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HOW THE WORLD’S GREATEST INVESTORS WIN IN MARKETS AND LIFE

WILLIAM GREEN
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I’ve been obsessed with investing for a quarter of a century. At first, it seemed an unlikely passion. I had never taken a class in business or economics. I had no talent for numbers and no grasp of the esoteric mysteries of accounting. After leaving Oxford with a degree in English literature, I reviewed novels for magazines and wrote profiles of fraudsters and murderers. As an aspiring author with high-minded dreams of literary fame, I found it easy to dismiss Wall Street as a casino full of crass speculators who cared only about money. When the *New York Times* landed on my doorstep, I would jettison the business section without even glancing at it.

But in 1995, I found myself with a bit of cash to invest—my half of the proceeds from the sale of an apartment that I owned with my brother. I began to read incessantly about stocks and funds, eager to increase my modest windfall. This reawakened in me a gambling streak that had briefly run wild when I was a teenager in England in the 1980s. At fifteen, when I was a student at Eton, I’d sneak out of school on lazy summer afternoons and spend hours at a local “turf accountant” near Windsor Castle, betting on horses while my classmates played cricket or went rowing. I was meant to become a posh English gentleman like Boris Johnson, Prince William, and six centuries of Etonians before us. Instead, I had an illegal betting account under the name of Mike Smith.

My interest in horse racing was fueled not by the romance of the sport or the majesty of the equine form, but by a desire to make money without working. I took it seriously, jotting down elaborate notes about horses and courses, using multicolored ink pens to highlight my wins and losses. I ruined my sixteenth birthday by fighting with my parents
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over their refusal to buy me a subscription to Timeform, a pricey sys-
tem for rating horses. I was outraged that they blocked this obvious
route to untold riches. Shortly afterward, following a string of disillu-
sioning losses, I renounced racing once and for all.

A decade later, when I began to read about investing, I discov-
ered that the stock market offered similar thrills. But the odds of suc-
cess were much higher. Stocks struck me as the perfect way to cash in
merely by outthinking other people. Of course, I had no idea what I was
doing. But I had one inestimable advantage. As a journalist, I could
indulge my new fixation by interviewing many of the best investors in
the business.

In the years that followed, I interviewed a pantheon of investment
legends for Forbes, Money, Fortune, and Time, returning again and again
to the same overarching questions that fascinate me to this day: What
principles, processes, insights, habits, and personality traits enable this
tiny minority to beat the market in the long run and become spectacu-
larly rich? More important, how can you and I profit by studying these
financial outliers and reverse engineering their winning ways? Those
questions lie at the heart of this book.

To my delight, many of the investors I encountered were fascinating
and oddly exotic. I flew to the Bahamas to spend a day with Sir John
Templeton, the greatest global stock picker of the twentieth century,
who lived in a Caribbean idyll called Lyford Cay. I traveled to Hous-
ton for an audience with Fayez Sarofim, an enigmatic Egyptian bil-
ionaire nicknamed the Sphinx. In his office, he displayed paintings by
El Greco and Willem de Kooning, along with a fifth-century mosaic
floor imported from a Syrian church. I spoke with Mark Mobius (the
Bald Eagle), who flew around the developing world in a Gulfstream
jet adorned with gold-plated fixtures and iguana-skin upholstery, pur-
chased from a Middle Eastern tycoon who had fallen on hard times.
I interviewed Michael Price, a polo-playing centimillionaire who ter-
rorized underperforming CEOs and came to be known as “the scariest
SOB on Wall Street.” I met Helmut Friedlaender, who had fled from
Germany in the 1930s, stopping only to pick up his teenage sister and
buy a hat “because a gentleman does not travel without a hat.” He drank
Château Pétrus, collected precious medieval books, and traded every-
thing from coffee futures to the Empire State Building. In his nineties, he told me, “I have lived uproariously.”

It was a priceless education. Jack Bogle, the index fund icon who founded Vanguard, which now manages $6.2 trillion, talked to me about the formative investment lessons he’d learned from his mentor and “hero,” a mutual fund pioneer named Walter Morgan: “Don’t get carried away. Don’t take excessive risk. . . . Keep your costs low.” And: “The crowd is always wrong.” As we shall see, Bogle also explained why “you don’t need to be great” to thrive as an investor.

Peter Lynch, Fidelity’s most famous fund manager, talked to me about how he’d won by outworking everybody else. But he also spoke about the wild unpredictability of markets and the need for humility: “You get a lot of A’s and B’s in school. In the stock market, you get a lot of F’s. And if you’re right six or seven times out of ten, you’re very good.” Lynch recalled one of his first failures: a high-flying apparel business went bust “all because of the movie Bonnie and Clyde,” which altered women’s fashions so unexpectedly that the company’s inventory became “worthless.” Ned Johnson, the multibillionaire who built Fidelity into a behemoth, laughed and told Lynch, “You did everything right. . . . Things come out of left field every now and then.”

In the tumultuous days after 9/11, when financial markets were suffering their worst week since the Great Depression, I headed to Baltimore to visit Bill Miller, who was in the midst of an unprecedented streak of beating the S&P 500 index for fifteen years running. We spent a few days together and traveled in his Learjet, which he’d bought in part so that his 110-pound Irish wolfhound could fly with him. The economy was reeling, war was brewing in Afghanistan, and his fund had tumbled 40 percent from its peak. But Miller was relaxed and cheerful, coolly staking hundreds of millions of dollars on beaten-down stocks that subsequently soared.

One morning, I was standing beside him when he rang his office to check in. The analyst on the other end of the line broke it to him that AES, a stock that Miller had only just bought, had announced terrible earnings. The stock halved, costing him $50 million before lunchtime. Miller instantly doubled his bet, calmly assuming that irrational investors had overreacted to the company’s dismal news. As he explained
to me, investing is a constant process of calculating the odds: “It’s all probabilities. There is no certainty.”

And then there was Bill Ruane, one of the most successful stock pickers of his generation. When Warren Buffett closed his investment partnership in 1969, he recommended Ruane as a replacement for himself. Until his death in 2005, Ruane’s Sequoia Fund generated stunning returns. He almost never granted interviews, but we spoke at length about the four guiding principles he had learned in the 1950s from “a major star” named Albert Hettinger. “Those simple rules have been of enormous importance to me,” said Ruane. “They formed the basis for a large part of my philosophy ever since. . . . And they are the best advice I can give people.”

First, warned Ruane, “Do not borrow money to buy stocks.” He recalled an early experience when, by using leverage, he “took six hundred dollars and multiplied it many times.” Then “the market cracked” and he was hit so hard that he sold out and was “back almost to square one.” As he discovered then, “You don’t act rationally when you’re investing borrowed money.” Second, “Watch out for momentum.” That’s to say, proceed with extreme caution “when you see markets going crazy,” either because the herd is panicking or charging into stocks at irrational valuations. Third, ignore market predictions: “I firmly believe that nobody knows what the market will do. . . . The important thing is to find an attractive idea and invest in a company that’s cheap.”

For Ruane, the fourth principle was the most important of all: invest in a small number of stocks that you’ve researched so intensively that you have an informational advantage. “I try to learn as much as I can about seven or eight good ideas,” he said. “If you really find something very cheap, why not put fifteen percent of your money in it?” For regular investors, there are safer paths to success. “Most people would be much better off with an index fund,” said Ruane. But for investors aiming to beat the market, concentration struck him as the smart way to go: “I don’t know anybody who can really do a good job investing in a lot of stocks except Peter Lynch.”

When we spoke in 2001, Ruane told me that 35 percent of Sequoia’s assets were riding on a single stock: Berkshire Hathaway. It had fallen out of favor during the dotcom craze, and Buffett, its chairman and
CEO, was lambasted for losing his touch. Yet Ruane saw what others missed: “a wonderful company” with superior growth prospects run by “the smartest guy in the country.”

What I began to understand is that the greatest investors are intellectual mavericks. They’re not afraid to question and defy conventional wisdom. They profit from the misperceptions and mistakes of people who think less rationally, rigorously, and objectively. In fact, one of the best reasons to study the investors spotlighted in this book is that they can teach us not only how to become rich, but how to improve the way we think and reach decisions.

The rewards for investing intelligently are so extravagant that the business attracts many brilliant minds. But there can also be a devastating price to pay for being wrong, which is rarely the case for professors, politicians, and pundits. The stakes involved may explain why the best investors tend to be open-minded pragmatists who search relentlessly for ways to improve their thinking.

This mindset is embodied by Buffett’s frighteningly clever partner, Charlie Munger, who once remarked, “I observe what works and what doesn’t and why.” Munger, who is one of the central figures in this book, has roamed far and wide in his quest for better ways to think, borrowing analytical tools from disciplines as diverse as mathematics, biology, and behavioral psychology. His role models include Charles Darwin, Albert Einstein, Benjamin Franklin, and a nineteenth-century algebraist named Carl Gustav Jacobi. “I learned a lot from a lot of dead people,” Munger told me. “I always realized that there were a lot of dead people I ought to get to know.”

I’ve come to think of the best investors as an idiosyncratic breed of practical philosophers. They aren’t trying to solve those abstruse puzzles that mesmerize many real philosophers, such as “Does this chair exist?” Rather, they are seekers of what the economist John Maynard Keynes called “worldly wisdom,” which they deploy to attack more pressing problems, such as “How can I make smart decisions about the future if the future is unknowable?” They look for advantages wherever they can find them: economic history, neuroscience, literature, Stoicism, Buddhism, sports, the science of habit formation, meditation, or anything else that can help. Their unconstrained willingness
to explore “what works” makes them powerful role models to study in our own pursuit of success, not only in markets but in every area of life.

Another way to think about the most skillful investors is as consummate game players. It’s no coincidence that many top-notch money managers play cards for pleasure and profit. Templeton used his poker winnings to help pay for college during the Depression. Buffett and Munger are passionate about bridge. Mario Gabelli, a billionaire fund mogul, told me how he earned money as a poor boy from the Bronx by playing cards between rounds as a caddy at a fancy golf club. “I was eleven or twelve,” he recalled, “and everybody thought they could win.” Lynch, who played poker in high school, college, and the army, told me, “Learning to play poker or learning to play bridge, anything that teaches you to play the probabilities . . . would be better than all the books on the stock market.”

As I’ve come to realize, it’s helpful to view investing and life as games in which we must consciously and consistently seek to maximize our odds of success. The rules are elusive and the outcome uncertain. But there are smart ways to play and dumb ways to play. Damon Runyon, who was besotted with games of chance, once wrote that “all life is six to five against.”* Perhaps. But what captivates me is that Templeton, Bogle, Ruane, Buffett, Munger, Miller, and other giants whom we’ll study in the chapters to come have figured out shrewd ways to stack the odds in their favor. My mission is to show you how.

Consider Ed Thorp, who is probably the greatest game player in investment history. Before he became a hedge fund manager, he achieved immortality in gambling circles by devising an ingenious scheme to beat the casino at blackjack. As Thorp explained to me over

* One of Runyon’s greatest short stories is “The Idyll of Miss Sarah Brown,” which inspired the musical *Guys and Dolls*. The hero, a high-rolling gambler nicknamed the Sky, receives invaluable advice from his father about the perils of overconfidence—a warning that every investor would do well to internalize. “‘Son,’ the old guy says, ‘no matter how far you travel, or how smart you get, always remember this: Some day, somewhere,’ he says, ‘a guy is going to come to you and show you a nice brand-new deck of cards on which the seal is never broken, and this guy is going to offer to bet you that the jack of spades will jump out of this deck and squirt cider in your ear. But, son,’ the old guy says, ‘do not bet him, for as sure as you do you are going to get an ear full of cider.’”

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a three-hour breakfast of eggs Benedict and cappuccino, he refused to accept the “conventional belief” that it was mathematically impossible for players to gain an edge over the dealer. Thorp, the father of card counting, gave himself an advantage by calculating the change in probabilities once certain cards were “gone from the deck” and “no longer available.” For example, a deck packed with aces offered him better odds than one without them. When the odds favored him, he bet more; when they favored the casino, he bet less. Over time, his modest advantage became overwhelming. Thus, he transformed a loser’s game of luck into a lucrative “game of math.”

For his next trick, Thorp figured out how to beat the casino at roulette. He and a partner, Claude Shannon, created the first wearable computer, which Thorp activated furtively with a big toe inside his shoe. The computer, which was the size of a cigarette pack, enabled him to “measure the position and velocity of the ball and rotor very accurately,” so he could predict where the ball was likely to land. For centuries, roulette was a mug’s game in which players had no edge, since the ball has an equal chance of falling in each of thirty-eight pockets. “But by adding some knowledge and some measurement, we get a little better grasp on the probabilities of what’s going to happen,” said Thorp. “You won’t get it right every time, but your forecast will be somewhat better than chance. . . . So we were turning what seemed like a game of pure chance into a game where we had an edge. And the edge was provided by the information that we were adding.”

Unless you own a casino, Thorp’s subversive genius is irresistibly appealing. It was never the money that excited him so much as the joy of solving “interesting problems” that all of the experts insisted were insoluble. “Just because a lot of people say something is true, that doesn’t carry any particular weight with me,” said Thorp. “You need to do some independent thinking, especially about the important things, and try to work them out for yourself. Check the evidence. Check the basis of conventional beliefs.”

As Thorp’s adventures suggest, one critical way to improve our financial lives is to avoid games in which the odds are stacked against us. “As far as gambling is concerned, if I don’t have an edge, I don’t play,” said Thorp. Applying that same principle, the rest of us would be wise to
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face reality as honestly as possible; for example, if my knowledge of technology is flimsy or I lack the basic financial skills required to value a business, I should resist any temptation to pick individual tech stocks for myself. Otherwise, I’m like the patsy at the roulette wheel, hoping that fate will smile kindly upon me despite my delusions. As Jeffrey Gundlach, a coldly rational billionaire who oversees about $140 billion in bonds, remarked to me, “Hope is not a method.”

Another common mistake that tilts the odds against many unsuspecting investors is to pay lavish fees to mediocre fund managers, stockbrokers, and financial advisers whose performance doesn’t justify the expense. “If you’re paying tolls as you go and trading costs, advisory fees, all kinds of other charges, you’re swimming against the current,” said Thorp. “If you’re not paying all these things, you’re swimming with the current.” One obvious way, then, for regular investors to boost their odds of long-term victory is to buy and hold index funds that charge minuscule fees: “You don’t have to do any work and you’re ahead of maybe eighty percent of the people who do otherwise.” An index such as the S&P 500 will “probably” rise in the long run, added Thorp, driven by the “expansion of the American economy.” So, unlike gamblers in a casino, “you have an automatic edge” by merely participating in the market’s upward trajectory at a minimal cost.

By contrast, Thorp’s hedge fund crushed the indexes over two decades without a single losing quarter by focusing on more obscure investment opportunities that “were not well understood.” For example, his exceptional math skills enabled him to value warrants, options, and convertible bonds with unrivaled accuracy. Other key characters in this book, such as Howard Marks and Joel Greenblatt, gained similar advantages by specializing in neglected or detested niches of the financial markets. As we shall see, there are many ways to win, but they all require some form of edge. When I asked Thorp how to tell whether I have one, he offered this disconcerting thought: “Unless you have a rational reason to believe you have an edge, then you probably don’t.”

When my investment journey began twenty-five years ago, I yearned to be financially free and answerable to nobody. The best investors had cracked the code, which seemed almost magical to me. But what I realize now is that understanding how these individuals think and why
they win can help us immeasurably in so many ways—financially, professionally, and personally.

For example, when I asked Thorp how to maximize my odds of a happy and successful life, he illustrated his characteristic approach by discussing health and fitness. Thorp, who was eighty-four but looked twenty years younger, observed, “Genetically, you’re dealt certain cards. . . . You can think of that as chance. But you have choices about how to play those cards,” including the choice to avoid cigarettes, have annual medical checkups, keep your vaccinations up-to-date, and exercise regularly. In his thirties, Thorp was “in terrible shape” and found himself “gasping for breath” after jogging for a quarter of a mile. So he started running one mile every Saturday, improving gradually until he completed twenty-one marathons. He still sees a personal trainer twice a week and walks three miles a day four times a week. But when someone suggested that he take up biking, Thorp scrutinized the number of “deaths per hundred million passenger miles for cycling” and “decided that the risk was too high.”

When I spoke with him again, it was June 2020 and the world was gripped by a pandemic that had already killed more than one hundred thousand Americans. Thorp explained how he’d analyzed the mortality data from around the globe, paying particular attention to “unexplained deaths” that were probably caused by the virus; how he’d drawn “inferences” from the 1918 flu pandemic that had killed his grandfather; how he’d produced his own estimate of “the true fatality rate”; and how he’d predicted in early February (before a single death was recorded in the United States) that the country would lose two hundred thousand to five hundred thousand lives to this new coronavirus over the next twelve months.

Thorp’s methodical analysis of the data enabled his family to take timely precautions when few Americans—least of all, the nation’s leaders—recognized the magnitude of the threat. “We prudently put away supplies of all kinds, including masks,” he said. “It was about a month later that people woke up and started cleaning out store shelves.” Three weeks before the government declared a national emergency, Thorp placed himself in isolation at his home in Laguna Beach and “stopped seeing everybody” except his wife. “There’s no point being
scared,” he told me. But he understood the risks and acted decisively to augment his odds of survival. Thorp may be the only person I’ve ever met who actually calculated his own “chance of dying.”*

That mental habit of thinking dispassionately about facts and figures, probabilities, trade-offs between risk and reward, and the paramount importance of simply avoiding catastrophe does much to explain how the savviest investors live long and prosper. As Thorp sees it, every aspect of our behavior should be guided by an attitude of “generalized rationality.” For example, he knows that he’s more likely to make bad decisions when he’s “in emotional mode.” So, if he’s “irritated or mad” at somebody, he takes a step back and asks himself, “What do you really know? Is your feeling justified or not?” His measured analysis often indicates to him that his adverse reaction was unwarranted. “We jump to conclusions when we shouldn’t,” he observed. “And so withholding judgment is, I think, a key element of rational behavior.”

All of this leads me to believe that the true titans of the investment world can help us to become richer, wiser, and happier. My goal is to show you how they win both in markets and life by finding countless ways to optimize the odds of success.

Playing the odds is an extraordinarily effective way to operate, and it pervades everything they do, including how they manage their time, how they construct a calm environment in which to think, whom they hang out with and steer clear of, how they guard against biases and blind spots, how they learn from mistakes and avoid repeating them, how they handle stress and adversity, how they think about honesty and integrity, how they spend money and give it away, and how they attempt to build lives imbued with a meaning that transcends money.

In writing this book, I’ve drawn deeply from the most important interviews I conducted in the distant past with many of the world’s

* How did Thorp estimate the odds that COVID-19 would kill him? “A random eighty-seven-year-old male has about a twenty percent chance of dying if he gets the virus,” he told me. “My risk is lower because a lot of eighty-seven-year-old males have significant other health problems, and I don’t. I have no comorbidity. I’m also super-careful. And I’m quite fit for my age. So, I figured my chance of being killed by it is between two and four percent. But that’s still pretty high.”
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best investors. But I’ve also spent hundreds of hours interviewing more than forty investors specifically for this book, reporting everywhere from Los Angeles to London, Omaha to Mumbai. Between them, the characters you will meet here have overseen trillions of dollars on behalf of millions of people. My hope is that these extraordinary investors will enlighten—and enrich—your life. I would bet on it.