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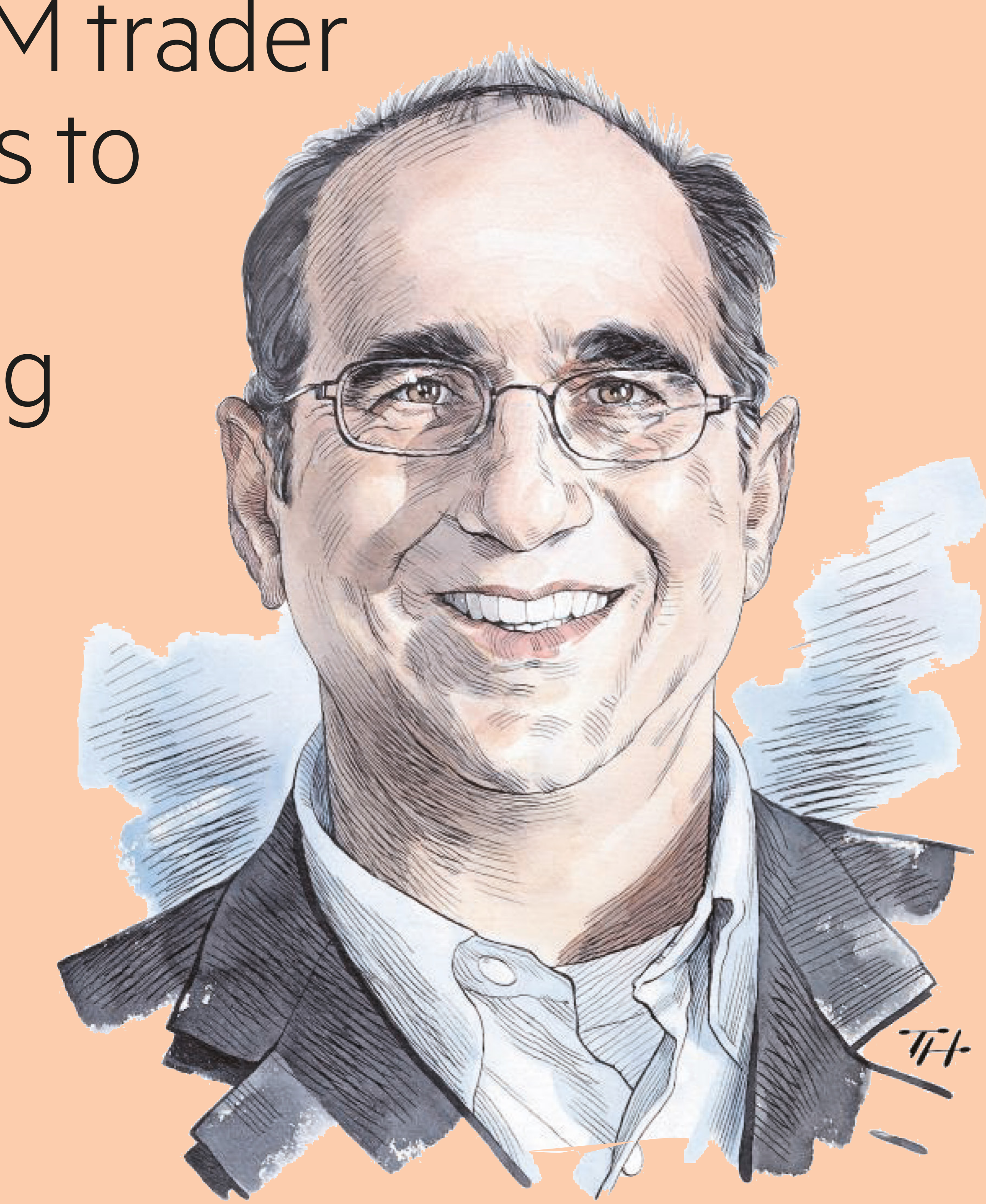
Ex-LTCM trader converts to passive investing



VICTOR HAGHANI

Former hedge fund trader explains why he has abandoned active strategies

MILES JOHNSON

Not long after his 40th birthday, Victor Haghani, a man who had starred in not one but two of the era-defining financial stories of the 1990s, underwent the investment equivalent of a Damascene conversion.

He was once a leading member of an elite team of arbitrageurs, first at Salomon Brothers and then at Long Term Capital Management, the hedge fund company famed for its highly leveraged trading style and Nobel Prize-winning staff. LTCM came spectacularly undone at the end of the 1990s in one of the most famous Wall Street bailouts of all time.

Mr Haghani has since been on an intellectual journey that, in many ways, mirrors the evolution and central debates of the modern investment industry.

Barely into his 30s when LTCM launched, Mr Haghani is described in Roger Lowenstein's *When Genius Failed* — an account of the rise and fall of the hedge fund — as "a natural trader" possessing "an intuitive feeling for markets, and a volatile, impulsive streak".

Sitting in his co-working space in a WeWork building for start-ups in London's Paddington, it is hard to imagine the calm and reflective Mr Haghani of today as the aggressive young arbitrageur egging his colleagues on.

"It was the cutting edge, but I guess we could say that I have a few scars from being at the cutting edge."

He started his career at Salomon Brothers, the investment bank, as a young graduate from the London School of Economics, soon moving into the fixed-income arbitrage group run by John Meriwether, the financier immortalised in Michael Lewis's *Liar's Poker*, his semi-autobiographical account of Wall Street during the 1980s.

CV

Born *1962* New York City

Total pay *No salary at Elm*

Education *1984* BSc (economics), London School of Economics

Career *1984-93* Researcher, government arbitrage group, Salomon Brothers, New York
1993-99 Partner, Long term Capital Management, London
2000-02 JWM Partners
2002-11 Sabbatical and visiting lecturer/researcher, financial markets group, London School of Economics
2011 to present Founder and chief executive, Elm Partners

At Salomon the traders became famed across Wall Street for the staggering profits they generated for the bank, and their quirky obsession with calculating probabilities in as many parts of their lives as possible. To decide who paid the bill at dinner, Mr Meriwether's team would play liar's poker, a game based on betting on serial numbers on dollar bills that gave the title to Mr Lewis's book.

Mr Meriwether left Salomon Brothers after a trading scandal and took his team, including Mr Haghani, with him to found Long Term Capital Management. Now joined by Myron Scholes and Robert Merton, the Nobel Prize-winning economists, LTCM was, for a period, one of the most successful funds ever. Then it became one of history's most notorious financial blow-ups when its hugely leveraged bets on bonds went awry during the 1998 Asian financial crisis.

Mr Haghani still looks back on this time fondly. "My time at Salomon and LTCM really was this golden era of academic and financial ideas starting to get traction in the market place. It was a magical time," he says.

Following the collapse of LTCM, Mr Haghani, who along with other partners had significant amounts of his own wealth invested in the fund, was at a loose end. After spending every hour of his professional life engaged in the most arcane quantitative financial trading, he was now forced to think about what he was going to do with the money he had left.

"I had just turned 40 and I had decided to take a sabbatical and really, for the first time in my life, I addressed the question of how I should invest my and my family's savings, whatever remained from LTCM."

This most active of traders then started down a road that resulted in him embracing a very different investment strategy.

He realised that in spite of having run billions of dollars of capital, he did not know where to start.

"I don't know if it is embarrassing or amazing, but I knew nothing about how to invest for my family. My first instinct was to continue to be quite active. But I realised that active investing made sense at a big bank like Salomon, not for individuals," he says.

This period of deep reflection resulted in Mr Haghani founding Elm Partners in 2011, a small investment company set up to manage his own money, but later those of friends and other clients.

Elm uses index-tracking funds to invest across the largest asset classes and tries to give its clients broad exposure to global economic growth at the lowest possible cost.

It charges investors 0.12 per cent in fees, much less than the 2 per cent annual fixed fee and 25 per cent of performance fees charged at LTCM. He takes no salary at the company.

So how did the epitome of the active fund manager come to embrace low-cost, index-based investment?

"I realised that investing involves solving two problems," he says. "The first one is identifying attractive investment opportunities, and the second one is sizing them.

"Ninety per cent of the literature out there is all about how you can find the gems, whether they are strategies or actual investments. The second problem seems pretty pedestrian, but, actually, that is the critical one. The sizing of the trade is what resulted in the failure of LTCM."

Now Mr Haghani passionately espouses the value of long-term, low-turnover investment at the lowest possible cost.

His mission is supported by research he and his team at Elm publish to illustrate the common ways in which investors damage their own interests by being too active.

"The desire to be active manifests itself in a number of big problems. Investor returns are worse than fund returns, because people chase returns and try and time the market. This means they end up doing worse than they would have with a simple static allocation," he says.

"Active management means you have to pay higher fees, which is a drag on performance. Another drag is tax inefficiency. Very active strategies don't realise that we tend to pay taxes when we realise gains. That means deferring gains is a good thing."

Having personal experience of what happens when active management goes wrong, Mr Haghani says he wants to make sure other investors do not make the same mistakes.

"That is the problem we are trying to solve at Elm," he says. "To stop investors hurting themselves by following their irresistible urge to be active."

Elm Partners

Assets under management **$450m**

Founded **2012**

Employees **6**

Offices **London and Wilson, Wyoming**

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