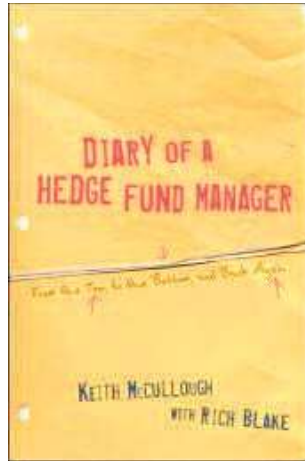


Book Review: Diary of a Hedge Fund Manager

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^[2]As the initial shock of the 2008 financial crisis begins to wear off, we are seeing more and more histories of it cropping up, such as [here](#) ^[3] and [here](#) ^[4]. [Diary of a Hedge Fund Manager](#) ^[5] strives to take a simple, plain-truth approach to chronicling the development of Keith McCullough, a hedge fund manager, in the decade leading up to the 2008 financial crisis. The story is fully autobiographical, beginning with author's childhood in Canada, tracing his rise and fall from one of the largest hedge funds in 2007, and finishing with his successful rebound to create hedgeye.com, a real-time investment ideas and research firm, which is similar to watching a hedge fund manager in action with full transparency.

The book is written by Keith McCullough with Rich Blake, and they pack a lot into 200 pages. The book is full of drama, intensity, and revelations such as the following:

"Better that I was out, having made my money, more money than I ever thought I would ever make in my lifetime, by 100 times. Because the hedge fund bubble wasn't just about to pop. It was going to explode."

Keith McCullough grew up in Thunder Bay, a relatively small town in Canada. He was focused on the singular goal of becoming a professional hockey player. He followed that goal through the Canadian junior hockey leagues to Yale University, where he earned a degree in economics and ultimately learned that he would not be able to realize his dream of making the NHL. From Yale, he plunged into the world of hedge fund investing, and his hockey-instilled work ethic and competitive drive propelled him up the ranks from entry level gopher to multi-million dollar portfolio manager.

The book does more than follow McCullough's path through finance, however. It details his mental processes and gives rare insight into his personal development into a hedge fund manager. Much like the investing world, it moves the reader through McCullough's professional rise at a fast clip. Names and statistics fill the pages at dizzying rates, as McCullough the equity sales analyst blossoms into McCullough the portfolio manager.

The pace slows only as the story reaches its climax: McCullough has left his job as a portfolio manager at [Magnetar](#) ^[6] for the money and glory of joining [Carlyle-Blue Wave](#) ^[7]. As the new guy at Carlyle-Blue Wave, his macro view of the US economy – predicting the impending financial crisis – is not well received, especially because he was losing millions of dollars staying short in 2007. McCullough ultimately loses his job for it.

The book is at its most interesting when it takes the reader through McCullough's firing, the backdrop for his transformation from eager money manager to jaded paper trader.

From the outset, it is evident that McCullough wrote this book with the belief that he was improperly fired from Carlyle. At Carlyle, his predictions led him to short the market several months too soon. One gets the impression that he may have written the book to pay back the "hedge fund bulls that had gored me."

This bitterness that pervades his analysis, however, is also the book's strength for two reasons. First, McCullough provides a biting critique of the hedge fund world as it barreled toward financial collapse in mid-2008. He is able to provide a unique perspective, both as insider for many years and as a sudden outsider providing an informed critique of the industry.

The critique he provides is not a balanced assessment of the industry, nor should the reader expect it to be. McCullough is recording his story for posterity:

"I'd look at my son, small enough to fit into a golf club sock, and think to myself, one day he'll be old enough to know what happened to me on Wall Street. I wanted to show him my side of it. To me it felt like I'd been booted from the team for giving away the puck in my own zone when in reality I felt I was playing the best game of my life."

Following 2008, many people were eager to blame the hedge fund industry for the financial crisis; McCullough's work stands out in that he can back many of his criticisms up with firsthand experience.

Second, McCullough has ambitiously set out to instill a new paradigm in investing. His experience has led him to drive for integrity and transparency in the system, and he has built a new career based on that philosophy. When McCullough was fired, he created a blog to disseminate his ideas on the markets. He eventually spun it into a start-up, where both individual and institutional investors could subscribe to his and others' market analysis. The events of 2008 demonstrated the increasing importance of transparency in investing, and McCullough made his ideas transparent to anyone who would pay; a striking turnaround from his earlier career.

While the story is engaging, the book is not without its flaws. Readers may be challenged to overcome the self importance and hubris McCullough brings to every page. He is not shy about touting his talents, work ethic, or bank account. At points, it gives the sense that this book may have been written either for bragging rights (his early prediction for 2008) or to advertise his new company (to which the last quarter of the book is devoted). While McCullough was ultimately correct in his fundamental analysis of the market at Carlye-Blue Wave, he did seem rather singular in his approach. John Maynard Keynes famous quote: "The markets may remain irrational longer than you can remain solvent" seemed to be totally ignored in McCullough's trading strategy. Moreover, in his final gig as a portfolio manager, he did not seem to show an ability to adapt, which may have been possible without compromising his core beliefs.

McCullough takes pride in being an early riser, and even the least attentive reader will likely pick up on the absurd frequency with which his wake-up times are mentioned.

Minor flaws aside, the book as a whole is hopeful. Integrity and transparency are back in vogue, and McCullough makes a good spokesman. McCullough warns against merely following the herd and advocates having a strong work ethic (going into the comers, to use a hockey analogy). In the grand scheme, McCullough is an everyman, and is someone that this year's college graduates can relate to now more than ever. Because of that, this book could be influential in ushering in a new generation of "hedge hogs" who may pick up McCullough's mantle of integrity and transparency in investing transforming this ever-changing industry for the better.

[Ed: You can read the first chapter online [here](#) ^[8]]

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[4] here: **<https://www.cfainstitute.org/learning/products/publications/rf/Pages/rf.v2009.n5.18.aspx>**

[5] Diary of a Hedge Fund Manager: **<http://ca.wiley.com/WileyCDA/WileyTitle/productCd-0470529725.html>**

[6] Magnetar : **<http://www.magnetar.com/>**

[7] Carlye-Blue Wave: **[http://www.carlyle.com/media room/news archive/2008/item10504.html](http://www.carlyle.com/media%20room/news%20archive/2008/item10504.html)**

[8] here: **http://media.wiley.com/product_data/excerpt/25/04705297/0470529725.pdf**