

“Fooling Some of the People All of the Time” reads like a thriller.

But it is much more than that too. We highly recommend the book.

## Fooling Some of the People All of the Time-by D. Einhorn

One of the first rules that apprentice investors are usually told is to “never fall in love with a stock”. Would the same rule apply about “falling in hate with a stock”? If so, and fortunately for the readers of *Fooling Some of the People All of the Time*, David Einhorn, the founding partner of Greenlight Capital, did not follow the rule! Instead, in this recently published book, Einhorn retraces his six-year battle against the management of Allied Capital (a Washington DC-based business development company that provides loans and equity capital to small and medium US businesses), and his efforts to expose the company’s dubious accounting practices.

Most reviewers of Einhorn’s book have described the 350 page “long short story” as a well plotted detective story which lacks the final satisfying denouement of seeing the bad guys being sent to jail. But while it is true that the book does read like a good thriller (once started, the book is very hard to put down), the book is also much more than that:

- a) It is a convincing indictment of the general media’s bias against hedge funds in general,
- b) It is a haunting portrayal of the inefficiency of the various agencies of the US government, whether at the federal or state level (SEC, SBA, NY Attorney General...), and
- c) It is a great read for anyone who works, or aspires to work, in the money management industry—they will learn a lot from Einhorn’s experiences.

In the first four chapters of the book, Einhorn presents himself, his background, his style of investing, how he set up Greenlight Capital with less than US\$1mn in AUM in 1996 and how he grew the fund to the current US\$6bn (with a track record of 25%+ p.a. in performance). In these first initial chapters, Einhorn establishes his credibility as an investor and simultaneously creates a link with the reader. Einhorn tells us about his childhood, his parents, his wife, his baseball team, his miserable years as an investment banking analyst.... So much so that, within a few pages, a bond between Einhorn and the reader is firmly established. And with this task accomplished, Einhorn can then start with the book’s true purpose, namely his battle against Allied Capital.

Starting with chapter five, Einhorn explains how he uncovers the fact that Allied Capital is basically run as a ponzi scheme: the company pays its shareholders (mostly retail investors) a fat dividend yield which it makes up by constant capital raising exercises and disposal of assets. Worse yet, to keep the appearances of a valid investment proposition, Einhorn discovers that Allied Capital is forced to cook the books, constantly overpricing its loans (sometimes even marking them at par after a default) and the value of its equity in some of its subsidiaries (whose ownership should be consolidated into the Allied balance sheet anyway).

But this is just the start of the story. As Einhorn unmasks further lies and wrongdoings from the management of Allied Capital, he contacts the company’s board (which does nothing), the SEC (which investigates him and other hedge funds), sell-side analysts (who show themselves reluctant to annoy a client whose constant capital raising needs are a nice source of fees) and the general media (whose biases against wealthy hedge fund managers, or interest in higher profile stories such as Enron, ensure minimal coverage of the story). In other words, all of Einhorn’s efforts for light and justice come up for naught and this is still where, six years later, they stand today. The management of Allied Capital is still in place and Greenlight Capital remains short the company’s equity.

In two different parts of the book, Einhorn quotes Warren Buffett telling him over lunch in 2003 (early on in the Allied battle) that “*Allied is just one position in the Greenlight portfolio. But for Allied and its management, it is the whole ballgame. So they will say and do things you would not consider doing in order to win*”. Now as Einhorn shows in the book, the sage of Omaha’s words of wisdom were proven true (i.e., Allied organizes the theft of Einhorn’s phone records). But then again, Einhorn has now done something which few investors would consider to do; namely write a book to name and shame all the various guilty parties in this long-pronged battle. And it is an enlightening, and highly entertaining book.