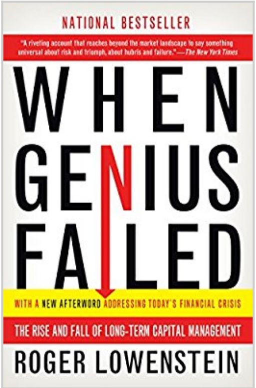

When Genius Failed: The Rise and Fall of Long-Term Capital Management

By Roger Lowenstein

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With a new Afterword addressing today’s financial crisis

A *BUSINESS WEEK* BEST BOOK OF THE YEAR

In this business classic—now with a new Afterword in which the author draws parallels to the recent financial crisis—Roger Lowenstein captures the gripping roller-coaster ride of Long-Term Capital Management. Drawing on confidential internal memos and interviews with dozens of key players, Lowenstein explains not just how the fund made and lost its money but also how the personalities of Long-Term’s partners, the arrogance of their mathematical certainties, and the culture of Wall Street itself contributed to both their rise and their fall.

When it was founded in 1993, Long-Term was hailed as the most impressive hedge fund in history. But after four years in which the firm dazzled Wall Street as a $100 billion moneymaking juggernaut, it suddenly suffered catastrophic losses that jeopardized not only the biggest banks on Wall Street but the stability of the financial system itself. The dramatic story of Long-Term’s fall is now a chilling harbinger of the crisis that would strike all of Wall Street, from Lehman Brothers to AIG, a decade later. In his new Afterword, Lowenstein shows that LTCM’s implosion should be seen not as a one-off drama but as a template for market meltdowns in an age of instability—and as a wake-up call that Wall Street and government alike tragically ignored.

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When Genius Failed: The Rise and Fall of Long-Term Capital Management By Roger Lowenstein Bibliography

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Editorial Review

Amazon.com Review
On September 23, 1998, the boardroom of the New York Fed was a tense place. Around the table sat the heads of every major Wall Street bank, the chairman of the New York Stock Exchange, and representatives from numerous European banks, each of whom had been summoned to discuss a highly unusual prospect: rescuing what had, until then, been the envy of them all, the extraordinarily successful bond-trading firm of Long-Term Capital Management. Roger Lowenstein's *When Genius Failed* is the gripping story of the Fed's unprecedented move, the incredible heights reached by LTCM, and the firm's eventual dramatic demise.

Lowenstein, a financial journalist and author of *Buffett: The Making of an American Capitalist*, examines the personalities, academic experts, and professional relationships at LTCM and uncovers the layers of numbers behind its roller-coaster ride with the precision of a skilled surgeon. The fund's enigmatic founder, John Meriwether, spent almost 20 years at Salomon Brothers, where he formed its renowned Arbitrage Group by hiring academia's top financial economists. Though Meriwether left Salomon under a cloud of the SEC's wrath, he leapt into his next venture with ease and enticed most of his former Salomon hires--and eventually even David Mullins, the former vice chairman of the U.S. Federal Reserve--to join him in starting a hedge fund that would beat all hedge funds.

LTCM began trading in 1994, after completing a road show that, despite the Ph.D.-touting partners' lack of social skills and their disdainful condescension of potential investors who couldn't rise to their intellectual level, netted a whopping $1.25 billion. The fund would seek to earn a tiny spread on thousands of trades, "as if it were vacuuming nickels that others couldn't see," in the words of one of its Nobel laureate partners, Myron Scholes. And nickels it found. In its first two years, LTCM earned $1.6 billion, profits that exceeded 40 percent even after the partners' hefty cuts. By the spring of 1996, it was holding $140 billion in assets. But the end was soon in sight, and Lowenstein's detailed account of each successively worse month of 1998, culminating in a disastrous August and the partners' subsequent panicked moves, is riveting.

The arbitrageur's world is a complicated one, and it might have served Lowenstein well to slow down and explain in greater detail the complex terms of the more exotic species of investment flora that cram the book's pages. However, much of the intrigue of the Long-Term story lies in its dizzying pace (not to mention the dizzying amounts of money won and lost in the fund's short lifespan). Lowenstein's smooth, conversational but equally urgent tone carries it along well. The book is a compelling read for those who've always wondered what lay behind the Fed's controversial involvement with the LTCM hedge-fund debacle. --*S. Ketchum*

From Publishers Weekly
In late September 1998, the New York Federal Reserve Bank invited a number of major Wall Street investment banks to enter a consortium to fund the multibillion-dollar bailout of a troubled hedge fund. No sooner was the $3.6-billion plan announced than questions arose about why usually independent banks would band together to save a single privately held fund. The short answer is that the banks feared that the fund's collapse could destabilize the entire stock market. The long answer, which Lowenstein (Buffett) provides in undigested detail, may panic those who shudder at the thought of bouncing a $200 check. Long-Term Capital Management opened for business in February 1994 with $1.25 billion in funds. Armed with the cachet of its founders' stellar credentials (Robert Merton and Myron Scholes, 1997 Nobel Prize laureates in economics, were among the partners), it quickly parlayed expertise at reading computer models of financial

markets and seemingly limitless access to financing into stunning results. By the end of 1995, it had tripled its equity capital and total assets had grown to $102 billion. Lowenstein argues that this kind of success served to enhance the fund's golden legend and sent the partners' self-confidence off the charts. As he itemizes the complex mix of investments and heavy borrowing that made 1994-1997 profitable years, Lowenstein also charts the subtle drift toward riskier (and ultimately disastrous) ventures as the fund's traditional profit centers dried up. What should have been a gripping story, however, has been poorly handled by Lowenstein, who obscures his narrative with masses of data and overwritten prose. Agent, Melanie Jackson. Author tour. (Sept.)

From Library Journal
This is a marvelous, unauthorized chronicle of the rise, fall, and re-emergence of Long-Term Capital Management, a private hedge fund that in September 1998 benefited from a Federal Reserve-orchestrated $3.6 billion bailout. Based primarily on interviews with key players from the six banks that participated in the rescue of the firm, Lowenstein, who previously wrote Buffett: The Making of an American Capitalist, presents a well-crafted, easy-to-follow text. Readers will better appreciate the inner workings of the firm; the nuances of the individual partners; primary differences among investing in stocks, bonds, and derivatives; the fallacy of the efficient market hypothesis; the impact of computers on financial trading; and the importance of moderation. Recommended for both academic and public libraries.
-*DNorman B. Hutcherson, Kern Cty. Lib., Bakersfield, CA*

Users Review

From reader reviews:

Lori Johnson:

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