George Soros Quits Quantum Fund

Bloomberg News reports:

> The billionaire, best known for breaking the Bank of England, is returning money to outside investors in his $25.5 billion firm [and is] ending a career as hedge-fund manager that spanned more than four decades.
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> Soros, who turns 81 next month, will hand back the money, less than $1 billion, by the end of the year, according to two people briefed on the matter. His firm will focus on managing assets solely for Soros and his family, according to a letter to investors. Keith Anderson, 51, chief investment officer since February 2008, is leaving, said the letter, signed by Soros's sons Jonathan and Robert, who are co-deputy chairmen.

While there is a great deal of speculation as to the surprising announcement, Bloomberg News contends it is a measure taken to avoid having to comply with SEC reporting mandates regarding the fund's investors. Alain Sherter of BNET observes, "That stands to reason, since hedgies hate revealing anything about their trading strategies. Staying under the regulatory radar allows Soros to stay in the game without having to keep the feds informed on what he's doing."

Bloomberg News explains further:

> Soros's sons said they took the decision because new financial regulations would have made it necessary for the firm to register with the Securities and Exchange Commission by March 2012 if it continued to manage money for outsiders….
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> The rule calls for hedge funds with more than $150 million in assets to report information about their investors and employees, the assets they manage, potential conflicts of interest and their activities outside of fund advising. Registered funds will also be subject to periodic inspections by the SEC.

A letter written by executives of the fund refers to the Quantum Endowment Fund and states, "We have relied until now on other exemptions from registration which allowed outside shareholders whose interests aligned with those of the family investors to remain invested in Quantum. As those other exemptions are no longer available under the new regulations, Soros Fund Management will now complete the transition to a family office that it began eleven years ago."

Soros is by no means the first to make such a transition in order to avoid the regulations created by the Dodd-Frank bill. While the 2,300 page bill is far-reaching, one provision of the bill is that it creates a Financial Stability Oversight Council, which, as described in the bill,

> may provide for more stringent regulation of a financial activity by issuing recommendations to the primary financial regulatory agencies to apply new or heightened standards and safeguards, including standards enumerated in section 115, for a financial activity or practice conducted by bank holding companies or nonbank financial companies under their respective jurisdictions, if the Council determines that the conduct, scope, nature, size, scale, concentration, or interconnectedness of such activity or practice could create or increase the risk of significant liquidity, credit, or other problems spreading among bank holding companies and nonbank financial companies, financial markets of the United States, or low-income, minority, or underserved communities.

The *Christian Science Monitor* notes that a number of businesses are doing what they can to opt out of the heavy regulation introduced under the Dodd-Frank bill:

> First, we had Stanley Druckenmiller, who shuttered his $12 billion Duquesne Capital Management hedge fund just a month after the passage of Dodd-Frank. Druckenmiller cited his inability to meet his own performance expectations and the personal toll of working as a fund manager, rather than Dodd-Frank. But between 30 percent and 40 percent of the fund's assets belonged to Druckenmiller or his associates, and he continues to manage that money. The fund didn't shut down so much as go private — and escape the grasp of regulators.
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> Carl Icahn followed suit, returning the capital to his outside investors. But this represented just $1.76 billion of the $7 billion he has under management. Icahn didn't shut down — he just shut outside investors and regulators out.

For the past 30 years, Soros' hedge fund has been permitted to operate with minimal regulations. Soros himself admits that he has been able to give more than $8 billion to funds that "foster democracy and free speech."

As is typical with any government endeavor, however, the seemingly good intentions of the Dodd-Frank bill have negative unintended consequences.

"If the top money managers are closing shop because of overly onerous regulations, then this will ultimately be to the detriment of our institutional investors," said Jim Liew, who teaches finance at NYU's Stern School of Business. "In this environment, we actually need more hedge fund activity: hiring people, raising capital, allocating money, and ultimately stimulating our economy," he added.

Still, by no means can Soros' actions be construed quitting, because the money he is returning to his clients in the Quantum fund represents less than four percent of its $25 billion assets. Likewise, Soros is expected to remain active in managing money, and it is thought that his company will decrease in size from its approximately 100 employees.

Analysts are speculating that Soros may intend to use his free time to devote his attention to political action. Just last year, he told Reuters, "I will effectively give away half my income as I earn it and the other half I will give away on my death."

The *Baltimore Sun* opines, "George Soros' particular focus on philanthropy may have played a hand in his decision to manage only his own money as his support for liberal causes and candidates have increasingly made him into a lightning rod for conservatives."

Sherter offers a different hypothesis for the motivating force behind Soros' decision:

> Soros is trimming his sails because the markets aren't as easy to navigate as when he was beating

> up on the pound sterling in the early 1990s or the Thai bhat during the Asian financial crisis later that decade. The perpetual chase for big returns on behalf for outside investors is today a far riskier proposition. As the investor himself recently said: "I find the current situation much more baffling and much less predictable than I did at the time of the height of the financial crisis," Soros, 80, said in April at a conference at Bretton Woods organized by his Institute for New Economic Thinking. "The markets are inherently unstable. There is no immediate collapse, nor no immediate solution."
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> Soros issued a similar warning in 2010, asserting that "we are facing a yet larger bubble" and urging policy makers to take action. That echoes the thinking of another hedge fund titan, Carl Icahn, who cited his concerns about "another possible market crisis" in returning money to investors earlier this year. Other hedge funds have also been moving their investments into cash in recent months in response to the volatility buffeting global financial markets.

Is it possible that Soros is backing away simply because he does not see an "immediate collapse" or an "immediate solution?"

Photo of George Soros: AP Images