THE BILLION DOLLAR MISTAKE

LEARNING THE ART OF INVESTING THROUGH THE MISSTEPS OF LEGENDARY INVESTORS

STEPHEN L. WEISS

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WILEY

John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:

Weiss, Stephen L., 1955-
The billion dollar mistake : learning the art of investing through the missteps of legendary investors/Stephen L. Weiss.
p. cm.
Includes bibliographical references and index.
ISBN 978-0-470-48106-6
1. Investments–United States. 2. Capitalists and financiers–United States. I. Title.
HG4910.W368 2010
332.6–dc22
2009032182

Printed in the United States of America
10 9 8 7 6 5 4 3 2 1

To Lauren, Lindsay, and Shelby
My motivation, my inspiration, my joy

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Acknowledgments

Many were involved in making this book possible, some of whom I will undoubtedly neglect to mention. I apologize to those I have slighted; please understand that this is not intentional but rather the function of a cluttered mind.

To my wife, Lauren, my best friend, confidante, and steadying influence. She has always enthusiastically encouraged me to continue writing, believing in my ability despite struggling through reading the same words over and over and over again. To Lindsay and Shelby for keeping me grounded, keeping me smiling, and, with the rare exception when they didn't call home during their evenings out, allowed me to concentrate on my writing; to my niece, Allie, for her support; to Howard "the Hose" Jurofsky, my closest friend, for momentarily putting aside his addiction to anything having to do with televised sports to provide insightful feedback; to Susanna Margolis, editor extraordinaire, without whose assistance this book would not have been possible; to my agent, Andrew Stuart, who not only secured my first contract but was also instrumental in collaborating on the concept for this book; to my publisher, John Wiley & Sons, and some of the nicest, most effective, and knowledgeable people in publishing: Debby Englander, who gave me this opportunity; Kelly O'Connor, who provided incredibly insightful suggestions through the editing process and whose generous feedback I'll always be thankful for; Adrianna Johnson, for being part of the team; Natasha Andrews-Noel, senior production editor *par excellence*. To Sushma Subramanian and Alex Halperin for providing valuable research assistance. To Allen Meisels, who introduced me to my agent. To Bethany Norvell, Owen Blicksilver, and Linda Gardner. To those who opened their homes, offices, and files to me, willing to discuss painful episodes in their lives and careers in the spirit of helping others avoid similar mistakes. To Norma Hill, one of the most generous and positive individuals whom I have ever met despite suffering the loss of her life savings, and to Burt Ross, who kept me laughing throughout our interview despite still fresh wounds that would have justifiably bred much bitterness in others.

And to my mother, who, upon seeing the artwork for the cover of the book, told me how proud she was, then inquired as to why, if I was able to write an investment book, I wouldn't tell her whether to sell her shares in Verizon or AT&T. To my in-laws, Harriet and Irwin Karassik and Beth Karassik, because my wife said to include them and also because they were truly supportive.

Introduction

Those who cannot remember the past are doomed to repeat it.
—George Santayana, 1905

Like many people, I first became interested in investing out of a desire to become wealthy. My parents were divorced, I was 13 years old, and I lived with my mother and brother in New York City in an apartment in the famed East Sixties. This was at a time when Manhattan rents were much more affordable than they are now—a good thing, since we didn't have much money. The building was populated with what were then called stewardesses—young women who juggled their schedules so their shared apartments wouldn't seem too crowded at any one time—and professional athletes, less well paid back then, who all seemed to work as stockbrokers in the off season for extra money so they could date the stewardesses. For a hormonal teenager who loved sports, living there was utopia.

To me, my athlete neighbors seemed to have it all—certainly, to have everything I could ever want. Billy Mathis lived in the building—a fullback on the Super Bowl Champion New York Jets, a smart fellow preparing for life after football by working for a brokerage house. Then there was the guy who looked old to me—he was probably no more than 30—who drove a brand-new Porsche, had a new knock-out girlfriend every week, and hung out with the athletes. I asked Billy what that guy did for a living, and he told me he worked on Wall Street. That did it. I didn't know how I was going to get there, but I knew Wall Street would be my eventual destination. Wall Street, I was sure, could give me everything these heroes of mine had: the Porsche, the athletic prowess, the beautiful women, the cool apartment of my own, and the pocket money to pay for it all.

Well, I got to Wall Street. There were a few detours along the way—as well as some adjustments when I arrived. But it has been an exciting and fulfilling career that has been enriching in a great many ways. One major way is the lessons I've learned from it, and I learned just about all of them by observing the mistakes of others and making a few myself.

My mistakes started with my very first investment—before I ever worked on the Street. I bought 100 shares of Con Edison, the giant electric utility that serves all of New York City and a bit beyond. It seemed safe, had a nice yield, and was a good way to get my feet wet. I made a couple of points of profit, so I sold the stock—my first trade. It was akin to winning the first horse race you ever bet on. You begin to think that it's easy, that you're smart. In fact, it was a bull market, and any stock I purchased was likely to have gone even higher. But I didn't know that. Instead, I was looking for my next big win, and when someone told me to buy Caesar's World, the casino company, and I made even more money, I thought I was a real genius. I made the classic error of mistaking a bull market for brains. So I sold the stock, booked the profit, then stood on the sidelines feeling like a jerk as Caesar's continued to trade higher and higher.

That was a very basic lesson—a punch-in-the-jaw warning about the seduction of trading versus investing. I would relearn the lesson in many forms over the years.

Money Mistakes

This book catalogs some of the exceedingly costly mistakes made by some of the world's smartest, savviest, most successful investors. Yet if I just lop a bunch of zeros off the number of dollars lost, I can find virtually the same mistakes among my relatives and friends. I'll wager you can too.

One family member got bored with blue-chip stocks and the dull brokerage firm he had been with for years and was dazzled by the reputation of a "boy wonder" stockbroker. After all, the boy wonder drove a Rolls-Royce and catered to elite clients. So this relative switched his account and never made a dime; actually, he lost money. Good public relations, I learned—great car, celebrity clients—is no guarantee of good investment judgment.

Neither is somebody else's recommendation of an investment opportunity, especially if that somebody else is a family member.

My stepfather's son brought him an investment he said was a can't-miss opportunity. Not only that, but they would be investing with one of the son's very good personal friends. My stepfather went almost all in. It turned out to be a fraud; millions of dollars were lost, including my stepfather's fortune and my mother's security. It taught me that something that "can't miss" can miss, that something too good to be true is probably not true, and that it's wise to disregard any personal relationship when it comes to investing.

That works the other way too. When I finally became a bona fide professional investor, I automatically became the family expert on stocks, and the calls started coming thick and fast. When, after many refusals, I yielded to my mother's importuning and suggested a stock for her to buy, of course it sank in value. It would be a year or so before she would ask again. I never offered her another investment suggestion, but I would hear about my poor stock advice almost as often as I was reminded about the Mother's Day gift I didn't buy her the year she told me just to buy a card. The real lesson for me? Do not invest money on behalf of friends or relatives. Do not give them stock tips. Tell them to speak to *another* professional. It will make Thanksgiving a lot more pleasant.

The seductiveness of a thrilling personality . . . the can't-miss opportunity that turns out to be a fraud . . . the stock pick that goes bad for someone you care about: These mistakes aren't exclusive to the Weiss family. You'll read about them in the pages of this book: different names, different amounts, same blunders.

I think what it comes down to is that money is potentially more of a personality changer than psychedelic mushrooms. It does funny things to people—even to smart people, even to very rich smart people, sometimes causing them to make billion-dollar mistakes.

Money Lessons: Scalable Mistakes

That's what this book is about: the big, expensive mistakes made by legendary investors—a.k.a. very rich smart people. Except in one case—that of people who invested with Bernard L. Madoff—the people making the mistakes the book chronicles are all either professional investment managers or billionaire entrepreneurs. Their mistakes were significant and career defining. Some were able to continue managing large asset pools, while others would struggle to rebuild their reputations. One would even commit suicide in order to erase—or perhaps avoid—the experience of failure.

Why explore the mistakes these very, very wealthy investors have made? That's simple: so you can try to avoid them. For the fact is that although these mistakes were committed by extremely successful and well-known pros, they are common, garden-variety investment mistakes—the same garden-variety mistakes average, everyday retail investors make. Only the scale is different.

That makes *The Billion Dollar Mistake* an investment book with a unique perspective. It's not a do-what-I-did-and-get-rich kind of book. Rather, it's a don't-do-what-I-did-and-get-rich book.

The distinction is important. The shelves are full of investment guides that describe the habits and practices of successful investors. Well, there's probably no more successful investor than Warren Buffett, and even he doesn't get a hit every time he steps into the investment batter's box. In fact, although it's nearly impossible to measure accurately, conventional wisdom suggests that the best portfolio managers are correct only 60 percent of the time. An individual investor thus has almost as much chance of making a mistake as of achieving success. It therefore stands to reason that avoiding mistakes is critical to making money in the market. Bottom line? Understand what these guys did wrong, and you improve your chances of not falling into the same trap. And that, in turn, can help you become a better investor. As with the teacher who made learning fun, the bonus within these pages is that you will also be entertained, since each story was selected both for the transferability of its lessons and for the enjoyment value of its story.

Remember the famous reply by legendary Ohio State football coach Francis Schmidt, when he was asked, back in 1934, how he was going to beat archrival Michigan, titans of the Big Ten? Said Schmidt: "Those fellows put their pants on one leg at a time, the same as everyone else." So do these fellows. The pants may have been designed by Ermenegildo Zegna, but the guys wearing them make the same misjudgments, miscalculations, and missteps you and I are capable of making; they just do so for more money.

Who Am I to Say So?

It's fair to ask what qualifies me to explore these billion-dollar mistakes and the people who committed them. I've told you how I got to Wall Street; by now, I've spent nearly a quarter of a century there. With some experience in entertainment management coupled with training as a tax attorney—attributes not inapplicable to the task of writing this book—I've spent most of my professional career working for some of the financial industry's signature investment banking firms, including Oppenheimer & Co., Salomon Brothers, and Lehman Brothers. (Granted, Lehman flamed out spectacularly through myriad spectacular missteps, but I can lay no claim to those mistakes.) I've headed research departments and managed equities trading. I've also worked at a hedge fund—SAC Capital, where I was a senior member of the management team—and managed my own small fund. And I admit to being a stock addict and a student of the markets who loves the energy and complexities of trading.

On September 11, 2001, I was working for Lehman Brothers and had been booked to fly to San Francisco on United Flight 93. At virtually the last minute, I decided to postpone that trip and focus on pressing work at the office in Lehman's downtown New York headquarters. You know the rest. Flight 93 crashed into a field in Pennsylvania, while in New York, the falling structure of the World Trade Center across the street sheared off my office walls. Thankfully, I had already evacuated my staff and coworkers; we all got out.

It was a seminal event for me and I wanted to get some distance, take some time with the family, try something else for a time. I left the physical Wall Street and launched a hedge fund in an office a mile from my home. After a while, the distance from the mainstream world of "the Street" seemed too great; I missed the hustle, and like so many of the people I've written about in this book, a passion for the wider world of investing brought me back.

Along the route of this odyssey, I got to know some of the most successful, influential, and colorful investors in the business. I've formed relationships with staff at such celebrated investment firms as Tiger Management, Soros Management, Omega Advisors and Kingdon Capital. I've been in meetings with Warren Buffett, Carl Icahn, and T. Boone Pickens—as well as with scores of investors whose celebrity is limited to the investment industry. I have also spent time with the likes of Bernie Ebbers from WorldCom and with Jeff Skilling and the late Ken Lay from Enron.

I admit that I am in the habit of deferring to the business and investing judgment of billionaire investing legends. My thinking is that if someone has been smart enough to earn such a large sum of money—even if a billion doesn't buy what it used to—then that person is a worthy candidate for my personal admiration society. And the truth is that I have never walked away from a meeting, however brief, with one of these über-wealthy investors and thought: "What a lucky bastard! How did he get to be worth a billion?" On the contrary. Each of them had something special; you could tell in a split second that they were exceptional.

Which of course makes their mistakes even more interesting.

The Soul of a Master Investor

In the pages that follow, you will be introduced to a gallery of personalities who could not be more different from one another: from the so-called Pirate of Prague to a former seminarian who is one of the most upstanding investors on Wall Street; from the son of a poor raisin farmer who became one of the world's richest men to the well-born, well-connected great-nephew of a state governor and U.S. Senator who became another of the world's richest men; from a literature-quoting "boy wonder" of the business to a mature, no-comment investor renowned for his deep and wide-ranging research.

Not all of them spoke on the record for this book, although most did, and they are quoted directly in the chapters devoted to them. Some spoke willingly—on the record and off. Others agreed to talk only after I made it clear that while their cooperation was optional, their inclusion in this book was not. Still others became involved to ensure that the facts surrounding the mistakes were accurate. Almost all were interested in the book's concept and believed it a good thing to put their experience to work so that they could help individual investors improve their results, lessen their investment risks, and avoid the same mistakes the billionaires had made.

I applaud them for their cooperation. After all, no one likes to talk about their blunders, especially if it's a billion-dollar blunder. Given also that investing is the profession these individuals are engaged in, discussing your failures in public—for existing and potential clients to read about—is a pretty bold, pretty brave move.

In a way, both the cooperation and the reluctance are in keeping with what I've observed about billionaire investors over the years. For the most part, they tend to keep their own counsel; they like to soak up as much information as possible, but in the end, they willingly—indeed, willfully—live and die by their own decisions. They are intuitive people, yet they activate their intuition only after they have done their homework. They lack patience with others who are not as prepared as they and have no tolerance for those who do not share the same commitment to effort. Nor are they typically willing to offer a second chance to those who do not seize the initial opportunity to impress them with their drive, intelligence, and judgment. Yet as individuals, they seem—all of them—able to charm a banana from a monkey's grasp when they want to.

Above all, or so it seems to me, they are passionate about what they do—the business of investing—while not emotional about their investments.

A while back, my wife and I vacationed on a Caribbean island with a group of friends, including Rich Pzena, profiled in Chapter 7. Pzena is one of Wall Street's brightest stars and, by universal consensus, one of its nicest guys. He had just taken his firm public a couple of days before the vacation, and the short sellers were after him. As the rumors circulated, shares in his company came under significant pressure, at one point falling almost 20 percent.

We knew none of this. All we could see was that Rich was on the phone from time to time—staying in touch with the office, not unexpected with any high-powered businessman. His voice was measured, largely unemotional, and no doubt comforting to his colleagues. He spoke logically and, as always, intelligently. Once he hung up the phone, there was no visible residue from the business transpiring back in New York. We were there to relax and play, and Rich relaxed and played with the rest of us. It's not that he didn't care about what was happening to the stock price of the company he had started from scratch and built with his own hands; it's that this is how he manages his business—by ascertaining the facts, considering what they mean, and then, and only then, deciding the appropriate course of action. Rich was going to stay the course and do what he had been doing—very successfully—for many years. He was not going to let the emotions of others who were selling shares dictate his response. It seems to be the way the best professional investors operate—that is, they do not assume that the stock price is always indicative of the fundamentals.

But don't get me wrong: There is an intensity to the passion they all feel for the business of investing. The first time I met Lee

Cooperman, whom you will meet in Chapter 6, one of the first things he said to me was that "if we both saw a nickel lying in the street, I'd fight you to see who picked it up first." I believed him, and since his track record indicated he had won most of those skirmishes, there was no way I was going to fight him for the nickel. If there were money to be made, Lee would be the one to make it. He more zealously guards his investors' capital than perhaps anyone I have ever seen.

The classic value investor, as are many of the people in this book, Cooperman also exemplifies the surprising, elusive, often downright mercurial character of these billionaire investors/entrepreneurs—and the difficulty of trying to pin down, much less second-guess, their thinking. Some years ago, Lee was being honored by the United Jewish Appeal as that charity's Man of the Year. The prior year, the honor had gone to Ivan Boesky, the notorious arbitrageur who would later go to prison for insider trading violations. Boesky had pledged $1 million to the charity, an amount that seemed to meet the standard expectation. The day of the dinner to honor Cooperman, a high-stakes office pool got going on the trading floor at Salomon Brothers—an over/under pool on what Cooperman would pledge. My recollection is that, by the end of the day, approximately $10,000 had been bet on either side of $1 million.

I believe Lee donated $400,000, a very generous sum, but obviously no match for Boesky's pledge. Happily for me, I was on the right side of the bet at Salomon, although not because I thought Lee was miserly. Quite the opposite. We live in the same town, where the numerous beneficiaries of Cooperman's charitable largess are evident. What I had bet on, however, was Cooperman's nonconsensus thinking, the ability to disregard sentiment, the lack of a need for ratification of his self-worth via public accolades, the value investor's instinct to step into a situation *after* the excitement, when everyone else is leaving. It's confirmation that these investors do think differently from you and me; they see things in a different way.

Then there's Steve Cohen, my onetime boss, who appears only tangentially in this book. I have never known anyone who could rival his ability to take minute pieces of data and instantly distill them into an investment thesis or profitable trade—which is probably how he grew his firm's assets under management from $60 million to an estimated $15 billion, more than half of which, it is speculated, is his. Yet when we first discussed my going to work for him, he told me that if "this [SAC Capital, his hedge fund] doesn't work, I'll close the firm and run money from my garage." It did work, so he never had to prove what he said, but I do believe that Steve's passion for markets and investing is so great that he would do it from a street corner if that would give him an investment edge.

Interesting people. Intelligent—even brilliant—people. People with inherent instincts for excelling at something they love, something that can be highly rewarding when their instincts are right.

And when they make a mistake, as Fiorello H. LaGuardia said, "It's a beaut."

It's a Mistake, Whether You Blow a Buck or a Billion

Harry Macklowe is not one of the investors profiled in this book, but he could well be. He jeopardized his multibillion-dollar real estate empire when he bought seven New York skyscrapers at the top of the market, overpaying egregiously. Everybody knows that mistake: You're supposed to buy at the bottom of the market and *sell* at the top. But Macklowe simply *had* to own the General Motors building, and in consummating the purchase, he assumed way too much debt.

Is Macklowe's billion-dollar lapse in judgment any different from the prospective homebuyer who *has* to own that newly constructed home on a full acre and overextends himself, assuming too high a mortgage payment? In both cases, isn't this the exact behavior—misbehavior—that sent the global economy into a tailspin in 2008? Macklowe's properties were essentially foreclosed by the firms that underwrote his purchase. The homeowner who had to have the new house was out on the street by 2009, when nationwide foreclosure rates hit an all-time high. The fact patterns are exactly the same; only the scale is different. If Macklowe, a legendary master of New York City real estate, could make such a big misstep, who couldn't?

But here's the real question: What can we learn from Macklowe's error in judgment? What brought him to the decision to contravene investing wisdom—buy low, sell high—and buy the GM building? What was his thinking—and what about it was flawed? Those are the questions this book will deal with. Through actual examples, distilled down to basics, you'll learn what to avoid and what not to do when you invest.

There's a great range of mistakes here. Each of these billionaire investors or entrepreneurs experienced an episode of failure in his own distinctive way. Some made errors of judgment, some of perception. None set out to make a mistake. They all thought they knew what they were doing; their earlier, very substantial success offered good evidence that this was the case. And maybe they did know what they were doing—just not this time. That's how mistakes happen—whether they cost a buck or a billion bucks or several billion bucks, as these did.

Eleanor Roosevelt once said: "Learn from the mistakes of others. You can't possibly make them all yourself." No investment is a sure thing. All investment involves risk. But you can lessen the risk and enhance the likelihood of a profitable outcome if you at least avoid mistakes. The mistakes you will read about here have been made by the smartest, savviest, sharpest, most successful investors around. As best you can, be sure you don't do what they did.

CHAPTER 1

Kirk Kerkorian

DUE DILIGENCE IS DUE EVERY TIME

Like so many of the Armenians who came to the United States in the first great wave of immigration starting in the late 1800s, Ahron and Lily Kerkorian gravitated to California's San Joaquin Valley—specifically, to its raisin industry.

It was a natural. The viticulture industry began, scholars tell us, somewhere around 6000 BCE in what is today Armenia, Azerbaijan, and Georgia, and in that perfect climate for growing and drying grapes, the descendants of those first raisin producers perfected their expertise. Thousands of years later, Armenians fleeing poverty and the oppressions of the Ottoman Empire found California familiar territory for the agriculture to which they were accustomed and fertile ground for their yearnings for freedom and opportunity.

The Kerkorians were able to satisfy both yearnings. When World War I brought raisin production in the Middle East to a virtual standstill, Ahron Kerkorian, savvy if illiterate, rode the raisin boom in the United States to an astonishing height, becoming, on paper at least, a rich man. This wealth did not last, however; Ahron would be caught in the postwar recession of 1921, when the nation suffered the steepest one-year price deflation since the Revolutionary War—a 36.8 percent decline in wholesale prices that swept away jobs and fortunes from coast to coast. Matching the general economic trend, raisins suffered a sharp decline in aggregate demand combined with a sharp increase in aggregate supply. The severe economic contraction that resulted wiped out Ahron's on-paper holdings and plunged the expanding family—a fourth child, Kerkor, called Kirk, had been born in 1917—into hardscrabble urban poverty in what was then the fringes of Los Angeles.

Eighty-eight years later, ironically enough, Ahron's youngest son would evidence a similar failure to foresee an economic downturn. Though the failure would prove costly—to the tune of some $700 million—it would not have the kind of damaging financial consequences that had affected and perhaps had helped mold the four-year-old Kirk. In fact, it would make barely a dent in the Kerkorian fortune, then estimated in the neighborhood of $18 billion, give or take a billion.

Such wealth made Kerkorian at the time the world's forty-first richest individual. And while nearly $10 billion in casino and hotel losses dropped Kerkorian down the list in succeeding years, he remained among the world's top 100 billionaires. Still, even when he stood at number 41, investing $1 billion and ending up with $300 million represents a sizable mistake.

Complacency creates blind spots. And blind spots, in addition to keeping you from seeing what's there to see, prevent you from seeing that you have blind spots. The complacency that cost Kirk Kerkorian $700 million in 2008 may have been inexcusable, but it was almost understandable. Kerkorian had had such a string of hits that it was virtually unthinkable he would flop. That, of course, was the blind spot.

At the age of 91, with no apparent evidence of diminished mental acuity, Kerkorian had every reason to adhere to—and no reason whatsoever to dismiss or disdain—the formula he had employed time and time and time again in achieving a success both unarguable and pretty much unmatched as a trader of companies. Buy an undervalued company, push up the value, be patient while the macroeconomy strengthens, then sell. That was the formula. It had worked brilliantly for decades across a range of industries and in the face of shifting economic conditions. Yet in 2008 it stopped working. Something had changed; there was some sort of shift, some rearrangement in the pattern of facts that had persisted over all his other investments. And Kerkorian didn't see it. He didn't see it because he failed to look for it. Maybe he forgot to look, or maybe he simply figured that with a half century of wildly successful investing under his belt, he really didn't need to look—that he knew what he needed to know without looking. Whatever the cause, the failure to look was a misstep on the part of a man who rarely put a wrong foot forward—at least where money was concerned. And it necessitated a Hail Mary move to stanch the bleeding of other holdings that were propping up the losing investment. All in all, it was an ugly loss for a man who doesn't like to lose and who, in a very long, very colorful, very eccentric life, has rarely lost—again, at least where money is concerned.

Kerkorian's personal life, which often has been fodder for the gossip game, is beyond the purview of this book and extraneous to its purpose—except perhaps to note that the private investment firm through which he does his trading, Tracinda Corporation, is named for his two daughters, Tracy and Linda, by his second wife, Jean Maree Hardy. For more on Kerkorian's colorful life, see the classic biography, *Kerkorian: An American Success Story*, by Dial Torgerson.[1]

Hemingway Meets Horatio Alger

In background and experience, Kerkorian is light-years away from the brilliantly educated, immaculately groomed billionaire investors whose ranks he overarches: rugged wilderness to their manicured golf courses. He himself claims that he first began bringing home some bacon for his impoverished family at the age of nine, and he concedes that doing so instilled in him "a drive that's a little different, maybe a little stronger, than somebody who inherited."[2] Maybe. It is certainly true that Kerkorian's early resume is that of a character out of Hemingway—boxer, bouncer, hero pilot—fitted into a classic Horatio Alger narrative arc.

A tough street kid who learned to box under the tutelage of his older brother, Kerkorian was expelled from one school for fighting and dropped out of another, the school for delinquent boys to which he was subsequently sent, to concentrate on fighting. Eighth grade marked his highest academic achievement, but in boxing, he went on to win the Pacific amateur welterweight crown. Paperboy, golf caddie, steam cleaner, car refurbisher, trail builder for the Civilian Conservation Corps: Kerkorian acquired numerous skills in an aimless succession of jobs until one day, at the age of 24, he accompanied his boss on a flying lesson, got a bird's-eye view of California from the ocean to the Sierra Nevada, and was hooked.

Kerkorian learned to fly at the Happy Bottom Riding Club in the Mojave Desert, hard by what is today Edwards Air Force Base.

It's the place where "the right stuff' was defined and honed, and Kerkorian's teacher was the pioneer aviatrix, Florence "Pancho" Barnes, owner of the club and, in the movie of *The Right Stuff*, the sharp-tongued woman behind the bar. There was a war on; eschewing the infantry, Kerkorian put his piloting expertise to work on behalf of Britain's Royal Air Force, ferrying Canadian-built De Havilland Mosquitoes, famous for their multiple capabilities as combat aircraft, from Ontario to Scotland.

There were two routes across the North Atlantic. One was slower and safer; the other was faster but had a 25 percent failure rate—failure here being tantamount to ditching in the North Atlantic, with serious if not fatal consequences. But the faster, more direct route paid more, and that was the one Kerkorian rode—straight out at jet speed across the west-to-east airflow known as the Iceland Wave. Over two and a half years, Kerkorian delivered 33 "Mossies," broke a crossing record, was given the rank of lieutenant, and managed to save the bulk of his wages—enough to buy a $5,000 Cessna and set up as a general aviation pilot.

He was 28 years old and a bachelor. Like a lot of Angeleños in the immediate postwar era, he had discovered Las Vegas, a city where, at that time, you could still see the night sky. Kerkorian gambled heavily and for high stakes—a habit he would eventually overcome, although he still reputedly enjoys showing up at the tables of one of his casinos now and again. In 1947, however, he needed and was able to borrow money from the Seagram family to pay $60,000 for a small air-charter outfit, the Los Angeles Air Service, which Kerkorian optimistically—some would say bombastically—renamed Trans International Air (TIA). He then scoured the world for war surplus bombers, and although many of them were in poor shape, it didn't matter to Kerkorian because they all had fuel—a commodity in desperately short supply at the time. Kerkorian sold the airplane fuel, paid off his loan, and still had the planes—the basis of TIA's fleet. He operated the airline until 1968, at which time he sold it to Transamerica Corporation, netting $85 million in the deal. It wasn't the last time Kerkorian actively involved himself in the running of a company. But after that, he mostly turned to the business of buying and selling.

Passions Leading to Profit

It is tempting to think we can find in Kerkorian's background the attributes of the business genius he became. He followed his passions, was willing to risk, and had the discipline to scrutinize a situation objectively when it was needed. For example, he loved flying, and aircraft became the cornerstone of his fortune. He loved gambling—at one point excessively—and he turned it into ownership of a large part of one of the world's largest casinos. And perhaps above all, he possessed the eye to see value where others saw none and to read the economy in ways others did not. Of course, he also had the drive—the sheer brazenness—to act on what his eye perceived.

It's tempting indeed to see all this in Kerkorian's tough-kid background, but it's also fatuous at best and dipping into psychobabble at worst. The fact is that in his trading career, Kerkorian followed a tried-and-true, simple, straightforward formula: He bought undervalued companies—occasionally selling off assets to help fund the purchase, added strategic resources to augment and enhance the value of the companies, then sold his stake in the companies at a profit. He exhibited patience in waiting for the value to rise, and he evidenced discipline and agility when it came to knowing when to get in on an investment and when to get out. It is also the case that his choices of undervalued companies were often singular, although eventually, of course, investors would follow where Kerkorian led. But the singularity is notable: Kerkorian would buy planes that could barely move and sell the fuel that made them move; he would buy land in the desert when land in the desert was something people fled from; he would buy a movie studio and turn it into a hotel company. He saw something in each of these circumstances that others did not see. Or he saw the circumstances in unique ways, looking past the obvious to perceive some undeveloped potential that simply eluded others.

That was certainly the case in 1962, when Kerkorian bought 80 acres of desert across the Strip from the Flamingo Hotel in Las Vegas. Since the 80 acres were landlocked by a narrow and useless band of desert owned by someone else, Kerkorian swapped acreage for the narrow band and rented out his parcel to Caesars Palace. He made $4 million in rent money from Caesars and raked in another $5 million when he sold it to the hotel's owners in 1968.

He purchased more land in Las Vegas, fast becoming a boomtown, and in 1969, he built the International, the largest hotel in the world. That year, he also made his first foray into Hollywood. Borrowing $42 million from European banks, Kerkorian paid out $650 million to gain a controlling interest in MGM, then began selling off several of its key assets—backlot acreage, the distribution system, and such memorabilia as Dorothy's ruby slippers from *The*

Wizard of Oz and the chariot Charlton Heston rode in *Ben-Hur*— so that he could turn the company into a casino-resort business.

Show business, hospitality, gambling—Kerkorian saw it all as entertainment. In building Las Vegas resorts in MGM's name, he was simply conflating two epicenters of the genre. Witness the launching of the MGM Grand Hotel in 1973: It offered a spectacle of star performances, a new concept of a Las Vegas resort as a "family" destination, and a celebration of sheer size, for the Grand was the largest hotel in the world for *its* time. Kerkorian sold the place in 1986 for close to $600 million, banking a profit of approximately 500 percent. In 1993, he built a second MGM Grand—again, the largest in the world for its time. Seven years later, in 2000, Kerkorian merged the Grand with Mirage Resorts to form MGM Mirage, a global development company with holdings in "gaming, entertainment, and hospitality" that have continued to earn him a fortune.

Meanwhile, back in Hollywood, Kerkorian was more than matching his Las Vegas trading activity in the movie business—a flurry of buying and selling that captures the essence of the man's financial wizardry. Although in 1979 he had proclaimed MGM mostly a hotel company, he nevertheless paid $380 million in 1981 for United Artists, then sold the MGM/UA conglomerate to Ted Turner in 1986 for $1.5 billion. The sale lasted 74 days—Turner had debt problems—and Kerkorian bought it back for a mere $780 million. In 1990, he again sold the company—this time to multiple investors for $1.3 billion—and in 1996, he again bought it all back. Finally, in 2005, he sold the movie company for the third time—to Sony for $2.9 billion—netting $1.8 billion on the deal.

Clearly, Kerkorian was a master negotiator, extracting prices from the buyers of his assets that were either too high to support the transaction or enticing them into transactions they were unable to afford. He would not have been able to do either had it not been for his vaunted patience—the ability to wait for the market to come to him instead of having to sell into a depressed environment. Kerkorian could exercise such patience because he had the advantage of not being overextended and not being on margin. He had the cushion afforded by a personal balance sheet that can absorb the negative effects from unpredictable and potentially debilitating economic hardship. And this advantage—this cushioning power—remained always available to Kerkorian, despite simultaneous involvement in multiple major investments.