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BOOK REVIEW

Mark Kritzman, Senior Editor

THE MAN WHO SOLVED THE MARKET

Gregory Zuckerman
Portfolio/Penguin, 2019
(*Reviewed by Javier Estrada, IESE Business School, Barcelona, Spain*)

It must be difficult to write about a man and a company that have always strived to fly under the radar. It must be even more difficult if the man you are writing about does not make himself available for interviews or gives you any access to him. On the flip side, much is known about Jim Simons as a mathematician, and a lot can be found out about him and his company, Renaissance Technologies, if you talk to former employees. With all that said, Gregory Zuckerman's *The Man Who Solved the Market* is an entertaining book about a secretive genius and a company with near-mythical status on Wall Street.

I have to admit that for some reason I cannot quite remember I started the book from Appendix 1 (perhaps I was just taking a preliminary first glance), which led to immediate disappointment. Appendix 1 reports the annual returns of the Medallion fund, Renaissance's flagship fund, between 1988 and 2018. The figures show, as is fairly well known, that Medallion never had a losing year (in terms of gross return). But when Zuckerman summarizes the fund's performance, before and after fees, he (shockingly!) reports an average; technically, the *arithmetic* mean return (66.1% before fees, 39.1% after fees). As any reader of this journal knows, that figure means little; what Zuckerman should have reported is the *geometric* mean return (63.3% before fees, 37.7% after fees, both based on the figures reported in the appendix), which shows how a passive investment in the fund would have compounded over time. That was disappointing.

But my disappointment grew when I moved to Appendix 2, where Zuckerman compares the performance of the Medallion fund to that of other great performers (George Soros, Steve Cohen, Peter Lynch, Warren Buffett, and Ray Dalio), and reports the arithmetic mean return for Medallion (39.1%), but a geometric mean return for Buffett. (In a footnote Zuckerman states that the information for Buffett's returns comes from Berkshire Hathaway's annual report, and trivial calculations using the figures in the report yield, between 1965 and 2018, an arithmetic mean return of 25% and a geometric mean return of 20.6%, nearly identical to the 20.5% reported by Zuckerman.) Bottom line, I found myself questioning the writer's basic financial knowledge even before I actually started reading the book.

Apologies for this nerdy introduction, but when I grabbed the book to write this review it was the first thing I remembered about it. Now, for the rest of the book, which starts out by focusing on Simon's career as a mathematician (strictly speaking, a geometer, and a world-renowned one at that) and his early interest in financial markets. Zuckerman takes us through Simons' stints at MIT, Harvard, the Institute for Defense Analyses (IDA), and SUNY Stony Brook, where he joined as chairman of the Math Department, all the way to his winning, in 1976 at the age of 33, the American Mathematical Society's Oswald Veblen Prize in Geometry, the highest honor in the field.

From that point on the book focuses on the company that started out in 1978 in a strip mall across the street from Stony Brook train station, originally named Monemetrics. We learn about the company's first fund (Limroy), its early cast of characters (Lenny Baum, James Ax), and its initial focus on currency trading. We also learn that in 1982 Simons decided to rename the company Renaissance Technologies, that he shut down Limroy in 1988, and that right after he launched the Medallion fund, named after the prestigious math award he had received.

Renaissance started out by experimenting with different trading strategies, although not much is discussed (perhaps expectedly) about the actual strategies, beyond the fact that Simons and his colleagues were always trying to find hidden patterns they could exploit. The company had a decent first year in 1988 (16.3% before fees and 9.0% after fees), and a rather dismal second year in 1989 (1% before fees, –4% after fees), but started a spectacular streak from 1990 (77.8% before fees, 55% after fees) on. From the beginning, Medallion's fee was a very hefty 5% of the assets and 20% of the gains generated by the fund, although this is one of those few cases in which the fees were well worth paying for.

Interestingly, Simons turns out to be less focused on coming up with trading strategies than on hiring exceptional talent that could always be a step ahead of the market. At Renaissance, he is the coordinator of talent and the arbiter of disputes rather than the brain behind sophisticated strategies, always pushing his people to find new strategies to stay ahead of the game. He comes across quite clearly as a manager rather than as a trader.

There is a large cast of characters in the book, including Peter Brown and Robert Mercer, who joined Renaissance in 1993 after leaving IBM and eventually became co-CEOs of the company. Robert Mercer is a large donor to Republican causes and a well-known Trump supporter; Simons, on the other hand, is a large donor to Democratic causes and one of the biggest supporters of Hillary Clinton's presidential campaign.

The book discusses the company's other funds, Renaissance Institutional Equities Fund, Renaissance Institutional Futures Fund, Renaissance Institutional Diversified Global Equity, and Renaissance Institutional Diversified Alpha, which unlike Medallion were meant to be open to outside investors. The performance of these funds is inferior to that of the Medallion fund, which remains the company's flagship fund and long closed to outside investors, and about which Zuckerman writes that it's long-term record is "arguably the greatest in the history of financial markets. . ."

Simons remains involved in Renaissance but currently devotes most of his time to philanthropic activities. We learn much about him in the book, some of it sad (the death of two of his sons), some of it fun, most of it interesting. Overall I found the book entertaining, although it could be argued, and this is not a criticism, that it really is more about management than it is about markets. (This is in fact consistent with a talk that Simons gave at the New York campus of our school not too long ago, in which he spent far more time talking about management than he did about markets.) If you are interested to know more about a secretive genius and his even more secretive company, Zuckerman's book will most likely not disappoint you.