

How A Big Hedge Fund Ace Lost 95%

One of the biggest hedge fund managers, Bill Ackman, considered to be one of brightest, lost over 95% in one of his largest positions, Valeant Pharmaceuticals (VRX).

He held the stock for about 3 years, while the stock plunged from \$257 to \$11 on March 14, 2017. On March 13, he declared he had sold his entire position in Valeant.

When he initially got into the stock, he saw that he had possibly made a big mistake. He had a choice; get out of the VRX, or try to fix the company. He did the latter, which turned out to be a big mistake. Yes, even the smartest people make big mistakes.

He got onto the board of the directors. He was instrumental in changing management and a number of other things in the company. It started taking an immense part of his time. He went on to speak about Valeant in the media, spoke at conferences, talking about how Valeant would be fixed and possibly become a great investment.

In other words, instead of being an investor, he became a 'crusader' for the stock. In the money management business, probably everyone, even the biggest and the smartest, have made such mistakes. It's human. No one ever knows the future. There is a rule: "never become a crusader for your stocks."

But as an optimist, and looking at your past successes, you are confident that things will turnaround. If you are **not** an optimist in a business you own, you will fail. It's the optimists in the world that have been the most successful and have made the world better. That does not mean optimism in a specific investment, or burying your head in the sand. It means confidence in yourself, that you can do it! And Bill Ackman has that.

I met Bill briefly years ago when he gave an excellent talk in the "Window of the World" restaurant at the World Trade Center. I was impressed. He has done some incredible things. But we are all just human, and we all make mistakes.

Ackman gave a "mea culpa" on CNBC on March 13. He said he should've sold the stock 18 months ago, when the first negative news on the stock hit. And that was followed by the government investigating the huge price increases in the pharmaceutical products. Ackman also said he underestimated the effect of the negative publicity on the stock.

Now come the Monday morning quarterbacks, reciting all the things "he should've done." In fact, some people in the money business gave the warnings during the three years he held the stock. But Ackman has heard that many times in other positions, which turned out to be big winners.

How many times did Wall Street “analysts” criticize Jeff Bezos of Amazon? When he decided to broaden out from just books to a wider range of products, the analysts “knew better” and said he should stick with books. When he decided to have other vendors sell the same products on Amazon, in competition with Amazon, the outcry of the critics was deafening. Each time I said, look at the success of Bezos and compare it to that of the critics, and you know who to believe in.

Of course, the Valeant-Ackman story is much more complicated. Suffice it to say, when Ackman went on the board, he apparently found a mess he had never envisioned. That would have been the time to “cut bait” instead of deciding to try to fix it.

But when you are a “survivor”, you don’t quit swimming when you are under water. Ackman had some big warnings—from very smart people, as a story on Business Insider by Linette Lopez points out:

(<http://www.businessinsider.com/when-bill-ackman-shouldve-sold-valeant-2017-3>)

Legendary short-seller Jim Chanos warned Ackman that Valeant was a problem. He even sent Ackman his research before Ackman announced his collaboration with the company. Ackman responded to that by saying on CNBC that Chanos had covered his short position in the company. Chanos had not.

Legendary Berkshire Hathaway investor Charlie Munger had spoken out about Valeant’s acquisition rollup strategy, and its drug-pricing practices repeatedly, at one point calling it “a sewer.”

We know Ackman heard this, because he emailed Munger after that — in April of 2015, long before the specialty pharmacy was brought to light — to complain about the comments.

In other words, Valeant’s shadiness was apparent to plenty of people: Munger, Chanos, and even the CEO who fought off an arguably sketchy plan to acquire his company. Ackman, manager of billions of other people’s dollars, should’ve recognized that.

Ackman told Wapner (CNBC) Valeant was “a case where the company destroyed its reputation and it caused a loss of talent and focus.”

Lesson: There is no perfection in this world. People have problems all the time. Very smart people have fewer problems, but when they have one, it’s usually a very big one.

No one is immune from periodic failure. But as Muhammed Ali, the world-champion boxer said: “It’s not how many times you fall that counts, but how many times you get back up.”

Wishing you successful investing,

Bert Dohmen,

Founder Dohmen Capital Research, Inc.

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