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How to Invest

MASTERS ON THE CRAFT

David M. Rubenstein

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To Warren Buffett, the ultimate master of the investor craft,
and to Bill Conway and Dan D'Aniello,
who patiently showed me firsthand, for thirty-five years,
the craft of investing and the art of partnership.

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Introduction

Much of life simply revolves around predicting the future and then taking actions that reflect the view of that future. Like everyone, I have made some good and bad predictions about the future, and taken some smart and not-so-smart actions based on those predictions.

I thought Jimmy Carter would beat Gerald Ford in the 1976 presidential election and, also believing he was the better candidate, went to work for Carter's general election campaign. Good prediction.

I thought Ronald Reagan was too old (69), too conservative, and too lacking in policy skills to beat Carter in the 1980 presidential election, and I did not plan for a post–January 20, 1981, forced return to private-sector life. Bad prediction. (I am now older than Reagan was then—he now seems like a teenager.)

I thought my Little League all-star skills at shortstop would not likely grow into a major-league career and decided to focus my efforts on improving my academic skills rather than my athletic skills. Good prediction.

I thought my hometown Baltimore Colts could not possibly lose to Joe Namath and the upstart New York Jets in Super Bowl III in 1969, and made a very large (for me) bet on the Colts. Bad prediction (and my last-ever sports bet).

I thought the private equity world would increase in appeal and that it was possible—with the help of talented investment professionals I was able to recruit—to build a global private equity firm from a Washington base. Good prediction (maybe my best ever).

I thought Mark Zuckerberg's company, created while he was in college, would not outgrow its college campus roots and thus would not be an attractive investment for me when presented by my future son-in-law. Bad prediction.

I thought Jeff Bezos's startup books-over-the-internet company could not possibly overcome Barnes & Noble, and told him that in our initial meeting at his cluttered first office space in Seattle, and thus later decided to sell our Amazon stock as soon as possible. Bad prediction.

Whether someone has predicted well or poorly about life events can be gauged differently by different people. In truth there is no single, universally accepted standard to gauge how successful someone has been in predicting and acting on the future.

In that respect at least, the investment world is wholly different. The skill of predicting the future, and taking preparatory actions, is quite measurable. In the investment world, achieving a profit—to a lesser or greater degree depending on the type of investment—is the essence of investing.

In working to achieve a profit, an investor is really making a prediction about the future—the desirability of owning a particular asset (stock, bond, house, currency, etc.) in the future, based on the likely future performance of the asset. Will the company attract new customers or invent a desired product? Will the economy at the time the investment is realized be strong or weak? Will interest rates be higher? Will climate change affect the value of assets? Will competition be less than might be expected?

Stated differently, are there risks that will possibly arise that could upset the investor's belief that an investment will work out and thus produce the desired outcome? And how great are those risks?

In life, there are always risks to be assessed, but the consequences may not always be measured precisely. In investing, the consequences can be measured quite precisely.

While investing today is a much more sophisticated process of trying to predict the future than it was in the past, the process of investing is centuries old, though by today's standards it was not all that sophisticated back then. Ever since money or its equivalent has existed, individuals have tried to take steps that will return to them more of something than they invested. In the United States, the country was basically started as an investment. The settlers in Jamestown, Virginia, arrived in 1607 because their financial backers in England expected the settlement would ultimately return multiples of the sums that were invested to get the settlers there. That turned out not to be a great investment for the initial backers.

In the past half century, the gold standard as an investor, and thus as a predictor of the future, has been Warren Buffett. He first bought shares of Berkshire Hathaway at $7.50 per share, and over the past sixty years the share price has compounded at an annualized rate of 20 percent. Others have made more money outside of the investing world. Others have had better investment rates of return over shorter periods of time. And still others have had more visible and spectacular investment returns on particular investments. But no other investor has achieved more over a longer period. Berkshire Hathaway now has a market value of $690 billion as of June 1, 2022. Thus Warren Buffett might be said to be the best long-term predictor of the future. For that is what he has in essence been doing all of these years.

I have interviewed Warren many times, as have others, and have always learned something new from him when interviewing him or reading the interviews of others. Those interviews made me think about the views of other great investors—how were they able to predict the future, in their own area of investment, and how were they able to act well or not so well on those predictions?

That led me to an effort to interview some of America's best investors to gauge how they prepared themselves to both predict the future and act upon it in their own area of specialty. The result is this book, which is a distillation of those interviews, with some of my own thoughts about each of the investors and their investment types, as well as some of my perspectives on investing. As with my previous books, the interviews have been edited for length and clarity with the permission of the interviewees.

Great investors have a number of skills and attributes in common, as I will discuss. But they also have skills and attributes unique to their particular type of investment area. A great venture investor may not have everything required to be a great distressed-debt investor, or to be a great real estate investor, or a great cryptocurrency investor.

So I thought that, to give a reader a meaningful sense of the varying skills and attributes needed for different types of investment areas, it would be helpful to have leaders in many of the different basic investment areas. I interviewed individuals like Jon Gray, who built the world's largest real estate investment business at Blackstone; Seth Klarman, who has long been, in his leadership at Baupost, one of the country's most respected value investors; Michael Moritz, who helped build Sequoia into perhaps the most successful of the large venture funds over the past five decades; Mary Erdoes, who has led J.P. Morgan's wealth management business into a world-leading position; John Paulson, whose bet against subprime mortgages between 2007-09 became known as the "greatest trade" in Wall Street history; John Rogers Jr., whose commitment to careful stock analysis led him to build one of the largest African American–owned and led investment companies; and Jim Simons, whose math genius enabled him to pioneer the use of "quantitative" investment strategies.

All of these individuals, along with the other great investors interviewed for this book, also have interesting life stories and investment approaches, which I have tried to bring out in the interviews. I have also tried to show, through a number of interviews, that the investment industry—long a white male preserve—is changing, and diverse investment leaders are now taking their rightful place in the investment world. But, as with my previous books, the interviews are really appetizers designed, in this instance, to whet a reader's interest in learning more about that particular investor and also that type of investing.

To simplify matters, I have classified all of the investors with whom I talked as being in one of these investment categories: Mainstream, Alternative, and Cutting Edge.

Mainstream investors include those individuals who specialize in areas that are relatively traditional—that is, part of the investment horizon for at least half a century or more: bonds, stocks, real estate, and traditional kinds of wealth and endowment management.

Alternative investors include those individuals who pursue investments in areas that were once considered (at least a few decades ago) quite novel or risky, though that is considered to be somewhat less the situation today. These areas, known within the investment world as "alternative," would include hedge funds, buyouts, venture capital, and distressed debt.

Cutting-edge investors focus on investments that are considered quite new by even the standards of what was once considered "alternative." That is to say that these investment areas are ones that may be only a few decades old (or even newer). These would include investments in areas such as cryptocurrencies, SPACs (special purpose acquisition companies), infrastructure, and companies focused on ESG (environmental, social, and governance factors).

Reading a book about these great investors will hopefully provide the reader with insights, perspectives, and inspiration—but, the truth be told, a book will not by itself make the reader a great investor any more than reading a book about Tiger Woods's secrets will make one a great golfer (as I have learned).

This book is designed to provide a glimpse into the investment thoughts and practices of many of America's leading investors. By doing that, I hope to help three different types of readers: 1) those interested in learning more about investing on their own; 2) those interested in learning more about investing through funds managed by professional investors; and 3) those who are students or young professionals interested in exploring an investment career.

Of course, no one book can perfectly satisfy the interests—or answer all of the questions—of these disparate kinds of readers, but I have hoped that the interviews in this book might enable them to at least modestly improve their investing knowledge and abilities, if not entice them into becoming professional investors.

I should add that the world of investing has probably changed more in the past three decades, and maybe even the past three years, than it had in the previous three centuries.

Investing was traditionally an activity pursued by professionals—those who invested for a living. Now investing is pursued by individuals whose professional obligations are in often unrelated areas.

Access to up-to-date information about public securities was traditionally not widely available. Now everyone can get instant access—on a phone—to information about stock and bond prices, private investment opportunities, and investment activities around the world.

And investing was traditionally an activity, with some obvious exceptions, pursued by individuals who had reached at least middle age. Now young individuals, in their teens and twenties, seem much more focused on this activity than anything witnessed before for their age cohort.

It may not wholly be a surprise that I have written a book on investing, for I have spent the past thirty-five years in the investing world, principally in the private equity investment world.

After leaving the Carter White House in January of 1981, I returned to the only profession I knew: practicing law, though in Washington rather than in New York, where I had practiced right after law school.

But I soon realized that I really disliked law practice (in no small part because I was not very good at it). I decided to try something seemingly more exciting—and most likely more lucrative. (I had never been that motivated by money, but I felt that law practice had become less of a profession than a business. And if I was going to be in business, I might as well try something with greater financial—if not also psychic—rewards.)

Inspired by former Treasury secretary Bill Simon's extraordinarily profitable buyout of Gibson Greeting Cards (his $330,000 investment turned into a $66 million profit in about 16 months), I decided the legal profession could survive without me, and I would try to build the first buyout firm in Washington. Since I had no professional investment experience (I had bought—at prices too high—a few stocks in my youth), I focused on recruiting a few individuals in the Washington area who had solid finance, if not investment, backgrounds.

Fortunately, while Washington was not New York, I was able to recruit several individuals who knew what they were doing when it came to finance and investing. Their backgrounds helped me raise $5 million, from four institutional investors, in 1987 to get the newly named The Carlyle Group going. We took that sum and built a firm that, as of June 1, 2022, manages $375 billion.

But that was not an overnight occurrence. And few in Washington (not to mention New York) took us seriously for many, many years.

Carlyle's growth in time occurred because our track record was at least as good, if not better in some areas, as our New York–based competitors. But we also developed a then-unique concept: building a diversified, multi-fund firm (i.e., investing through separate funds in other private investment areas—real estate, growth capital, infrastructure, credit, funds of funds, etc.), and, by doing so, building enough operational and investment talent to create an institutional-quality company. And we decided—also really innovative at the time—to globalize the firm by creating investment teams in Europe, Asia, Japan, Latin America, the Middle East, and Africa, using our developing brand and contacts to recruit investment professionals and to raise funds from all over the world.

As of June 1, 2022, Carlyle had invested $133 billion of equity in the corporate private equity area and had generated $256 billion of gains for investors. Over more than thirty years, Carlyle's annualized gross internal rate of return in corporate private equity has been approximately 26 percent.

I was not the individual at Carlyle responsible for its many-decades-long investment success. The credit for this achievement is really due to Bill Conway and Dan D'Aniello, my principal co-founders, and scores of talented investment professionals whom we recruited and trained in the Carlyle investment style (i.e., cautious, conservative, not high-flying). My contribution to the firm was more in the area of strategy, fundraising, recruiting, government affairs, and public relations. So I offer my own thoughts on investing with more than a bit of modesty.

That said, I did sit in several thousand investment committee meetings over a 35-year period, gave my perspectives, absorbed what the investment teams had to say, and learned a good deal. During that three-decades-plus period, the investing world changed dramatically. The level of competition (from domestic and foreign investors) increased manyfold; the amount of money chasing investments seemed to grow exponentially; prices grew to levels once thought unimaginable; the involvement of outside experts and consultants provided much more thorough analyses; and the interest of institutional as well as individual investors in private investments seemed to know no bounds.

Throughout this period, I came to greatly admire not only the skill sets and other qualities of the investors who were leading Carlyle's investments, but also the abilities of those who were leading our competitors' efforts. That led me, in time, to wonder more about the qualities that really separate the great investors from the average ones.

And that prompted me to want to use a practice I have pursued in recent years—interviewing—to hear firsthand from some of the world's great investors.

What did I learn from my interviews?

Great investors have a number of traits in common. Having these traits will not guarantee that one will be a great investor, but having them certainly improves the odds, if the life stories and skills of the great investors are any indication of what it actually takes to be a great investor. Let me encapsulate what the traits and skills of the great investors generally seem to be:

Background. They typically were raised in blue-collar or middle-class backgrounds; rarely are they from fabulously wealthy families, or families where there is a history of investing professionally. Of the investors interviewed in this book, none came from overly wealthy families, though many came from families with professional backgrounds.

Early jobs. While some investors created small businesses early, and a few dabbled a bit in investing when young, most came to investing after trying other professional endeavors, not always with the same extraordinary success as they later achieved in investing. That said, it should be noted: Jim Simons was a world-class mathematician; Marc Andreessen was a noted entrepreneur; Michael Moritz was a highly successful journalist; and Paula Volent was an accomplished art conservator.

Failure. Many of the great investors had career setbacks or major investment losses along the way. That may well have given them the drive to persist and ultimately to perfect their craft.

Intelligence. The great investors have a high degree of intelligence; and they tended to do well academically. While not all investors are math savants like Jim Simons, there is no doubt that an ease with numbers and math is common to the great investors, even if they happened to study social sciences or less math-oriented subjects.

Ultimate responsibility. It seems clear that the best investors want to own the final decision on investments of any importance. They tend to have self-confidence in their investment acumen and want to make the ultimate judgment on any investment matter of importance, as opposed to delegating the decision to their trusted lieutenants. And they are quite content to take the ultimate responsibility for that final decision.

Focus. The ability to focus on the most important factors in an investment decision is one that great investors tend to have in common. They are not as easily distracted by the unimportant factors, and have the ability to concentrate at unusually high levels. The ability to ferret out the key elements of an investment is something the great investors seem to be able to do exceedingly well.

Reading. Great investors seem to feel there is never too much knowledge one can acquire, and that some of that knowledge can help with perspectives on whatever issue might be raised by an investment. Great investors tend to be relentless readers of books, magazines, newspapers, and curated materials that fit their interests. Some may have had or have dyslexia; but these individuals tend to gather wide amounts of information through other means, often through frequent phone calls or video contacts with industry experts or other investment professionals. Stated another way, great investors have an enormous amount of intellectual curiosity, and want to learn as much as they can about any subject that might remotely relate at some point to their investment's activities. They seem to have a view that any piece of information can in time help shape a better investment decision, or inspire greater creativity or insight.

Battle of wits. When great investors become extremely wealthy, they still enjoy the game of investing—not because they really need more money, but rather because they view investing as a game of wits. They enjoy doing something others thought could not be done, or taking risks that might have been thought to be too great to take. The intellectual challenge of outsmarting others—or at least showing their own intelligence, cunning, and wisdom—is a gravitational force that keeps investors glued to their investment activities well beyond any need to earn more money.

Conventional wisdom. One of the easiest paths in life, and in investing, is to accept and follow the conventional wisdom. Why attract attention by going against the conventional wisdom? Why take a risk of being wrong by rejecting the conventional wisdom? No doubt life can be easier in proceeding along such a path. If you are wrong, you are in the boat with a great many others, and are less likely to attract unfavorable attention or be criticized.

But great investors do not accept conventional wisdom; they see what others do not; and they are prepared to take the risk of being proven wrong by going against conventional wisdom. No other characteristic of great investors is as important to their success as their willingness to ignore conventional wisdom, and to try something that others are afraid to try.

In the buyout world, the conventional wisdom in the 1980s and 1990s was that buyouts could not really work in the tech world. It was believed that technology could change so quickly that a buyout firm would not be able to pay down its debt before the buyout company's tech product would become obsolete.

But a current investment partner of mine, a technology expert who had worked at Oracle and Lotus, David Roux, disagreed. He started Silver Lake in 1999, with an intention to do technology buyouts. While I was skeptical this would work, in short order, Silver Lake achieved extraordinary returns by doing tech buyouts. Now almost any buyout without a focus on technology improvements is thought to be a likely failure.

Attention to detail. There are no doubt excellent investors who tend to focus on the big picture—where is the economy going? Are interest rates going to be increased? Is inflation likely to increase? But as a general rule, great investors pay an enormous amount of attention to the actual details of an investment. They want to know everything there is to know, and believe that a failure to pay attention to details is a prescription for failure. Thus they are sponges for information about investment opportunities.

Recognition of a mistake. Great investors can have large egos, but they are able to admit a mistake, cut their losses, and proceed with the next opportunity, largely without looking back unduly. That is certainly a trait I do not have. I am always looking back at the mistakes I made in not pursuing an investment or in pursuing an investment that did not work. But I am getting better, and only looking back now for a decade or so, rather than two or three decades.

Hard work. Great investors seem to have an obsession with what they do professionally, and thus tend to be, not surprisingly, hard workers who are willing to put in the hours necessary to master the skill set needed for their type of investing. It may be possible to be a great investor working a few hours a day, relying on others to do the hard work needed to understand an investment opportunity. But that is rare. Great investors tend to be workaholics, though they do not regard what they are doing as work. That is key—just as is the case with Nobel Prize winners. They regard work as pleasure, and thus do not feel the need to ease up all that much as they age a bit. They find investing a form of pleasure, and do not see a reason to reduce their pleasure because they already have a great deal of money.

Philanthropy. As noted, great investors tend to make considerable amounts of money, and may decide, at earlier ages than was the case decades ago, that they want to impress society not so much with the level of their wealth but with the level—and impact—of their philanthropy. The philanthropic instinct is partly stimulated by the social approval that accompanies philanthropy. Great investors are no different than others seeking social approval. And while there has been criticism in recent years of the way some wealthy individuals—and thus some wealthy investors—make philanthropic choices, generally there is social approval of philanthropic activity, and great investors enjoy that type of social approval (as would any human), and tend to be quite philanthropic. (Of course, they also believe their money will help address, if not solve, some social needs, and that is a large motivator as well.)

That great investors have many traits in common may not be a surprise. No doubt, the leaders in any profession probably have a fair number of traits in common.

But with almost any profession other than investing, there seems to be a readily apparent reason—other than simply the making of money—that draws people to that profession. While architects, lawyers, doctors, and corporate executives are well compensated, the making of money is rarely the principal purpose of the profession (or the sole draw of the profession to those who join it).

With investing, its raison d'être would appear to be almost always increasing the amount of money one has invested. Is that goal a worthwhile social objective? Why do so many talented people want to be in this profession? Would the world be better off if investors were compensated like teachers, presumably resulting in the many talented, highly motivated, and often quite well-educated individuals who become investors choosing a different profession? Would the world be better off if those with the talents to be great investors chose to pursue a profession of international diplomacy (hopefully resulting in fewer wars) or environmentalism (presumably resulting in cleaner air and water)?

There is no obvious, universally agreed-upon answer to those questions. It is impossible to know whether if someone with Warren Buffett's talents chose diplomacy as a profession, there would have been fewer wars or greater global harmony. (Warren Buffett would modestly say no as to himself—he thinks his skills are best applied to investing. Others may disagree.)

My view is that skillful investing, and thus skillful investors, perform an important role in allocating capital to companies or projects that perform valuable social purposes.

While the tech world and its companies are not without their flaws, it is difficult to say the world is not better off because of the investors who provided funds to get Microsoft, Apple, Google, Amazon, and so many other life-changing (and large-employment) companies off the ground. Or think of the investors who allocated money to Moderna. Clearly those investors helped facilitate a company that developed an extraordinary COVID vaccine in record time.

Capitalism has its flaws, for sure. It increasingly and sadly seems to be leaving people behind as it marches forward. But the overall wealth and employment created by capitalism, including the skillful decisions by investors about where, when, and how to deploy capital, cannot be underestimated. In the United States, the decisions by skilled investors over a great many generations—indeed centuries—have played a major role in enabling the US to become such a large, dynamic, and vibrant economy.

Of course, Alfred Nobel did not recognize investing as an achievement worthy of one of his prizes. Perhaps he did not think investors focused on the social impact of their decisions.

Indeed, until relatively recently, investors were in truth not obsessively focused on the societal impacts of their activities. Getting the highest rate of return or level of profit was the invariable goal. But that should not diminish the reality that just the practice of investing carries a valuable social purpose: jobs are created, companies are made more effective, an economy is more productive, and overall there are widespread resulting social benefits. The current focus in the investment world on having investors devote their attention, as well, to the ESG impact of their investments can only make the investment process—and investors—more helpful to society as a whole.

So, when you read the interviews of the great investors in this book, hopefully you will see them not merely as gifted capitalists, doing what they can to help or support themselves and their organizations, but rather as individuals whose skilled investment decisions have been vital forces in the country's social and economic growth.

Just as importantly, I hope you will read the interviews as illustrative of the kind of entrepreneurial and patriotic individuals who, beyond being role models for others, helped build the country by working hard to develop a unique and complex skill (i.e. investing), to perfect that skill, to then transmit it to their colleagues, and ultimately to give back to society through their philanthropic and educational efforts.

David M. Rubenstein
June 2022

David M. Rubenstein's Notes on Investing

Over many years and in many different Carlyle investment committees—each fund has a separate committee—I have observed some extraordinarily talented investors present their recommendations. (In the private investment world, virtually all decisions to commit capital are made through committees—it is very rare for one individual to make an investment decision without the review and approval of others.)

And in recent years, I have also been involved in a number of other investment activities. In 2018, I created a family investment office, Declaration Capital, to invest some of my capital in areas not being pursued by Carlyle (with Carlyle's approval to avoid conflicts). Over the past few years, I have also served on the investment committees of the Smithsonian Institution, the Memorial Sloan Kettering Cancer Center, the Institute for Advanced Study, and the National Gallery of Art. And I have also served on the boards of trustees of Duke University and the University of Chicago and on the board of the Harvard Corporation. In these latter roles, I have been able to observe these organizations' own endowment investment activities (though I was not on their investment committees).

As a result of all of the foregoing activities, I have developed my own rules and perspectives on investing, and provide them here. While my focus has generally been in the private investment area over the years, these perspectives probably have, in my view, somewhat wider applicability.

Among the most salient of these perspectives:

Luck. Everyone has some good and bad luck in life, and investing is part of life. But counting on having good luck is a prescription for losing money. The investment gods do not reward those who hope good luck will provide superior investment returns on a regular basis. And, as with casino gambling, good luck at the outset of an investment process or career can actually be bad luck. One will think that genius rather than good luck was involved and will repeat itself, so a doubling down on the next investment will probably occur, typically resulting in losses greater than the initial gains. Hard work and rigorous analysis can, though, provide some luck from time to time (amazing how that is often the case); but just thinking that one is due for some good fortune is invariably a prescription for regular loss-making.

Price. For most investments, the best way to secure a transaction is, not surprisingly, to pay the highest price. The selling party may say it wants a responsible owner, someone who cares about ESG (environmental, social, and governance) factors; someone who will treat its employees well; someone who can get along with the management, etc. But in 99 percent of instances, the highest price (and the certainty of closing at that price) is principally what the seller really cares about when selling all of its stake in a company. I have invariably heard that the management team (rather than the owner) would prefer my firm as the investor, but if complete control is being sold by an owner, the preference of the management team is rarely dispositive, in my experience.

When a minority stake is being sold, the situation is a bit different, and an investor will find that other factors—typically the addition of value-added services or benefits—may play a real role. But still, these softer factors are often not enough to trump a much higher price. Around the margins, with price being relatively equal, these other factors can well make a difference to the seller, and should be emphasized by the buyer/investor.

But how does one know what is the right price to pay to secure a transaction and to later earn a profit? There are buyout, venture, and growth capital industry norms about what multiple of cash flow, or multiple of revenue in the case of some venture or growth capital deals, is the right price to pay. But a "right price" is really dependent on factors in the future: how will the management perform, what will competitors do, how will the economy perform, how will government policy affect the business—all factors not completely knowable at an investment's outset. But it is essential that the investor comes to a judgment about what the right value of an asset is to that investor, and do as much as possible to stick in that range, rather than let the seller's value dictate the price ultimately paid. Overpaying for an asset or company rarely has a pleasant outcome for the buyer.

Due diligence. For most things in life, preparation is a plus. My former Carlyle partner Secretary of State James A. Baker III had drilled into him by his father the aphorism that "prior preparation prevents poor performance." In the investment context, prior preparation is typically deemed "due diligence," which is to say the detailed work done analyzing a potential investment. With buyouts, that can entail six months or so of work, for there is an existing company and an enormous amount of financial data and related performance indicators to analyze. With venture capital, there is typically less data to analyze, and the due diligence often focuses on the quality of the entrepreneur leading the company, the uniqueness of the product or service underlying the company, and the size of the market opportunity.

For any type of private investment, the due-diligence process is designed to enable the investor to make an informed decision about the likely return that will be achieved at the price being paid. Good due diligence can also help an investor better prepare for likely future risks (or provide grounds for not making the investment).

My observation, though, is that the most detailed analysis, while helpful, does not always lead to the best investments. Due diligence cannot always adequately predict future management mistakes or departures, economic recessions, new competition, technological developments, regulatory changes, or emerging social changes. That said, due-diligence efforts are and should be extensive, though I have actually found that the high-quality depth and breadth of an investment committee memo (which can be 200–300 pages these days) does not guarantee the best investment outcome. Those who prepare these memos often seem to think the weight of the memo presages a good investment.

Instinct. The best investors invariably rely on their instincts or intuition—which is usually the sum of an investor's experiences and "gut" feelings—rather than exhaustive investment committee memos. Warren Buffett's decisions are rarely, if ever, premised on extensive investment committee memos. Of course, some investors overrate or overvalue their "intuition," and that can also be a problem. But there is

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no doubt that putting too much faith in projected rates of return down to the tenth decimal point seven years down the road are just as much of a problem. In my firm, and I suspect at similar firms, the detailed projections of rates of return seven years down the road (and this kind of analysis typically occurs in an investment committee memo) almost always miss the mark, and often significantly so—on the upside and the downside. No one can predict that well that far into the future. It can be self-deceiving to rely unduly on such computer-model projections (often put together by well-meaning but young analysts and recent MBAs).

Management. In due diligence, the quality of the management team, and especially the CEO, is usually a paramount consideration. A very good CEO for a company in which private equity invests needs to not only have the normal good-CEO attributes—intelligence, hard work, focus, good communication, team-building skills, a vision for the company, a willingness to admit mistakes, and an ability to share the credit. In the private equity world, good CEOs also have to deal with their private equity investors, who are typically quite hands-on and strong-willed. (Private equity does not attract shrinking violets.)

Outstanding CEOs can make a gigantic difference in a buyout, but even those CEOs are not miracle workers. And while a CEO may seem quite outstanding in the beginning, a replacement will probably occur. In more than 50 percent of buyouts, before the buyout has been exited, the CEO will have been replaced. The turnover of CEOs in venture transactions may be even higher. But in venture, a great CEO can be even more valuable—though also much harder to find. Venture CEOs have the very difficult task of growing a young, often fragile organization. More venture deals fail than succeed—the opposite of buyout deals.

Realistic expectations. Invariably, an investment committee memo addresses the changes that should be made in the target investment, and while changes usually have to be made to increase value, sometimes the level and breadth of suggested changes may be unrealistic, at least in the available time frame and with the available financial and human resources. A key consideration for an acceptable investment result is to have realistic objectives, and therefore realistic rates of return. Some investments in the buyout world will produce five and ten times the invested capital. But that is rare—though in the recent two or three years, some great venture capital and growth capital investments done

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by the leading firms in these areas have far exceeded those multiples on their best deals. For Union Square, a leading venture fund, an early investment in Coinbase was worth nearly 2000x its cost when the company went public in 2021. (The post-IPO returns went down considerably in 2022 as the cryptocurrency market declined in appeal to many investors.) But that pre-IPO valuation was a once-in-a-lifetime rate of return; assuming that these kinds of returns may be readily or regularly achieved is a big mistake (though hope seems to spring eternal in the venture world at times).

Stated another way, with few exceptions, if the projected returns seem to be too good to believe, they should not be believed. If a proposed investment is that attractive, others will be pursuing it as well, the price will go up, and the returns most likely will come down.

Rate of return. In a typical buyout, the investor is seeking a rate of return, after all expenses and fees, of about 15–20 percent per annum, with the average buyout being about a five-year investment. Some highly specialized and smaller firms are often seeking and sometimes achieving net returns for their smaller buyouts of 20–25 percent per annum. About 75 percent of buyouts generate pre-fee proceeds in excess of what was invested. In venture capital, investors are often seeking to make net rates of return of 30 percent or more; but venture transactions have a higher failure rate than buyout investments, and only 40 percent of investments generate pre-fee proceeds in excess of what was invested.

In recent years, because of the overall increase in values, particularly in the technology area, venture investments tend to be profitable to a greater extent than the historic norm—but, as just noted, still more venture investments fail to be profitable than actually are profitable. The venture deals that get all of the high-return headlines are generally few and far between over the long term for most venture firms. That said, the past few years have been an historic wealth creation period for a small handful of leading venture firms.

Investors with realistic expectations of rates of return tend to be more successful. Investors who are chasing rates of return that are unrealistic—based on historic norms—will generally be disappointed. That became more apparent with the tech market declines in 2022. The large drop in values in this area tended to provide more reality to expectations of returns in much of the venture and growth capital worlds.

Commitment. There is no doubt that those who work on a potential investment and get excited about it can lose their objectivity, and might seek to pursue an investment in order to not feel that the due-diligence effort has been wasted. That can be a problem. However, a strong commitment to a transaction from an investment professional—someone who is truly excited about an investment and is pounding the table to get it approved—can be an important factor in deciding whether to proceed. An investment needs a strong advocate—someone who feels a personal obligation to make the investment work. Someone whose reputation—and future—is on the line will often be a big part of making an investment work well.

Value added. Companies that receive investments from professional investors are often seeking some value-added services from the investors—introductions to potential customers, assistance with potential acquisitions, help in securing board members, access to operational services, etc. To the extent that an investment firm can provide those services, the value of the investment can be improved. But it is important not to overpromise what can be delivered to a company in which an investment is being made; doing so often leads to real disappointments.

Timing of sale. In recent years, some investors who do not need capital back in the near term may be content to hold an investment for 8 to 10 years or even longer. (Warren Buffett holds some assets forever.) But the typical exit from a private equity investment occurs after about five years; by that time, the value-increasing activities should have occurred, and investors typically like to get their capital back in that period. Investments lasting longer are often ones that have had challenges getting the returns to the desired levels, and there is often the inevitable hope that things will get better if more work is done over the ensuing two to three years. In some cases, sales are delayed because the sellers have grandiose return expectations, and get greedy when not selling at normally acceptable levels. As a general rule, good investors know both when to buy and know when to sell; they tend not to fall in love with their investments, and recognize not only the value of buying at the right price but also, more important, of selling at the right time.

The above perspectives from a career spent largely in private investments may not provide the kind of generic investment advice new investors or prospective investors might be seeking. So I thought it might be useful to also provide below my basic investment advice for these individuals. And I have done so from two vantage points—investments being made directly by an individual and investments being made indirectly by an individual (i.e., investing through a fund managed by a third party).

Investing Directly

For nonprofessional investors who want the pleasure and excitement (though at times the risk and pain) of investing their capital directly, that is, picking stocks or bonds or doing buyouts, or venture or real estate investing directly, I offer these thoughts:

1. Do not risk more than you can truly afford to lose. Stated differently, for investments that have a realistic chance of losing all or part of the invested capital, make certain you have calculated that risk in your investment decisions, and know whether your financial situation can really tolerate that loss.
2. Diversify your investments. This principle is one of the key tenets of investing: do not put all your eggs in one basket. And, in that vein, try to have investments that are not completely correlated—that is, they all are likely to go up or down at the same time.
3. Do not think you are an expert or genius in investing because you are an expert or genius in any other area. Making a fortune as a manufacturer or artist or athlete will not make you an investment expert or genius, as many experts or geniuses in other areas realize relatively quickly in their investment efforts.
4. Have realistic return expectations. Having unrealistic expectations will inevitably lead to overly risky investments and real disappointments. For overall investment returns (assuming a mix of different types of public and private

investments), trying to continuously get annual returns above mid to high single digits is extremely difficult, certainly for a nonprofessional.

5. Read everything readily available about the investment being made. Make certain that the potential risks of the investment are as thoroughly understood and considered as the potential upsides. One cannot learn too much, read too much, or ask too many questions about the investment.
6. Talk to or consult with others who know the investment area or particular investment. More than one set of eyes and ears can be extremely helpful. And talk to those who have lost money in the area as well as those who have made money in the area.
7. Understand the public risks of the investment, and try to minimize if not eliminate many of those risks. For example, investing in a gun manufacturer or heavily carbon-emitting company may have adverse public consequences to a personal or professional reputation if the fact of the investment becomes public (and assume that it will).
8. Know your partners well. If the investment involves others as partners, make certain that everything relevant about those partners is known. An otherwise good investment can be ruined if an investment partner does not have a history of being a competent, solid, honest, and reliable partner. Unreliable, dishonest, or less-than-competent partners rarely get better in the future. Beware, as well, of partnering with "masters of the universe" who seem overly egocentric or unlikely to listen to advice or face reality.
9. Understand the tax consequences and regulatory constraints. Some otherwise attractive investments can be made far less attractive if the tax impacts or regulatory challenges of them are unfavorable. Make certain that sound tax and regulatory advice and planning are part of the investment decision.
10. Make certain that regular, reliable, and understandable information about the investment is made available, at least on a quarterly basis, and that there is a regular mechanism for questions to be asked and answered.

11. Do not be afraid to admit a mistake when an investment goes south (and thus be ready to cut losses), and do not be afraid to take a profit (out of a belief that profits can only get bigger).

Investing Indirectly or Through Funds

Much investing these days is actually done indirectly, by investing in funds where others are really making the investment decisions. This is the case in stock and bond index funds, ETFs, mutual funds, IRA and 401(k) funds, and the whole panoply of private investment–related funds.

With this type of investing, where someone else is really investing the money (once the basic fund investment has been made), my perspectives are these:

1. Make certain that the track record—assuming it is not a new fund—is fully understood, and preferably in the top quartile of its peer funds during the latest period for which data is available.
2. Make certain that the key individuals in the fund who have achieved that track record are still in the organization, and are reasonably likely to stay (i.e., are professionally satisfied and well compensated for their efforts). Also, determine if the key individuals—if legally permitted to do so—are investing meaningfully in the fund as well.
3. Ascertain whether the younger professionals in the organization—the ones who often do the day-to-day work—are also incented to stay because they are being appropriately compensated.
4. Determine whether the track record has been achieved in an area that is still likely to be growing and attractive during the period of the investment.
5. Determine whether the fund's terms are fair and reasonable by industry standards, particularly the fees (and make certain that the fees being charged are readily understandable).

6. Determine whether the organization sponsoring the fund has high employee turnover or a reputation for being sued regularly by investors for poor performance or unethical practices.
7. Figure out who the other investors in the fund have been or are likely to be. Smart money generally knows how to find the best funds.
8. Make certain that the relevant investment professionals are regularly available, if needed, to answer questions, and make certain that the information about the fund's investment performance is regularly provided, is accurate and understandable, and, when appropriate, is verified by independent third parties.
9. If the fund is new, and thus has no relevant track record, make certain that the investment leaders had an appealing track record at whatever fund previously employed them (and that the investment leaders have some record of having worked together previously, and are also committing a meaningful amount of their own capital to the fund). Also make certain that the area in which the new fund is being invested is one that has a realistic chance of success.
10. Be certain that there are likely to be realistic, fair, and attractive opportunities to exit the fund (perhaps through a "secondary" sale of the investment) if there is a personal need for liquidity before the fund fully completes its investment mission.

The above rules will not ensure a great investment track record, but should be a brief guide to how one might make reasonable investment decisions without having to achieve the status of being a "great investor."

Investing as a Prospective Career

Some who may read this book are not yet ready to be investors, directly or indirectly. They may be students or young professionals still trying to decide on a career path.

There are an enormous number of attractive careers outside of finance; inside finance, there are, similarly, an enormous number of attractive careers outside of investing. But for those who are interested in considering or preparing for a career in investing, this book demonstrates that while great investors have a number of traits in common, I do not want to convey that having those traits is necessarily a prerequisite to success as an investor. Also, one does not have to be a great investor—a legendary performer—to enjoy the world of investing. I have met countless investors over the years who would not be considered great but who are nonetheless quite successful and lead enormously fulfilling and gratifying lives.

And, perhaps most importantly, being at the top of any profession, including one that is likely to yield considerable financial rewards, does not guarantee happiness, presumably one of life's principal objectives. Some of the wealthiest individuals I have ever met are not really happy people. And some individuals with comparatively modest professional and financial success are extremely pleased with their lives. So it is not necessary to be a world-class investor to have a world-class life.

And it should be remembered as well that for those who are in fact interested in considering a career in investing, there is no ten-step plan for guaranteed success. I wish that I had understood that reality when I joined the investment world in 1987. I could have avoided many mistakes. But there are some strong principles that I have since recognized as worth remembering, and pass them along for what they are worth.

1. Read as much as you possibly can about the investment area and other relevant subjects. Read more than newsletters or articles. Read books, for they tend to focus your attention better, and can have more lasting impact. You cannot read too much, or have too much knowledge about the world—and not just about the area of your investment focus.
2. Find an area that is of real interest to you—not necessarily one where you can possibly make the most money at the outset—and learn everything possible about that area. Ideally, the area will be a new, emerging one where the field of competitors is not yet that strong. The area has to be one that you ultimately, and hopefully in the near future, develop a passion to pursue. Working in that area should be

real pleasure and not just a job if you are really going to succeed.

3. Develop mentors—individuals who will help guide you through the challenges of building an expertise. Invariably, the path to success is eased with the guidance and support of mentors—individuals who are in your business or even outside it. Sage advice and helpful introductions never hurt. (In time, also pursuing the habit of mentoring the next generation can be just as rewarding and helpful to your own career.)
4. Seek one or two individuals who can partner with you as you build your expertise. Investing can be a solitary business at times, but talented investors usually have had partners to fill gaps in their own areas of expertise and knowledge. Do not assume you are an investment genius who needs no one to help you regularly.
5. Pursue a network of contacts in your general area of focus but also outside that area. A network can help you get better information when you need it, and can help provide opportunities, ideas, investors, colleagues, and exposure to a broader world. The best investors have a large and varied network of contacts at their fingertips.
6. Be prepared when you have—in person or virtually—meetings with colleagues, partners, and indeed everyone. Winging it might sound amusing or refreshing at times, but the truth is that the best investors—and professionals—are prepared for the many meetings and conversations they inevitably and regularly hold. They know what they want out of a meeting, and invariably get it.
7. Follow up on commitments and promises. A regular habit of doing this will enhance your reputation, but also make it more likely that your investors, colleagues, and mentors will want to work with you more closely. Failing to follow up, as promised, is one of the more common sins in the professional world, including the investing world.
8. Focus on developing a reputation for humility, cooperation, and ethical behavior. Arrogance is easy to achieve with professional success, and that may be particularly true in the

investment world. But a reputation for being willing to listen to others, accept advice, not brag, and help others will go a long way toward building a successful and admirable career. And do not be tempted to cross ethical lines—your reputation is the most important thing you carry around with you, and it can be destroyed forever by crossing ethical boundaries.

9. Learn how to admit a mistake and to correct it as soon as possible, with the least damage possible. Investors will always make mistakes, but the key for really good investors is learning when to admit them, cut losses, and go on to the next opportunity. And accept the blame, rather than regularly blame others (especially colleagues).
10. Find areas outside of investing that can enable you to broaden your scope as a human, and experience things other than the pursuit of money and professional success. Working around the clock just on investing is honestly not a prescription for success on a long-term basis in the investing world.

Perhaps all of the above is obvious. But sometimes the obvious may be overlooked. I often wish that I had taken all of these steps when I was preparing for and starting my investment career. I would have avoided a great many mistakes.

Again, undertaking all of the above steps for a young investor or prospective investor will not ensure success, but these steps will generally not get you in trouble or hurt your career. They will almost certainly help.

A final note. You will find a career in investing much more rewarding if you believe that this kind of activity is beneficial not only to you but also beneficial to your society, your economy, and your country. If you see investing only as a way to make more money than is possible in another profession, you will never have the intensity and drive and joy needed to be successful in this line of work. And you will miss much of the joy of investing (and life). In the end, it is not only about the money.

PART ONE

Mainstream Investments

Perhaps the most common investment historically has been cash—just holding the money one owns, satisfied that inflation will not eat away its value and that it is readily accessible to the owner.

Of course, as individuals decided that holding cash (stuffed under the proverbial mattress) may not always be the safest decision, banks arose to hold one's cash, at times paying modest interest rates as the inducement to provide that cash to the bank (or equivalent institution, like a savings-and-loan organization or credit union).

Today, holding cash in a bank or equivalent organization is still an investment decision, and there is competition for sure among institutions to gain individuals' cash to manage.

There are, of course, individuals who are skilled at getting the maximum return for their cash, and in doing so in ways where—in the United States—the federal government guarantees the principal up to certain levels. I did not include such individuals in this book, and decided to focus on individuals who are able to achieve extraordinary returns compared to the average investors. Such disparities in returns do not usually occur in just managing one's cash.

So I have focused this section on those who invest in three other kinds of traditional investments—fixed income, public equities, and real estate—as well as those who have traditionally invested in these areas (like endowments or family offices).

When Americans in the 1700s first began to seek returns better than those offered by cash, they invested in fixed-income instruments like government and corporate bonds. These investments were designed to provide the investor with an attractive

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and predictable annual income, with the principal being repaid in time.

This kind of investment was thought not to be unduly risky. Government bonds were thought to be little to no risk, though governments did default from time to time, or high inflation could reduce the effective value of the principal investment when its repayment was due.

A somewhat riskier investment was thought then to be stock, or part of the equity, in a company (private or public). There was no guarantee of a repayment of principal, but the ultimate return to the investor was thought to be higher (albeit less assured than that of a bond). Bonds and stocks (along with some cash) were generally considered the backbone of an investment portfolio for most of the time others entrusted professionals to manage their money. (For many years, a common standard for investors was 60-40—60 percent in equities and 40 percent in fixed income.)

Real estate was often the third part of the triad of investments that could well be called traditional. For most individuals throughout history, real estate (typically a home) was their most valuable asset. By the late eighteenth century, American investors began to purchase or invest in real estate not needed for their own living or basic business purposes. Real estate, like bonds, was widely considered a reasonably safe investment if not purchased (or invested in) with unsafe amounts of debt.

In recent decades, as real estate opportunities have become more complicated and varied, and the returns much more attractive than traditional, basic real estate, some investors have come to regard much of real estate to be more "alternative" than "traditional." For the purpose of this book, since the vast bulk of real estate investing is not what is called "opportunistic" or "value added," I have included real estate in the "traditional" category.

These three pillars of traditional investing—bonds, stocks, and real estate—were the areas that wealth managers typically pursued for their clients. The same was true for other large pools of capital, like university endowments or pension funds.

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Fixed Income

LARRY FINK

Chairman and CEO, BlackRock

> *"If you focus on the needs of your clients, and if you can create something that is better than what the ecosystem provides, you have a huge opportunity to grow dramatically."*

In many ways, the most important and influential investor in the world in recent years has been Larry Fink, who co-founded and still leads BlackRock, initially a fixed-income investor but now the world's largest asset manager. The company manages $9.6 trillion* of its clients' assets, investing on their behalf in every major asset category—fixed income (i.e., debt of one kind or another, such as a bond), public equities or stocks, ETFs (exchange-traded funds), private equity, and real estate, among other areas. Looked at differently, BlackRock isn't just the world's largest investment firm, it's also among the most important.

But Larry's influence is due not only to the size of the company he helped build from scratch in 1988. His influence stems as much from his thorough, indeed encyclopedic knowledge of where assets are moving around the world and what investors are doing with their money.

In recent decades, Larry has also become a trusted advisor—at times formally and at other times informally—to a great many heads of state, central bankers, and finance ministers. Indeed, he is so conversant in this world, and so respected, that it has been discussed in the financial

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* As of March 31, 2022.

world that he should at some point become secretary of the Treasury or chairman of the Federal Reserve Board.

Such a result might not have been predicted for Larry when he was growing up in a middle-class household in Los Angeles, or when he became a bond trader at First Boston after business school at the University of California, Los Angeles, where he focused on real estate. Or even when he became First Boston's youngest managing director and youngest member of its management committee. There are many Wall Street wunderkind who do not go on to build a company like BlackRock.

I know I did not think great things would happen to BlackRock or Larry when I read that the firm had raised its first bond fund in 1988. I would not have actually paid that much attention to another new firm raising a bond fund, but one of my colleagues from the White House, Ralph Schlosstein, was a co-founder, and I remember thinking how ironic it was that the young Carter White House aides—like me—who knew so little about the arcane world of finance in our government days were now involved in Wall Street. That said, I thought—undoubtedly like many on Wall Street—that this would be just another bond firm seeking its place in the sun. I did not think it would in time actually become the sun.

I have interviewed Larry on many occasions, and have served with him for many years on the board of the Council on Foreign Relations, where I regularly see how the most prominent names in finance and foreign policy listen carefully to whatever he says on any subject. I interviewed Larry virtually on June 30, 2021.

DAVID M. RUBENSTEIN (DR): The firm you started in 1988 and still run is the largest manager of investment assets in the world, and thus also the largest investor in the world, with $9.6 trillion currently and growing. In your wildest dreams, when you started the firm after leaving First Boston, did you think this result was possible? Was it even conceivable?

LARRY FINK (LF): When I started the firm, I didn't know what $9 trillion meant. I didn't know what $100 billion meant. The idea was to do something that was unique, emphasizing risk management [i.e., assessing the possible downside risks and preparing actions to minimize if not avoid completely those risks]. That practice had not always been followed by Wall Street firms eager to close a deal or make an investment. Eight friends came together and worked together, but the objective was to build a good firm. I was a builder at First Boston, and I am a builder here. The objective was to build a firm to be proud of, to get rid of the politics of a big firm and focus on the needs of clients, and the results would be the results.

One thing that differentiated us from so many financial services firms is that there was not one person among the founders who had any financial ambitions. I don't think there was anybody who believed that the path of BlackRock was to be wealthy. Wealth is an outcome of success, but there was not one person among us who was motivated principally by material possessions and achieving great wealth. It was about building something that we would be proud of.

DR: You grew up in Los Angeles in a middle-class family that was not involved in the financial or investment business. After getting undergraduate and graduate degrees from UCLA, you headed to New York and First Boston. What prompted you to do that? What did your family think about your moving across the country?

LF: I was always planning to go into real estate in Los Angeles. I happened to meet a number of partners from Goldman Sachs in my last year of school and I became intrigued with Wall Street. I began a process of interviewing, and I was offered a job from First Boston in trading. At that moment, I had no idea what trading was. But it just felt right, more than anything else. When I was interviewing in New York, that was the first time I was ever in New York City. That was the first time I ever saw snow fall, and it just felt right. My parents were very enthusiastic. When I told my father that my starting salary was $20,000, he said, "You don't deserve that much. You're still a punk." That's how I remember my father.

DR: What was your specialty at First Boston? When you are trading bonds, do you consider that investing in some way, or just finding a buyer and a seller?

LF: My first job was in mortgage-backed securities through my background in real estate finance. Wall Street is not about investing. Wall Street is about velocity of money. That's one of the corrupting things about Wall Street because it's not about the long term, it's about just facilitating the trade.

My first day on a trading desk in mortgage-backed securities was about education, because no one knew about these kinds of securities. Fannie Mae and Freddie Mac were not issuing mortgage-backed securities until 1981, '82, and '83. The foundation of my career was about educating clients about this new class of assets, and as that asset class grew, we were able to expand. The foundation of my growth at First Boston became the foundation of our growth at BlackRock.

DR: You helped invent the business of securitizing mortgages and other assets not previously available to be sold to investors. Was that the innovation that changed Wall Street in many ways? Did it get carried away and lead to the securitization of assets at inflated prices?*

LF: Generally, good things turn into bad things. That's what markets do.

This story is not being told as much as it should be. In the late '70s, the spread [or difference in interest rates] between mortgages at the consumer level and the 10-year US Treasury bond was about 450 basis points, or four and a half percent. Through securitization, we brought down that spread to about 150 basis points, or one and a half percent. When you think about the savings of America and the mechanism for home ownership, securitization was a foundational reason why more Americans were able to buy homes.†

Changes to government-influenced underwriting characteristics, which first occurred in 2004, focused on having more people have home ownership and on reducing down payments. The result was that individuals with lower-quality credit would be able to get mortgages that

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* Securitization began in the United States in the 1850s, but it ended with the Panic of 1857 (when many mortgages associated with railroad financings collapsed). Securitization was revived in the early 1970s when government-affiliated entities started packaging home mortgages into securities that provided predictable interest rates and repayment of principal dates.

† A basis point is a measurement frequently used in financial markets, most commonly when measuring interest rates. One hundred basis points is equivalent to 1 percent; 25 basis points would be 0.25 percent.

previously would not have been available to them. These were typically called "subprime mortgages." That led to the financial crisis. The structure of mortgage-backed securities remained strong and good and helpful for society. All good things, if not properly governed, can lead to bad outcomes. That's what really happened. But if you add up, even with the financial crisis, the savings for Americans in terms of enjoying a single-family mortgage spread roughly 150 basis points over the 10-year Treasury bond rate, that's an amazing accomplishment of securitization.*

DR: You were a superstar at First Boston. Why did you decide to leave and start a new firm called BlackRock? Did your colleagues on Wall Street wonder what you were doing when you left?

LF: I became the youngest member of the executive committee when I was 31 years old, and at 34 I became an outcast at First Boston because of a large loss my group experienced. This is one of the foundational reasons I left. We did not have risk management at First Boston. I blame it on me more than I blame it on the firm. We were trading big books of assets. We were the most profitable division in the firm for multiple years, until we weren't. One quarter our group lost $100 million, and I was blamed for the loss. I never forgave the firm for a lack of partnership. In a brief moment, this whole concept of partnership and friendship turned out to be false.

That was in 1986. It took a year and a half for me to determine what I wanted to do. A year and a half later, I left to start BlackRock in partnership with Blackstone.

DR: What were your ambitions when you started BlackRock? Why did you do so with a $5 million line of credit from Blackstone in return for about 40 percent of your company? Did you ever use the line of credit, and what was your initial focus?

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* The 10-year Treasury bond is the traditional benchmark for the safest fixed-income investment, and thus the US Treasury can comfortably sell these bonds at the lowest interest rate of any fixed-income instrument. The 10-year bond is in effect a gold standard of fixed-income securitization. An interest rate of only 150 basis points, or 1.5 percent, over the 10-year Treasury rate is a very low rate for an instrument not guaranteed by the US government.