Companies, People, Ideas

Macro Money Maker

Dyan Machan, 12.27.04

Secretive, risk-conscious, a bit paranoid--Louis Bacon has many of the traits of a hedge fund boss. A nice chunk of the $7 billion he plays with is his own.

It's hard to know when hedge fund trader Louis Bacon, 48, of Moore Capital Management, first put up the walls that protect him from a cruel market and a crueler world. Could it have been when the kids in Raleigh, N.C. made fun of his schoolboy spectacles? "Glasses were an affront to my youthful vanity," is how he sees it now. He took them off at school until his strict parents got wind of it.

Or was it when the mentor at whose knee he'd learned to trade commodities blew his brains out after a single mistake erased his net worth? Philip Hehmeyer,a free-wheeling Southerner, was a larger-than-life character on the New York Cotton Exchange. He was also short the S&P 500 Index before the August 1982 rally and took his life at 37 rather than face bankruptcy and public humiliation. "I saw the utter agony and ruination of sticking with a losing position," Bacon says.

Or could it have beenin 1985, when Bacon first tried to run money for Commodities Corp., the firm that gave traders like Bruce Kovner their start, and got his own taste of ashes? Mortified after losing a third of $100,000 in principal, he insisted on giving the balance back. Elaine Crocker, the Commodities Corp. executive who funded traders, coaxed him a couple years later to try again. Crocker, his ally and protector back then, has that job officially as the president of Moore Capital today.

Whatever shaped him, Bacon turned wariness into might. Moore Capital (after his mother's maiden name) manages $7 billion out of New York and London. It's a trading powerhouse, and its founder a new member of The Forbes 400. Bacon is a global macro trader, a genre that includes George Soros, the Bush-hating billionaire, and Paul Tudor Jones. They storm into any moving market, be it a currency in an obscure corner of the globe or stocks in wild and woolly Moscow.

As well-known as Bacon is in trading circles, he's little-known outside of them. That's partly because he is good at controlling his own exposure, with suspicion that can verge on paranoia. A former Moore employee recalls a day in 1991 when James Kelly, Moore's president at the time, strolled through the office with a private detective who carried a box that had a TV-like antenna and blinking lights, sweeping for bugs. Staffers won't even tell you whether Bacon's in town. He's serious about confidentiality agreements and not above some intimidation. "If I talk, only bad things can happen," says James Capra of hedge fund Capra Asset Management in New York.

As much as his privacy, Bacon craves order and control. "As a speculator you must embrace disorder and chaos," he explains. In the early 1990s he would have New York underlings jet over hot-off-the-press *Barron's* copies on Friday; the boss liked to read it on Saturday. He would then send them home.

But judging risk has also become his calling card. Bacon's flagship offshore fund, Moore Global Investments, claims to have returned 24% annually (net of fees) since its inception in 1990, with a volatility (annualized standard deviation of monthly returns) of 13%, well below the 15% you'd get on an S&P 500 Index fund. While Jones and Kovner both have funds with higher annualized returns, their portfolios also have higher volatility.

One reason is that Bacon is quicker to fold a losing hand. "Kovner might say, ‘I'm losing. But I think I'm correct. I'll keep my positions.' Louis can't stand it. He'll go to cash," says James Hodge of Permal Asset Management, an operator of fund of funds. "Louis can reduce a trade down to a couple of key themes and focus on them, rather than getting lost in the chatter," says Jones. "In macro that's what separates the winners from the losers."

Twice Moore Capital had negative years: in 1994, after a dramatic hike in interest rates, and in 2002, when an Enron-led meltdown in corporate credit derailed him. (The S&P 500 has had four negative years since 1990.) Bacon lost 90% of his client base after the 1994 blowup but rebounded with a 25% gain the next year. "He actually trades the very best after a drawdown, much like a boxer who is the most dangerous when he is hurt," says Jones.

On the global macro fund and half a dozen other Moore offerings, Bacon charges on the high side of an industry known for obscene fees. His clients pay up to 3% annually plus up to 25% of profits. The minimum account size is $5 million and client money is initially locked up for three years. "When someone multiplies your capital," says Antoine Bernheim of

Dome Capital, a hedge fund advisory firm that's been a client for 15 years, "the last thing you do is complain about fees."

At its current size Moore could reap fees of $500 million in an average year. Even sharing the spoils with 30 partners leaves Bacon building on a net worth of roughly $750 million, although he disputes the figure.

Last year Moore was up 34%. Doing what? His moves included shorting the falling U.S. market in the first quarter and switching to a long position in the second. He also sold short the weakening dollar and profited from the rallying high-yield bonds and base metals. He's reluctant to say much more than that, and he says next to nothing to his customers about what bets he is making. In a letter to clients last March Bacon predicted a tough environment for hedge fund operators in 2004. "In these waters tactical trading will be key," he said. Moore was up 10% at the end of November, roughly on par with a world stock index.

Even big investors rarely lay eyes on him. "Client meetings that are supposed to be face-to-face inevitably wind up as conference calls," says Hodge, whose firm has $1 billion invested with Moore.

Bacon was a literature major at Middlebury College. One summer he captained a sport-fishing boat for Walter Frank, who had a seat on the New York Stock Exchange. He caught the bug. Entering Columbia Business School, he tried trading the proceeds of a low-interest loan he'd taken out for living expenses three terms in a row. He lost on sugar, cotton and gold contracts each time. Humbled, he had to go to his dad and ask for spending money. Only by the fourth and final term did he climb into the black.

Having earned his M.B.A., Bacon entered the Bankers Trust trading and sales program in 1981. "They took an instant dislike to me," says Bacon, "I thought I was too cool." His superior attitude brought him the equivalent of a Siberian assignment--banker's acceptances. To further the insult this son of the South would have to work for a woman. "I got the point," says Bacon.

Back to work for fishing buddy Walter Frank trading currencies in 1982, he lost some of the capital Frank fronted him. Still, Shearson Lehman hired him as a futures broker. Lucky for Bacon that his brother Zack, a trader at Soros' Quantum Fund, and his friend Jones both traded through his desk, making him a big producer.

By 1989 he was on his own. Jones wasn't accepting new money, so he recommended his clients invest in Moore. Bacon's first year proved his best; he correctly predicted the first Gulf war's impact on world oil prices and shorted the Nikkei index just before it collapsed. The fund was up 86%.

Today Bacon has a hedge fund king's trophies: several boats, his own jet and two private polo fields. He has his own private island near a spread in the Hamptons, a 15,000-acre ranch in the Southwest near Ted Turner's, a house in the Bahamas, one in the Scottish countryside and, of course, a penthouse in Manhattan. He shares a home in London, his main base, with his fiancée and their child.His first marriage, to Cynthia Ingraham, gave him four kids and a divorce bill for more than $100 million in 2002. While there was animosity on both sides, the divorce was quick and--blessedly for a privacy zealot--stayed out of the tabloids.

Unlike his friend Jones, whose star-studded Robin Hood nonprofit extravaganzas attract frenzied media coverage, Bacon's philanthropic activities are less visible. Conservation and land preservation are targets. This descendant of Indian fighter Nathaniel Bacon loves to hunt, especially with bow and arrow. He bought Long Island Sound's 435-acre Robins Island in 1993 for $11 million and the nearby 540-acre Cow Neck Farm in 1998 for $25 million. After land prices rose steadily in both places, he gave conservation easements to the Nature Conservancy and the Peconic Land Trust. The resulting charitable deduction reclaimed several millions of dollars spent on the properties. A good trade.

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