between Malaysia and Soros. In 1992 Malaysia’s central bank bet heavily on the British pound while Soros was on the other side of the see-saw. Soros won and Malaysia lost several billion dollars. It is because of his adventure with the pound that Soros came into the limelight. The attack on the pound was also his way of getting even with Britain for not supporting his vision for a new Marshall Plan to help Eastern Europe after the Berlin Wall collapsed. Neither George Bush nor Margaret Thatcher were interested.

Perhaps Soros will help change the concept that the wrong sex was referred to when it was said, ‘Hell hath no fury like a woman scorned’. In this case it was Thatcher who felt the full brunt of a Soros scorned.

He staked his funds heavily believing that the pound will not be able to hold its value against other currencies trading within the European exchange rate mechanism which was trying to fix the respective values of European currencies for a common Euro currency. He used his clout to borrow pounds for short terms and then used the borrowed money to buy German Marks, which he felt would move upwards. It did.

After the pound collapsed on September 16, 1992 mainly due to the massive outflow as other investors followed Soros, he bought pounds at the lower rate, settled his pound loans and emerged with a US\$1 billion profit. He became known from that day as the man. who broke the Bank of England.

Soros says he had no platform ‘and so I deliberately did the sterling thing to create

a platform. Obviously people care about the man who made a lot of money.'

His influence has grown and he now has access to most people he wants to talk to. But try telling that to the deputy prime minister of Thailand, Samak Sundaravej who has threatened to send the Thai Mafia after Soros if he ever sets foot in Thailand.

Today, his flagship, the Quantum Fund is said to be worth US\$12 billion. Soros is an institution and if someone had placed US\$1000 with his Quantum Fund in the late 60s it would be worth well over US\$300 million today if dividends had been reinvested.

He was born in 1930 in Hungary, the son of a lawyer. He suffered during the holocaust and moved to London in 1947. There he was influenced by philosopher Karl Popper of the London School of Economics.

In the book Soros on Soros, which is in the form of an interview narrative with Byron Wien, managing director of Morgan Stanley and Krisztina Koenen, a German journalist, the influence of Popper on the thinking of Soros is detailed. Out of his experiences has emerged Soros' theory of 'Reflexivity,' a form of contrarianism which combines an analysis of economic cycles and market psychology. The philosophy is simple and assumes that people act on the basis of imperfect knowledge and understanding and the search itself distorts the picture.

He says that he is very cautious about going against the herd because he is liable to be trampled on. He says a trend is your friend most of the way. But trend followers get hurt at inflection points where the trend changes which is what Soros looks out for.

The prevailing wisdom is that markets are always right. Soros takes the opposite view and believes markets are always wrong. People think of money managers as having a combination of imagination and analytical ability. Soros says his analytical abilities are rather deficient but he does have a very strong critical facility. Rather than calling himself a professional security analyst he thinks he is an insecurity analyst.

This gives an insight into his thinking. He says he recognizes that he may be wrong, which makes him insecure. This insecurity in turn makes him alert and he is always ready to correct his errors. On a personal level, he says he is a very critical person who looks for defects in himself as well as in others. But being so critical, he is also

quite forgiving.

In the book, Soros gives an insight into his thinking when he says, I couldn't recognize my mistakes if I could forgive myself. To others being wrong is a source of shame: to me, recognizing my mistakes is a source of pride. Once we realize the imperfect understanding is the human condition, there is no shame in being wrong only in failing to correct our mistakes."

Soros is a radical in one sense because he does not use scientific quantitative methods to measure risk for investment portfolios, simply because he does not believe in them. He believes that they are generally constructed on the assumption of efficient market theory where they are in conflict with his theory of imperfect understanding and Reflexivity. He says the theories work 99% of the time but he is more concerned about the 1% when it breaks down.

This book published by John Wiley gives us a fascinating insight into the life of Soros, his failures and his successes and what he has

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learnt from different incidents. But perhaps one of the most important points of his success is the characteristics he looks for to identify people who are likely to succeed in the investment business.

In this search, the influence of his family is spotlighted, specially the admiration and close friend- ship with his father and the high standards set by the parents. To Soros, the most important aspect is character. He says there are incredible moneymakers whom he cannot trust while there are others who he can trust who he would want as partners.

The book is a must for those who want to understand trends in international markets and also how vulnerable countries and economies are to speculators who use forces which few understand.

Malaysia learnt this the hard way when controls were imposed by Mahathir to try and stop the slide of the Ringgit, which led to loss of investor confidence. Mahathir had to then backtrack but it was too late. The question which shook investors was when things go wrong, what security is there that countries will not try to lock up their capital?

The crisis in South East Asia has its lessons for Sri Lanka as we open our doors wider to investors both in the share market and trading houses. This book which gives valuable insight into the thinking of one of the world's greatest speculators is worth reading in detail because it gives details of not only the successes but also the failures.

Meanwhile, the world is now beginning to discover another aspect of George Soros. As a philanthropist, he has given away over US\$1.3 billion, and currently his donations are over US\$350 million a year. Within a decade, he could easily pass even John D Rockefeller, who gave away the equivalent of US\$5.4 billion (in 1996 US\$ terms) during his lifetime.

As Paul Volcker says, 'what really drives the man now, with a personal fortune beyond all personal need, is a different kind of strategic investing investment to build in Eastern Europe the kind of open societies he came to value in his own life.'

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