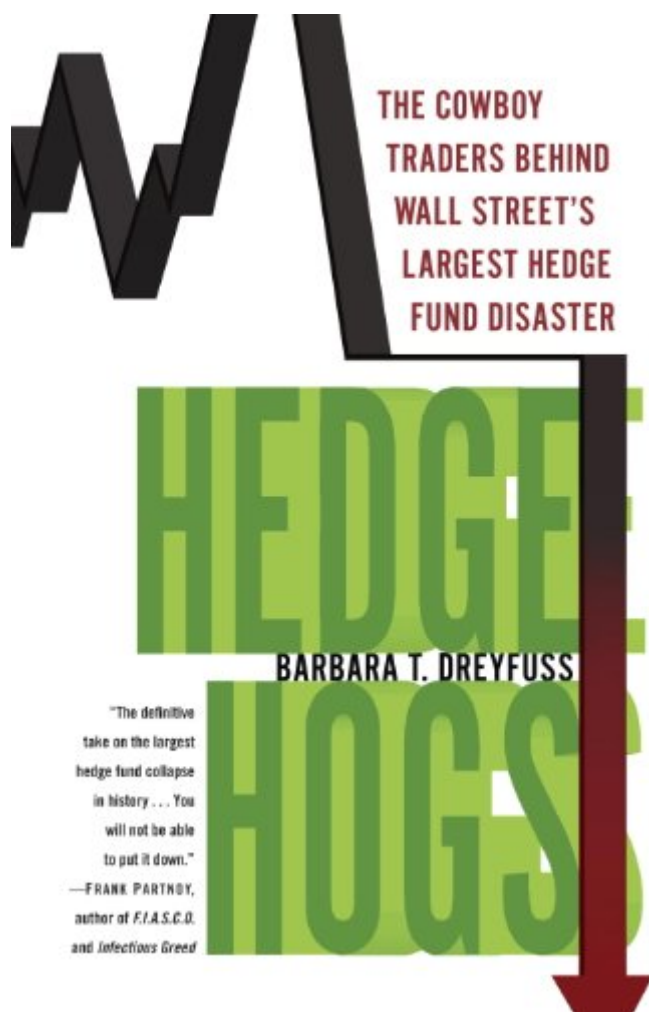


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# Hedge Hogs: The Cowboy Traders Behind Wall Street's Largest Hedge Fund Disaster



## Synopsis

For readers of *The Smartest Guys in the Room* and *When Genius Failed*, the definitive take on Brian Hunter, John Arnold, Amaranth Advisors, and the largest hedge fund collapse in history. At its peak, hedge fund Amaranth Advisors LLC had more than \$9 billion in assets. A few weeks later, it completely collapsed. The disaster was largely triggered by one man: thirty-two-year-old hotshot trader Brian Hunter. His high-risk bets on natural gas prices bankrupted his firm and destroyed his career, while John Arnold, his rival at competitor fund Centaurus, emerged as the highest-paid trader on Wall Street. Meticulously researched and character-driven, *Hedge Hogs* is a riveting fly-on-the-wall account of the largest hedge fund collapse in history: a blistering tale of the recent past that explains our precarious present . . . and may predict our future. Using emails, instant messages, court testimony, and exclusive interviews, securities analyst turned investigative reporter Barbara T. Dreyfuss charts the colliding paths of these two charismatic traders who dominated the speculative energy market. We follow Brian Hunter, the Canadian farm boy and elbows-out high school basketball star, as he achieves phenomenal early success, only to see his ambition, greed, and hubris precipitate his downfall. Set in relief is the journey of John Arnold, whose mild manner, sophisticated tastes, and low profile belied his own ferocious competitive streak. As the two clash, hundreds of millions of dollars in pension and endowment money is imperiled, with devastating public consequences. *Hedge Hogs* takes you behind closed doors into the shadowy world of hedge funds, the unregulated wild side of finance, where over-the-top parties and lavish perks abound and billions of dollars of other people's money are in the hands of a tiny elite. Dreyfuss traces the rise of this freewheeling industry while detailing the decades of bank, hedge fund, and commodity deregulation that turned Wall Street into a speculative casino. A gripping saga peppered with fast money, vivid characters, and high drama, *Hedge Hogs* is also an important and timely cautionary tale—a vivisection of a financial system jeopardized by reckless practices, watered-down regulation, and loopholes in government oversight, just waiting for the next bust. Praise for *Hedge Hogs*—“Regulators, legislators and judges inclined to sympathize with the industry ought to rush out and buy a copy of Barbara Dreyfuss's *Hedge Hogs*, a wonderfully instructive tale about Amaranth Advisors. . . . Dreyfuss, a Wall Street analyst turned investigative journalist, not only plowed through what turned out to be a treasure trove of official records and transcripts, but supplemented it with plenty of her own reporting. She manages to organize it all into a tight, riveting and understandable yarn.”—*The Washington Post* “Clearly and entertainingly told . . . a salutary example of how traders who believe they are super-smart might be nothing more than lucky, and how there is nothing so intoxicating as the ability to speculate with other people's

money.ââThe Economistâ [Dreyfuss] does a great job of putting Amaranthâs out-of-control trader into historical context, explaining the blitz of deregulation that set the stage for someone like Hunter to do maximum damage.ââBloomberg ÂâThe definitive take on the largest hedge fund collapse in history . . . You will not be able to put it down.ââFrank Partnoy, author of F.I.A.S.C.O. and Infectious GreedNamed One of the Top 10 Business & Economics Books of the Season by Publishers Weekly

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## Customer Reviews

This book is a must read for anyone who has a pension fund, who has investments in Wall Street, or for that matter who is affected by the US economy. Through extensive research, analysis, and lucid writing, Dreyfuss takes the technical subject of hedge fund trading and makes it compelling and easy to understand. She provides a window into the high stakes gambling and trading on Wall Street that occurs separately from the actual value of companies or commodities. The narrative is enlivened by her focus on two hedge fund energy traders who trade energy as a sport, with little concern for, or awareness of, the consequences of their actions to companies or individual citizens. As she spices the financials with vignettes about the traders' backgrounds and lifestyles, she

provides beginning insights into their behaviors. The book is a page turner. Will the traders survive the riskiest trades? Will the risk managers and regulatory agencies take note? Who wins and who loses....and how do we protect ourselves from the consequences? Read the book to find out.

This book is the story of how the hedge fund Amaranth Advisers blew up. The hedge fund was supposed to be conservative, avoiding exactly the sort of huge (largely unhedged) bets that blew up the fund. Barbara Dreyfuss has written a very interesting account of how Amaranth evolved and it came to pass that they allowed a single trader to take massive positions in the natural gas market. Perhaps it goes without saying that this is a tale of massive hubris. At one point Amaranth's positions were so large that they moved the market. But since the positions comprised a significant fraction of the market there was no way out. Only events like weather could have saved the bet and by its nature weather is an unpredictable phenomena. For those interested in finance and hedge fund excess this is definitely a good read.

Once the hubris quotient and one's natural feeling that the carcass of the bankrupt Amaranth, its owner and its young villain got what they deserve is set aside, the author's journalistic build up and sense of drama delivers an informative "whiz bang" of a true story, especially at the end. While a few of the middle chapters feel like filler to lengthen out the book, Barbara Dreyfuss's "Hedge Hogs" simplifies a lot of the arcane terms of options trading and tells a good yarn about the hedge fund business, its natural inclination of greed and the need for falsehoods in the pursuit of funds from equally rapacious pension funds, unions and Wall Street. In the end, it is all about money and sharks eating what they kill; Dreyfuss makes it very clear and convincing with an admirable restraint. Because in the end, it is all about money.

In 2006 I've read a lot about the Amaranth collapse, and learned many things about it, but I always missed a good, detailed research or book about the subject. Here it is, and it still has many new info in it. The author made a really detailed, still entertaining book. It's not only interesting, but can be very useful for investors, aspiring portfolio managers, and even for people at the authorities. As for the downside, I can only mention the sometimes populist, a bit "anti-market-like" comments, she made, but they are quite rare, and don't distort the book's well-written, fact based approach.

In the opening pages, a sort of blunt claim of hedge fund risk and some unspecified need for regulation, without depth or counter-arguments (and something about the writer having a history with

some one-sided progressive publications), almost put me off. But I read on, and I'm very glad I did. This book proved to be a readable, breezy, accessible walk through a lot of solid history. A broad audience can enjoy it; though highly financially specialized readers might well be bored. (I loved "When Genius Failed," and think this a fine entrant in that sort of genre.) I found in it a breezy review of things I already knew something about, with enough local color, personality and cultural history to keep the narrative moving. Technical terms (such as what a clearing broker does) were dealt with in short, clear explanations, without any technical complexities. And refreshingly, some new takes on events appeared, as when the story quickly moved from natural gas trading in Canada to pieces of the Enron story I had not seen, such as the firm's actual innovations in energy markets and trading, and some accomplishments of its traders. (The other Enron books I had read went straight to the popular "whodunnit" accounting scam story of the usual suspects, and breezed right by what the energy trading was actually doing.) So, in between familiar bits of story, gems appear. The language usage similarly struck me early on as very informal, at moments as if straight from dictation, very unlike some academic books I usually favor, but I quickly got in the swing of it. I like the brevity and pacing. I hope this book reaches a broad audience.

The author goes to great lengths (in the epilogue) to say that the folks he interviewed were "even handed" and didn't relate hearsay or were adamant about telling what they heard first hand or what they heard after the fact. However, even before I got to the epilogue, I wondered "how does the writer \*know\* some of these things?" Ultimately, this tale reads more like an unauthorized biography of Brian Hunter than anything else. Interesting read, certainly creates cause for pause RE: Wall Street, however, I found myself taking much of what was written with a grain of salt.

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