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**As Markets Swing, Meriwether Hears Echoes of His Own Collapse --- LTCM Lost Billions A Decade Ago; Now, a Second Fall?**

By Jenny Strasburg
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A decade ago, John Meriwether was at the epicenter of a financial crisis not unlike the one gripping Wall Street in recent days. Now, the famed hedge-fund manager is again up against a wall -- and this time, he is considering calling it quits.

Mr. Meriwether emerged as the public face of financial catastrophe 10 years ago this month when his Long-Term Capital Management hedge fund lost billions in a matter of weeks, sending shudders through global markets and prompting a government-initiated, Wall Street-funded bailout.

LTCM became synonymous with excessive risk. But Mr. Meriwether quickly resurfaced. He opened a new firm bearing his initials, JWM Partners LLC, and has managed it since.

This year, Mr. Meriwether, 61 years old, has lost more than one-fourth of his investors' money -- more than $300 million -- in his biggest hedge fund. The fund's size has dwindled further as investors have pulled out.

Amid the past week's market turmoil, Mr. Meriwether flew to London to meet with investors, many of whom live outside the U.S. He and his partners plan in the next six weeks to continue these talks as they try to persuade clients to stay put for a little longer, a tough sell in a climate beset by fear. Mr. Meriwether also has discussed trying to find new investors to shore up his funds, according to people familiar with the conversations, but that could be an even tougher proposition as credit and capital dry up.

Another option: retiring from managing other people's money and closing shop. That is a decision Mr. Meriwether resists, but one that could be made by December, according to people familiar with the matter.

"Extraordinary times make life exceptionally interesting," he and his colleagues told investors in a letter sent Sept. 12. The letter said managers would soon be in touch to discuss the status of their biggest fund. "My partners and I look forward to our forthcoming discussions."

Closing the firm would be a dismal coda for this onetime master of trading, and a symbol of the distress chilling today's financial markets. Beleaguered hedge-fund managers around the world are facing similar dilemmas. The funds, exclusive investment pools for institutional and wealthy (or "high net worth") clients, typically market themselves for their ability to perform in good markets and bad. More than 350 hedge funds closed in the first half of 2008, according to Hedge Fund Research Inc.

At this rate, significantly more funds will close this year, compared with 2007, representing about 7% of the funds in the industry.

At its height last year, JWM had $2.6 billion in assets, though it never approached the size or performance of LTCM, which at its peak had about $7.5 billion in holdings. Until this year, JWM's largest fund, Relative Value Opportunity, had eight profitable years. That fund started 2008 worth about $1.3 billion.

Heading into the past week, it was down 26% for the year, with the market turmoil further increasing concerns about its prospects, people close to Mr. Meriwether say.

Another fund directly managed by Mr. Meriwether is an even smaller sliver of its former self. People familiar with the funds say the losses on Wall Street put a wrench in Mr. Meriwether's investment strategy. The strategy involves finding subtle pricing discrepancies between securities, then betting that those differences will revert to historical norms. Typically, the strategy depends on large amounts of borrowed money. And unlike other styles of investing, it often requires the luxury of time, since prices can take many months to eventually shift.

Time is something Mr. Meriwether probably doesn't have. He also might not have access to easy cash: Borrowing is tight, especially for managers stuck in the red and therefore viewed as riskier.

"It's really tough," says David Modest, a former partner of Long-Term Capital who soon will join Soros Fund Management as a senior investment manager. "They can't take enough risk" to make their money back. The struggles have hit Mr. Meriwether's pay, which during profitable years topped $10 million, according to a person familiar with JWM's compensation structure. Formerly heavy bonuses for JWM's traders and portfolio managers also stand to suffer this year.

## Playing Devil's Advocate

Mr. Meriwether and his staff of about 50 employees work in the same Greenwich, Conn., office space that housed LTCM, with blonde wood-panel walls and an adjacent outdoor patio surrounded by leafy trees. The office is across from a car wash, more than a mile from the tonier waterfront of downtown Greenwich.

On the trading floor, quiet prevails. Small groups huddle for debates that often involve Mr. Meriwether, who is leaner and more fit than he has been in years from a regular routine of yoga and exercise. He holds veto power over trades and often plays devil's advocate, quizzing traders on elements of the municipal-bond market, Japanese swap spreads or other trading factors he doesn't want overlooked.

JWM's Relative Value fund began this March down 9% from Jan. 1, a rough first couple of months, but not insurmountable. Yet by the third week of March, its decline from investment losses was more than triple that.

In London, struggling hedge funds were said to be desperately unloading everything, from securities backed by mortgage debt to Japanese government bonds, sinking the values of JWM's related holdings. At the same time, Bear Stearns was fighting for its life, facing a near run on the bank that forced it to be sold to J.P. Morgan Chase & Co. for a song.

JWM's managers told their bankers they were becoming more conservative to curb losses. They shrank some positions and reduced the amount of borrowed money, or leverage, used to enlarge bets. Among JWM's ambassadors to the banks was Lawrence Hilibrand, a top trader well-known on Wall Street who had stuck with Mr. Meriwether since their days together on the fixed-income desk at Salomon Brothers.

On the last day of March, over a buffet lunch at JWM's annual meeting with investors held at the Grand Hyatt hotel in midtown Manhattan, Mr. Meriwether sought to soothe concerns. In front of about 30 investors, he said that the market volatility and securities-price movements were extreme, even compared with the mayhem that had sunk LTCM.

LTCM employed a similar investment strategy, also relying heavily on computer models -- an approach that eventually backfired as the models failed to factor in the potential consequences of price swings. But at the March meeting, the JWM partners expressed confidence that they could ride through risky times and then, in the words of one senior executive, "go to war," stepping up the fund's level of shorter-term trades to make back lost money.

April, May and June were kinder, with positive weeks outnumbering negative ones. "I remain confident that the recovery of value from [March] has further to run," Mr. Meriwether wrote to investors in a mid-May letter.

But the slippage resumed in July, a month of market chaos inflamed by concerns that mortgage giants Fannie Mae and Freddie Mac could spiral into insolvency. By Aug. 1, the Relative Value fund held less than $830 million in assets. Its decline on investments had hovered stubbornly between 23% and 28% for three months ending July 31.

A Troubled Strategy

In late August, some of the world's leading economic experts gathered in Jackson Hole, Wyo., to debate the well-being of Wall Street and global markets. One senior J.P. Morgan Chase executive who attended, global economic expert Andrew Crockett, held a conference call the following week with partners of JWM, a client of the Wall Street firm. He told them that banks' troubles were only going to worsen. Mr. Meriwether came away from the call more convinced than ever that reviving his fund by year end would be a near impossibility. September brought more trouble.

As officials at the Federal Reserve met last weekend with Wall Street executives to help resolve the crisis threatening Lehman Brothers Holdings Inc., the situation drew obvious parallels to September 1998 meetings led by the Fed to shore up LTCM. The company lost $4 billion that year, threatening markets globally, and leading the Fed to organize an emergency infusion of $3.6 billion by a consortium of Wall Street firms. LTCM's holdings were gradually liquidated.

Though JWM is only a peripheral player this time, the week's events and market fallout probably hurt Mr. Meriwether's chances of raising new money and spooked many of his current investors, close acquaintances said Monday. Mr. Meriwether, predicting market chaos as the week began, had little choice but to start reaching out to clients. If JWM investors want out, Mr. Meriwether won't try to hold on to their money against their will, according to people familiar with discussions at the firm. Instead, he will take steps to let them go.

"In the short run, it's a very difficult situation for JWM," says Eric Rosenfeld, an LTCM and JWM alumnus who still has a significant portion of his net worth invested with Mr. Meriwether. But "in the long run, these are good trades."

### Life Beyond Long-Term Capital

Where some former LTCM partners are now. See WSJ.com for the whereabouts of other former LTCM partners.


**John Meriwether** (photo from 1989)

**Then:** Founder, managing partner

**Now:** Runs JWM Partners LLC hedge-fund firm. Is seeking to raise more money and retool investment strategy as biggest fund is down 26% this year.


**Robert Merton**

**Then:** Original partner, strategist. Won the Nobel Prize for economic sciences while at Long-Term.

**Now:** Professor, Harvard Business School


**Myron Scholes**

**Then:** Original partner, strategist. Won the Nobel Prize for economic sciences while at Long-Term.

**Now:** Runs Platinum Grove Asset Management hedge-fund firm, overseeing some $5 billion.