

Soros on Soros

Staying Ahead of the Curve

Interviews with Byron Wien and Krisztina Koenen

George Soros

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The Guru in Training

A person is a product of the people who influenced him. Let's talk about the people who influenced you. Your father has had a profound influence on you and your ideas. Tell me what kind of impact he made and what aspects of his life were particularly important to you.

I think the impact was really from both my father and my mother, and they influenced me in different ways. I loved both of them dearly, but they were very different people and there was a lot of tension between them. Since I loved them dearly, I internalized both of them and I also internalized the tension. That tension has been a driving force in my life. I have been acting out the drama of two different people inside me. It has enabled me always to see the other point of view. I agreed with my father on practically everything except the way he treated my mother. My father taught me how to deal with the world, my mother taught me how to be introspective. I adopted my father's point of view, but I was much closer to my mother in my nature. My father was outgoing, gregarious, genuinely interested in other people's fate. He liked to draw them out but did not like to share his own inner feelings. Probably he did not like to deal with his own feelings at all; that is why he took so much interest in others. My father liked to stay on the surface; my mother was inclined to delve deeply. She was self-critical to the point of being self-flagellating. She had a religious, mystical streak that I didn't share, but I shared her interest in the mysteries of existence. My mother adored my father and accepted his judgment on all matters, even if it meant going against her own nature. This created some inner conflicts. She was conflicted in other ways as well. She was deeply hurt by the anti-Semitism that was endemic in Hungarian society and she developed ulcers in the early years of World War II. She also felt inadequate without a career of her own. In some ways, she was her own worst enemy. Since I

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had internalized her, I had to fight against this losing streak. Sometimes I felt that I had become such a big winner because I had to subdue a big loser inside me. When I went through a period of inner turmoil, in 1982, it reminded me of the conflict between my parents. That was also the time when I worked out many of the hangups I had inherited from my mother. In bringing them to the surface, they dissolved.

Why were you so close to both your father and your mother?

My mother was inclined to intimacy, and I was a kindred soul. My father was a very unusual person and I idolized him. I know I'm somewhat biased, but, even at this late stage in my life, I still consider him quite an exceptional person. He spent a lot of time with me as a little child. I used to meet him after school, and we would go swimming. After swimming, he would tell me another installment of his life story. It was like a soap opera that I absorbed totally. His life experience became part of my life experience.

What are some of the details of that soap opera?

He started out in life as a very ambitious young man. He volunteered in the First World War and he was promoted to lieutenant. Then he was taken prisoner of war on the Russian front and sent to Siberia. He was still very ambitious. He edited a newspaper called *The Plank*. It was written by hand and nailed to a plank. The authors hid behind the plank and listened to the comments of the readers. I remember seeing the collected copies of *The Plank* as a child; he brought them home from Siberia. Then he was elected prisoners' representative in the camp. Some prisoners escaped in a neighboring camp and the prisoners' representative was shot in retaliation. He decided that it would be better to escape than to be shot for other people's escaping. He selected some 30 people for their skills—carpenter, cook, doctor, and so on, because he had no practical skills—and they broke out of camp.

He had a plan to build a raft and drift down to the ocean. But he made one major mistake because his geography was somewhat deficient: he didn't realize that all the rivers in Siberia

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empty into the Arctic Ocean. They built this raft and they floated down the river, and it took them quite a few weeks to discover that they were heading for the Arctic Ocean. Finally they realized that they would have to make their way from the wilderness to civilization. That took them several months, and because of the Revolution they were caught up in the turmoil in the region. At that time, a Czech officer ruled Siberia from an armored railroad car. There were Reds and Whites, and they kept on killing each other and killing the population. He went through some horrendous experiences that taught him the value of being alive.

He returned to Hungary a changed man. He had lost his ambition. He didn't want to be prominent anymore. My father wanted to enjoy life and maintain his independence, but he did not want to become wealthy or influential. In fact, he was the only person I know who actually lived on his capital. He married my mother and, partly through that marriage and partly from profits he made on publishing an Esperanto journal, we owned a certain amount of real estate. He was a lawyer, but he didn't like to work more than was absolutely necessary. I remember, as a little child, he would send me over to his main client to borrow some money and then we would go on a skiing holiday. When we returned, he would be in a very bad mood for several weeks while he was trying to make some money to repay the debt. And then, during the war, he started selling property. By the time of the German occupation, we had sold practically all the property we had. This showed very good judgment because we would have lost the property anyhow. As a disinvestment it was extremely well timed. Nevertheless, very few people have the courage to live on their capital. "I carry my capital in my capital," he used to say—capital means "head" in Latin. I really admired his attitude. What a contrast from my career! Yet, in a funny way, I have emulated him because I never became a prisoner of my wealth.

You've mentioned that the way your father responded to the Nazi invasion of Hungary had a profound effect on you. Can you explain that?

The German occupation came in March 1944. I was not yet 14. That was my father's finest hour, because he knew how to act. He understood the situation; he realized that the normal rules did

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not apply. Obeying the law became a dangerous addiction; flaunting it was the way to survive. Having experienced the Russian Revolution, he knew what to do. He made arrangements for the family to get false identity papers, and he found places for us to live or to hide. He helped not only his immediate family, but a fairly large number of other people around him. I can truthfully say that he saved dozens of lives. He was much busier than he had ever been as a lawyer. At one time, we lived in a rented room that could be reached only through a bathroom and people were lining up in the bathroom to consult him.

This was a period of exciting adventures. I could go on and on about it because it is etched in my memory, although I rarely talk about it. The important and paradoxical point is that 1944 was the happiest year of my life. This is a strange, almost offensive thing to say because 1944 was the year of the Holocaust, but it is true. I was 14 years old. I had a father whom I adored, who was in command of the situation, who knew what to do and who helped others. We were in mortal danger, but I was convinced that I was exempt. When you are 14 years old, you believe that you can't really be hurt. For a 14-year-old, it was the most exciting adventure that one could possibly ask for. It had a formative effect on my life because I learned the art of survival from a grand master. That has had a certain relevance to my investment career.

We all survived, and then the Russians came in. There were still some interesting adventures, but gradually life lost its thrills. As the communist regime laid its dead hand on the country, I felt constricted, narrowed down, shut in. I also felt that my father's sway over me was excessive. "It isn't natural for a 15-year-old to think like a 50-year-old," I told him.

"Why don't you strike out on your own?" he asked me, "Where would you like to go?"

"England," I answered, because we had been listening to the BBC, and I was very much impressed by the British sense of fair play and objective reporting; "or I would like to go to the Soviet Union, because I'd like to find out the nature of this new system that we have to live under."

"Well, I've been to the Soviet Union," my father said. "I can tell you all about it."

That is how I decided to go to England. It took me several years to realize that it was his

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decision, not mine, and I love him all the more for it. He said he had a relative there who might help me to get into a school. I wrote to him, but nothing happened. So my father said, “Why don’t you send him a postcard every week, just to remind him that you exist,” which I did, and eventually he came through with an admission to a school. Then I applied for a passport, but at that time, it was very difficult to get one. Every week the waiting time became longer by an additional week, so it seemed to be an endless process. My father said, “You should go and complain; ask to see the officer in charge.” Which I did, and that made me a well-hated person in the passport office. My brother, who was 21, that is, four years older, had a schoolmate who was working for the political police, and he asked this friend to walk my file through the various offices. He had considerable difficulty doing this because the head of the office said, “I’m willing to give a passport to anyone, except to that obnoxious young kid who is always complaining.” Eventually I got a passport.

I left at the age of 17, and my father didn’t have much direct influence on the rest of my life.

Before you left Hungary, you had some harrowing experiences. How did those experiences affect you?

They were not harrowing at all. I was aware of the danger but I felt invulnerable. I was aware of the suffering around us, but we did everything we could to help others. Just to give you a small example, we used to stand in line for cigarettes—they were distributing five cigarettes per person—and then give them to Jews who were restricted to Jewish houses and couldn’t line up. Perhaps the only time I was physically affected was immediately after the siege of Budapest when there were lots of corpses lying about. There was one with its skull bashed in. I felt sick for a few days afterward.

Tell the story of when your mother was brought to the police station and managed to fool the authorities? She must have had nerves of steel.

She was living by herself in a weekend cottage and the neighbors became suspicious. They

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reported her to the police. The police questioned her, but she acted so calmly and naturally that they released her with an apology. During the interrogation, she was so detached she felt she was observing herself from the ceiling, making sure she was making the right impression. After her ordeal was over, the enormity of the danger struck her and she became very shaky. She escaped to Budapest and my father put her in a hotel. I remember telling her rather impatiently to pull herself together.

What lessons did you learn in particular from your mother as opposed to your father?

That's hard to say. I think I inherited my analytical, self-critical nature from her, but most of the lessons are from my father. Generally speaking, during that period, my father was right and my mother, when she differed from him, was usually wrong. That was not just my view, but also my mother's. Perhaps that tells you something.

Did you go back to Hungary often?

No, I couldn't go back at all. We were separated, seemingly, forever. I left in 1947. I got my passport, and then went to Switzerland to attend an Esperanto conference, because my father was an Esperantist. At that time, you also needed a Soviet exit permit, and I didn't have one. It was a group permit for the Esperanto conference and I missed the group because I didn't get my passport in time, so I had to go after them. I just got on the train and, fortunately, I managed to get through without actually having to show the permit. So I met my father there, but he went back to Hungary and I had to stay in Berne, waiting for my English visa. I didn't know how long it would take to get it, and I only had a couple of hundred Swiss Francs that my father gave me. So I spent my time trying to save money. I got the visa in about two weeks and I went to England. That was the end of his influence, although he did manage to send me some money in England. He came out in 1956 with my mother, and the family was reunited here in 1956.

When did he die?

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In 1968. He was 75.

And your mother?

She died much later, in 1989. She came into her own after my father's death. She learned to be independent; she went to college when she was 60 and continued to grow until she died at age 86.

Were there other people who had an influence? How did your brother influence you?

My brother gave me my first experience of injustice. He was four years older, and he beat me up and teased me a lot, and my parents didn't protect me. I complained, but never got any satisfaction. We met again when I was 24 and became good friends.

He was never involved in the investment business, right? He made his own career.

He was the real talent in the family. He started an engineering company in his basement at 30, revolutionized the technology of bulk material ports and had the number one company in the world in just 15 years. He got numerous prizes for creative engineering and designed the facilities that handle a third of the world trade in bulk materials.

In the late 1960s, I sold my brother's business to Ogden Corporation during the conglomerate boom. It was a very amusing negotiation. I got double the price his company was worth because Ogden could promote him as their resident genius who made their stock more valuable. I called it a biblical transaction, in which I got two plates of lentils for my brother. Unfortunately, they paid him in stock. I negotiated downside protection down to half the current price, but the stock fell by three quarters. Eventually he bought the company back and became independent again. He sold his business again recently, and we are working together in all sorts of ways.

Are there other people who had an influence on you?

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Many people, I'm sure. But I can't say that their effect was in any way comparable to the influence of my parents.

How about Karl Popper? He was one of your teachers and one of the great philosophers of the 20th century. How did he influence you?

He influenced me with his writings and his thinking. I had relatively little to do with him on a personal level. He was not my regular teacher at the London School of Economics. I finished my degree course, which was supposed to take three years, in two. I had to spend an extra year as a registered student to qualify for the degree, and I was allowed to select a tutor. I chose him because I was very much taken by his philosophy. I had lived through Nazi persecution and Soviet occupation. Popper's book, *Open Society and Its Enemies*, struck me with the force of revelation—it showed that fascism and communism have a lot in common, and they both stand in opposition to a different principle of social organization, the principle of open society. I was even more influenced by Popper's ideas on scientific method.

I wrote some essays for him and he was very encouraging when I met him in his home, but I saw him no more than twice. And then, when I wrote my philosophical treatise, "The Burden of Consciousness," which was very much a regurgitation of his ideas, around 1962, I sent it to him, and I got a very enthusiastic response from him, which encouraged me to go and see him. He gave me a date at the London School of Economics. There were a lot of people waiting for him, and they were very upset when they found out that I had a date to see him, because they were all his students and needed his attention. I felt like an intruder. So I went out of the room and waited in the corridor, in front of the elevator. When he stepped out of the elevator, I introduced myself, and he took one look at me and he said, "But you're not American!" and I said "No." He said, "That is terribly disappointing, and I'll explain to you why. When I got your treatise, I felt that finally an American had understood my teachings about open society and closed society. That meant that I had managed to communicate my ideas. But you lived through it all, so you don't count and that is why I'm disappointed." Still, he was very supportive and encouraged me

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to carry on. I saw him occasionally after that. The older he got, the more frequent our contacts became. It was during his last ten years that I had a real relationship with him, but by that time, he was no longer at the height of his powers. We had a wonderful, really touching meeting in Prague just before he died, when he came and gave a lecture at the Central European University in June 1994. He enjoyed it so much that he was going to come and open the school year in Budapest in September. But he died before then. That's really the extent of my contact with him. So it's not really the man, but his ideas that influenced me. Even though I refer mainly to Popper, I was also influenced by a number of other thinkers, like Frederick Hayek, Alfred North Whitehead, and others.

How about all the powerful and famous people you meet now? An article described you as having one president for breakfast and another for dinner.

In the past five years or so, I have met many important players on the stage of history. What a difference from my earlier incarnation! I used to live in virtual isolation; now most doors are open. I must confess I like it better this way; my only regret is that I lack the time and energy to follow through. I wish I could spend more time with some of the people I met recently. And I don't mean so much people in power, but people of consequence.

Does anyone particular stand out in your mind?

Andrei Sakharov, the physicist, above all. He was the most painfully honest man I ever met. He simply could not bear telling a lie. Yet he was a very gentle man, however scathing the opinions he would express. He embodied the ideal of a scientist in pursuit of the truth—that is why he was so widely respected. He took his responsibility terribly seriously. In the first more-or-less free election, he was elected to the Supreme Soviet and became one of the leaders of the Popular Front. It killed him—he died of a heart attack after a grueling day in Parliament. I had the feeling that he died of grief because he was unable to do enough.

I love Havel, too, with all his faults. He turned the early days of his presidency into

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a lighthearted, inspiring theater. I remember visiting him on a public holiday. There was a mysterious announcement that the Castle was open to the public. The people who turned up were treated in the same way as the invited guests. When the crowd overflowed, tables were set up in the courtyard and sausages and beer served. It was the most joyous occasion I ever attended. He explained to me that he made the announcement deliberately vague so the Castle wouldn't be overrun.

I had very good contact with Bronislaw Geremek, Walesa's political adviser during Solidarity days, from the first time we met, which was in 1988. We did not meet often, but each time was memorable and I feel very close to him.

The political personality I feel closest to is Grigory Yavlinsky. He was the main architect of the Shatalin Plan and the leader of the delegation I brought to the World Bank meeting in 1990. The role he played was entirely his own invention; he created it out of nothing. His vision was—and remains—closest to mine. We have had our differences, but as time goes on, my respect for him continues to grow, mainly because he is literally putting his life on the line for his beliefs.

I could go on. One of my rewards is that I do meet interesting people and participate in interesting events.

It occurs to me that your investment philosophy has evolved out of your personal experience. Let's talk about some of that background. When did you first get into business? What was your first job?

It had nothing to do with finance. I became a trainee in a fancy goods manufacturer in England. The company made novelties, souvenirs, costume jewelry, and so on. It was not easy to get a job when I got out of college because I was a foreigner without connections. I got the job through a friend of mine, a part-time fellow student who was working for this firm.

You were a salesman, right?

I was a so-called management trainee, but they didn't have a training program, so I ended up as

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a salesman. Then I worked for one of my customers who was a wholesaler. I became a traveling salesman selling to retailers in Welsh seaside resorts, and that was a low point in my career. It took me very far away from my concept of myself. Plus, it was a very difficult job. Its main advantage was that it gave me a car, a Ford Anglia, which was the lowest-priced model in the Ford line in Britain. The first job the wholesaler gave me was to try and sell to tobacconists in London, but all these tobacconists were organized into wholesalers' groups, so there was absolutely no chance of selling to them. It was also very difficult to park the car in London, so I felt kind of shut out. The feeling was somewhat relieved when I got the territory on the Welsh seaside, so at least I could make some sales. Nevertheless, I realized that this kind of work was not really what I had studied for, or what my parents expected of me. I decided to make a complete break. I wrote letters to all the merchant banks in London addressing each one personally to the managing director of the firm, which was not something that was done in those days. You didn't write letters to people you didn't know.

This elicited some rather amusing responses. There was someone called Walter Salomon who called me for an interview, just to point out that I misspelled his name. I also got an interview at Lazard Freres, which was very enlightening because the managing director told me, full of good will, that I was barking up the wrong tree wanting to go into the City. He said, "Here in the City we practice what we call intelligent nepotism. That means that each managing director has a number of nephews, one of whom is intelligent, and he is going to be the next managing director. If you came from the same college as he did, you would have a chance to get a job in the firm. If you came from the same university, you may still be all right. But you're not even from the same country!" He advised me to stay away from the City because, he said, people came into merchant banks mainly to manage their own money, and therefore they expected less in the way of salary than in industry. They got, at the age of 40, what people in industry might already reach at age 30.

You said that when you were in Wales, that was the low point of your life.

A low point.

OK, we'll get to some other low points. One of the low points was that your life wasn't going in the direction that other people had expected it would. But you also had a very high opinion of yourself at that point.

I always had exaggerated expectations of myself, undoubtedly inculcated in me by my parents. When a father you respect takes you seriously, you have got to take yourself seriously. It's only recently that reality has caught up with my expectations.

So, you went ahead and had interviews with financial institutions in London. Did anybody give you a break?

Amusingly, in light of my interview at Lazard Freres, I got a job at Singer & Friedlander, where the managing director was, in fact, Hungarian. So the Lazard Freres thesis was proven right: I came from the same country as the directors, they gave me a chance because of it. That was in 1953.

Did you feel that the fact that you were Jewish played a role in your selection?

Perhaps. But the main factor was that I was a Hungarian, both in being rejected or not considered in other places, and in being accepted at Singer & Friedlander.

What did you do there?

I became a trainee and had a salary of, I think, seven pounds a week.

Was that more or less than you were making as a salesman?

It was a little less, and I was made to do some very boring, humdrum jobs, which I did very badly. The worst of these was when I had to make postings in a double-entry bookkeeping system by hand, because we didn't have machines for recording foreign currencies. There was

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a big aluminum plate on which I had to put the debit and the credit sheets and a control sheet.

At the end of the day, the credits and debits were supposed to balance out to zero on the control sheet, but there was not a single day when they came out correctly. My supervisor had to reconcile the figures, which didn't endear me to him.

Then I had some training in the arbitrage department, working in the "box." It was next to the stock exchange, where the brokers sat around waiting for orders, and my boss was talking to Johannesburg, Brussels, Paris, and New York all the time. He was trading mainly in gold shares. Again, I didn't shine; he was a very meticulous, precise person, and that is not my strong point. So, he sent me back to the main office.

Then came an occasion when I went to Paris for the weekend to meet my brother, and I got fogged in and couldn't get back until Tuesday. When I got to the office on Tuesday, people looked at me as if I weren't there at all, and after a while I was sent in to see the managing director who took me to task. "Why did you miss Monday?" he asked. I used the opportunity to ask what my prospects in the firm were, and he told me that he didn't get terribly encouraging reports about my performance. He told me that the sky was the limit if I managed to bring in some business, but if I expected them to find a niche for me, I would wait forever because they had no specific assignments in mind. They didn't mind having me around because I didn't cost very much, but I was a fifth wheel in whichever department I was placed.

What kind of business did they want you to bring in?

Any clients or deals, or anything that would make money. I asked whether he would mind if I looked for a job elsewhere, and he told me that I would go with his blessing. I came out from this meeting and went to lunch with another trainee, who was there from New York. It was Robert Mayer, whose father owned a small brokerage firm in New York, and I told him what had happened. He told me that his father was looking for someone in New York. He said he would have mentioned it to me earlier, but he felt that, since I was a trainee, it would be inappropriate for him to entice me away from the firm. He asked me if I would be interested in going to New

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York, and that's how I came to work on Wall Street. The whole process took some time.

When did you arrive in New York?

In September 1956. That is another rather amusing story. When I applied for a visa, the authorities refused me. They said that I was too young, at 26, to be a specialist whose services were urgently required and could not be filled by local talent. F. M. Mayer then got an affidavit from Franz Pick, author of the *Black Market Yearbook*, who testified that arbitrage traders had to be young because they died young. On that basis, I got the visa. But I never forgot his affidavit and I got out of the arbitrage trading business as fast as I could. When I arrived in New York, I started trading in international arbitrage—that is, buying securities in one country and selling them in another.

What kind of stocks were you trading?

At that time, mainly oil stocks. That business declined after the Suez crisis abated. Then I developed a new form of arbitrage, which I called internal arbitrage. A number of new issues came out combining common stocks, warrants, and bonds that were not immediately separable, and I developed a way of trading them separately before they could be officially detached from each other. That turned into a very good business, and we made quite a bit of money in this specialized niche.

So you were actually a global investor almost from the beginning of your career?

I was a trader, which is very different. I was anything but an investor. I bought and sold quickly and I was not allowed to carry positions except within very strict limits. Then came the boom in European stocks. It started with the formation of the Coal and Steel Community, which eventually became the Common Market. There was massive interest in European securities among United States banks and institutional investors who thought they were getting in on the ground floor of a United States of Europe. I was approached by Wertheim & Co. and I joined

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that firm as a securities analyst in European securities and also as a trader. Later I also became an institutional salesman. At the time, the information available about European companies was extremely rudimentary. I put out memoranda that you would find heartbreaking if you read them today because they were so amateurish.

Were they superficial?

No, they were not superficial, but they were conjectural. Information was not easily available; consequently many of the conclusions had to be imputed from limited data. I became one of the leaders of the European investment boom. It made me a one-eyed king among the blind. I had institutions like Dreyfus Fund and J. P. Morgan practically eating out of my hands because they needed the information. They were investing very large amounts of money; I was at the center of it. It was the first big breakthrough in my career.

What year was this?

That was 1959 through 1961. I was the first to make a study of the German banks showing that their stock portfolios were worth a great deal more than their total capitalization. Then I turned my interest to Allianz Insurance. Next, I wrote a veritable book on the German insurance industry. I identified a group of insurance companies, the Aachner-Muenchner group, which all had cross-holdings in each other. I added up all those cross-holdings and showed that you could buy some of the stocks at a tremendous discount from their actual values, once the cross-holdings were figured in.

Nobody in the United States was doing this kind of work at the time?

That's right. This was original work. Just before Christmas I went to J. P. Morgan, showed them the chart of these 50 interconnected companies, and told them my conclusion. I said that I was going to write it up during the Christmas holidays. They gave me an order to start buying immediately, before I completed the memo, because they thought that those stocks could double

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or triple on the basis of my recommendation. That was the peak of the boom in European stocks and also in my career as a foreign securities analyst. Shortly thereafter came the interest equalization tax. President Kennedy introduced a 15 percent surcharge on foreign investments in order to protect the balance of payments. My business was destroyed overnight. I then left Wertheim.

Was that a particularly difficult point for you?

A lot of these things are rather poignant. The interest equalization tax hit me personally because, before it was introduced, I had made a very large trade in Tokio Marine and Fire Insurance Company, which was about to issue American Depository Receipts (ADRs). I bought the shares in Tokio and I sold the ADRs on an “if and when issued” basis to some institutional investors. There was an exceptionally good margin of profit in the trade because there was an element of risk in it. The potential danger was that maybe the ADRs would not be issued. This potential danger became actual when the interest equalization tax was imposed. For a few days, the Tokio Marine and Fire deal hung in the balance. This trade had been approved by the partner in charge, but when the other partners questioned him, he denied that he had given permission for me to go ahead. So I was left holding the bag.

These securities were held in the account of the firm?

Yes. We sold the ADRs against them “if and when issued,” but if they were not issued, the firm would be left holding the common shares for its own account and we would have to sell them back in Tokyo at a big loss. After a few days, the ADR issue did go through, and the profit was realized. I talked to the other partners of the firm and I explained to them the facts, but I felt that the atmosphere of suspicion could not be totally dispelled because if I was telling the truth the partner was a liar. It would cling to me as long as I was in the firm, so I waited a decent amount of time and then I looked for another job. When I left, the partner in charge said he would never say anything bad about me as long as I didn’t say anything bad about him. I went to Arnhold &

S. Bleichroeder.

How did you end up there?

I had an open offer, which I accepted. They had been looking for someone for a while. But, when I took the job, I had practically nothing to do because the European securities business had been destroyed by the interest equalization tax. There were still some very profitable transactions to be made, however, in selling back to Europe the shares that the American institutions wanted to unload. Again, there is a rather amusing anecdote in this connection. When I first discovered Allianz, and published my insurance opus, the Allianz management wrote a letter telling Dreyfus that they were making a mistake buying these shares. Allianz said my analysis was false and misleading, and the shares were overvalued. Dreyfus disregarded the letter and continued buying and the shares doubled or tripled. After the interest equalization tax was imposed, they wanted to get out, and so did J. P. Morgan. I went directly to Allianz and offered them the shares. Then they wrote another letter explaining to Dreyfus how it was a mistake to sell the shares, because Allianz was going to have strong earnings, increase the dividend, and do a number of other positive things. But the price was much higher than at the time they had said the shares were overvalued. Eventually, they placed the shares within the controlling syndicate.

What did you do then?

Business became scarcer and scarcer, and I retired to philosophy. From 1963 to 1966, I spent time trying to rewrite my philosophical dissertation.

And you actually gave up your job?

No. I stayed employed, but my mind was on philosophy and not on business.

What became of your philosophical digression?

I had written a philosophical essay under the title of “The Burden of Consciousness,” which I

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completed in 1961 or 1962. I had it run off by the copying department of Wertheim & Co. That was what I was trying to rewrite during this period, but I didn't make much progress. There came a day when I was rereading what I had written the day before and couldn't make sense of it. I realized that I was spinning my wheels. That was when I decided to get back into business.

What did you think you might accomplish with this philosophical work? Did you have a specific objective?

I thought that I had some major new philosophical ideas, which I wanted to express. I now realize that I was mainly regurgitating Karl Popper's ideas. But I haven't given up the illusion that I have something important and original to say.

What would that be?

That our understanding of the world in which we live is inherently imperfect. There is always a discrepancy between the participant's views and expectations and the actual state of affairs. Sometimes the discrepancy is so small that it can be disregarded but, at other times, the gap is so large that it becomes an important factor in determining the course of events. History is made by the participant's errors, biases, and misconceptions.

We'll get to that later; for now. I'm curious about when and how you got back into the business world.

In 1966, since I didn't know much about American securities, I wanted to find a way to educate myself. I set up a model account with \$100,000 of the firm's money, divided it into 16 parts, and invested one or two units into any stock that I considered to be especially attractive. I wrote a short memo explaining the reasons why I bought each issue, and I followed up with monthly reports reviewing the portfolio and discussing developments within the portfolio. I also provided a monthly performance record. I used this model account as a sales tool to develop business with institutional investors. This was a very successful format, because it put me in contact with the

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investment community. During the years when I had been writing my philosophy, I had lived in a vacuum. Now, I was able to test my investment ideas on potential investors. If I got a good response, I realized that I was onto a good idea; if I got a negative response, I had to seriously question whether I was on the right track. I got some very valuable feedback.

That doesn't sound like you. You don't usually let other people tell you whether you've got a good idea or not.

Testing your views is essential in operating in the financial markets. Let me give you one example: there was a company called American Seal-Cap. When I visited management, they had a wonderful story to tell. I bought the story. One of my potential customers called me and said this was a great story, but there was a catch to it: management was notorious for lying and the story they told me was untrue. That was useful information. It shows how valuable it is to get this kind of feedback.

One of my first major efforts was in the trucking industry. I put 4 of the model's 16 units into trucking stocks. That worked out very well and it gave the model account a pretty good performance. Then, based on the model portfolio, we established a small investment fund called First Eagle Fund. In the following year, 1969, we established another small fund with a capital of \$4 million called the Double Eagle Fund. This was a hedge fund: it was allowed to sell short as well as go long, and it was also allowed to use leverage. Then, as the two funds began to grow, a potential conflict of interest arose. We were recommending stocks to our clients that we were also buying for our own account. Even though we were disclosing all our purchases, it became an impossible situation, especially when it came to selling. I gave up the model portfolio, left Arnhold & S. Bleichroeder, and set up my own hedge fund in 1973.

Was this the beginning of what was to become the Quantum Fund?

Yes, but at the time it was called Soros Fund.

How did you set this up?

The shareholders of Double Eagle could decide whether to come with me or stay with Arnhold & S. Bleichroeder. The parting was amicable, and Arnhold & S. Bleichroeder continues to be a clearing broker and principal custodian for Quantum Fund to this day.