



# Hedgehogging

## *Hedgehogging*

by Barton Biggs

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REVIEWED BY JIM FLINCHUM, CIMA®, CFP®

**B**arton Biggs has been ranked the top U.S. investment or global strategist several times by *Institutional Investor*. As the founder of Morgan Stanley's research department, he is one of the living legends of the investment world. He was lucky enough to be born into the business—his father was chief investment officer of the Bank of New York. Readers of his new book, *Hedgehogging*, are lucky enough that Mr. Biggs was an English major at Yale. His book—part autobiography, part investment world travelogue—is a genuinely pleasant read.

The author recounts that when he wanted to enter the investment business, his father gave him Benjamin Graham's *Security Analysis*. He studied all 600 pages, then presented his father with his carefully underlined, dog-eared copy. His father took the book from him and gave him a fresh copy, saying simply, "Do it again." Now, that's a lesson.

Of course, this is a book about the world of hedge funds. Before Mr. Biggs went to Morgan Stanley, he worked for A. W. Jones, "the father of hedge funds." While Mr. Biggs liked hedge funds, he didn't particularly like Mr. Jones. Mr. Biggs then spent 30 years at Morgan Stanley. In that time, he formed the firm's research department, built up its investment management business, and served as chairman of the investment management firm. When Mr. Biggs retired from Morgan Stanley, he returned to the world of hedge

funds, starting Traix Partners in 2003, a "desperate, frantic adventure." The tale of how the partners raised funds is amusing; they started with a mere \$390 million from a few institutional investors and Barton's family. The fund now manages well more than \$1 billion. Indeed, Mr. Biggs comments that professional investing is "the most intriguing, challenging, and overcompensated occupation in the world."

*Hedgehogging* also is a book about the "hedgehogs" who dominate the world of hedge funds. The personality styles are surprising and amusing. All tend to be "intense disciplined maniacs," and there is a role model here for everyone who dreams of having a hedge fund (some names were changed to protect the arrogant).

Mr. Biggs' writing style is described best as almost stream of consciousness. In one chapter, he begins with an excellent summary of Fibonacci numbers and ends with Ayn Rand's quote that there is no such thing as a "collective brain." The book is educational, but it won't be confused with a textbook. Nevertheless, the following four particular lessons struck this reader as helpful.

1. The author notes that "probably the biggest intellectual problem an investor must wrestle with is the constant barrage of noise and babble." On a normal day, Mr. Biggs says, he reads the *New York Times* and the *Financial Times*. He only scans the *Wall Street Journal* and doesn't even mention *Barron's*. He calls the *Economist* the best magazine in the world.
2. Mr. Biggs also doesn't care much for the work of economists. He thinks they do a better job of extrapolating than forecasting.

(Most economists probably would agree.)

3. He worries that the next bubble is emerging markets, and he cautions against using indexes for emerging market exposure because they are cap-weighted and therefore skewed toward those markets that have appreciated already.
4. And finally, a major lesson here is this sage's disappointment with the evolution of private banks, where he believes the wealthy should be assured they and their portfolios receive serious attention. Mr. Biggs laments that these banks are just asset-gathering factories managed by corporate types chasing fees, with investment decisions driven by inherently ineffective investment committees crippled by groupthink. He tells us that in his experience, investment decisions should be made by one accountable person, two at most. He doesn't attribute the growth in registered investment advisers to the decline of private banks and their committee-style investing, but the reader won't miss the obvious relationship.

This reviewer highly recommends this book. It's sure to give veterans of the investment world a good chuckle and help newcomers catch up more quickly. **M**

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