

THE LONG VIEW

BILL EHRMAN

has a passion for investing



“DO YOU THINK WARREN BUFFET MANAGES HIS PORTFOLIO CONTROLLING RISK USING ALPHA AND BETA? NO, HE MANAGES IT THROUGH GOOD STOCK SELECTION AND MAINTAINING AMPLE LIQUIDITY”

Entering the hedge fund arena is a daunting task even if you've had 35 years in the business including running your own firm for over 15 years. Going through the process of setting up my new firm, Paix et Prospérité, it has been surprising to see just how many changes have occurred in terms of managing the business itself, not investing the funds.

A study by EY states that investors select managers by evaluating their processes and performance first and then equally by their administrative structure and controls, including compliance, that they have put in place. I was never one for checking boxes just for the sake of appearances but only if it was needed to support the operation and most of all to

benefit the investor. After all, my responsibility is to the investors first. I stated when interviewed a few months ago by *Bloomberg News* that “the currency of business today is not money, it is trust”.

The first step in the process of opening up a new family of hedge funds was engaging a lawyer for the documents and to consult on the structure for the new firm. The next was to find a prime broker and a custodian bank. Before, I had my own broker-dealer and trading desk but that was not needed today. I selected firms whom I had worked with before. It is important to work with those who know you and whom you know as well. Investors are most concerned where the assets are held, thus this is a key decision. A second prime, who will add extensive

risk controls, and a second custodian bank, are both important in today's world and worth pursuing.

Before, I had a large back office handling all administrative and compliance issues. Rather than do it internally, I've outsourced all internal administrative and risk functions, as well as outside administrative work. Investors deserve accountability, and ensuring they have been provided with the many checks and balances that are required in the post-Madoff period is important. I'm also engaging a compliance advisory firm which is essential today. Finally, hiring an internationally known accounting firm is important too. All of this took a lot of time, planning and negotiation. There are many good firms to decide among in each category. All these bases need to be covered.

Investing is my passion. When asked why I was returning to the business, my answer has been the same: “Investing is the way to create wealth for your investors, not trading.” Read Warren Buffet's letter to investors published on 1 March. Notably the best investor of our generation, he states that understanding each investment thoroughly and having a willingness to hold them is how he created wealth for his investors and himself. Do you think that he manages his portfolio controlling risk using alpha and beta? No, he manages it through good stock selection and maintaining ample liquidity. That is the reason he is able take advantage of major disequilibrium in the marketplace like in 2008. He had the cash.

There are many great investment ideas both here and abroad. You need a global focus to understand what is happening in the financial markets, the economies and in specific industries/companies as they are each so interconnected.

Invest, don't trade, and always control your liquidity. ■

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