Hyperdrive: Since 2002, Thiel has parlayed an initial $10 million hedge fund into a firm with $2.1 billion in assets.

Peter Thiel made a fortune guiding PayPal through the biggest bubble in history. Now, he's built a 21st-century version of George Soros's freewheeling hedge fund—and more than tripled investors' money.

Macro MAN

By Deepak Gopinath

One morning in 1998, at Hobee's coffee shop, near Stanford University, a young money manager named Peter Thiel decided to gamble on an Internet startup. Thiel ended up investing $240,000 in the company, which eventually became PayPal Inc., the giant of online payments. Thiel ran PayPal, took it public and, in 2002, sold it to EBay Inc. for $1.5 billion. Thiel, then 34, walked off with $60 million. He bought himself a Ferrari 360 Spyder and moved into a condo at the Four Seasons Hotel in San Francisco.

Thiel had managed to pilot PayPal through the biggest financial bubble in history. And yet, the way he saw things, that bubble had never really popped. To Thiel, the Nasdaq Stock Market frenzy of the 1990s had simply morphed into a U.S. housing frenzy and other economic dangers. People still believed the good times could last forever.

So a few weeks after selling PayPal, Thiel set out to beat the bubble a second time. He opened a hedge fund firm called Clarium Capital Management LLC in his three-bedroom apartment at the Four Seasons.

PHOTOGRAPHS BY MARKHAM JOHNSON

Since then, Thiel, now 39, has emerged as one of the most successful hedge fund managers in the country. He's parlayed an initial $10 million fund into a firm with $2.1 billion in assets under management—and more than tripled investors' money. As of Oct. 31, Clarium, now tucked away in futuristic, glass-walled offices near the Golden Gate Bridge, had returned a cumulative 230.4 percent.

A self-styled freethinker and avowed libertarian, Thiel has had a hell of a run. A graduate of Stanford Law School, he's practiced securities law, traded derivatives, led PayPal and built a multibillion-dollar hedge fund—all before the age of 40. He's bought 7 percent of Palo Alto, California–based Facebook, a social-networking Web site for high school and college students that turned down a $1 billion offer from Yahoo! Inc. in September. Along the way, Thiel has co-authored a book decrying political correctness at Stanford, backed a Nascar magazine (it failed) and executive produced the 2005 movie *Thank You for Smoking,* a satirical look at today's spin culture in which the hero, Big Tobacco spokesman Nick Naylor, defends the rights of smokers and cigarette makers. In September, Thiel pledged $3.5 million to Aubrey de Grey, a Cambridge University–based gerontologist searching for the key to human immortality.

Now, Thiel has set out to concoct a 21st-century version of the Quantum Fund, the freewheeling macro hedge fund that George Soros used to run. Macro funds trade crude oil, Eurodollars, Japanese bonds, sugar futures—you name it. The macro part comes from managers' attempts to use macroeconomic principles to spot winning trades. Back in 1992, Soros made a killing wagering that the British government would devalue the pound.

Today, Thiel is buying U.S. Treasury bonds and energy stocks, betting on deflation and higher oil prices. With annualized returns of 26.3 percent in the three years ended on Sept. 30, Clarium ranks among the world's top macro funds, according to Hedge Fund Research Inc., a Chicago-based firm that tracks the industry. (See "Hedge Fund Hotshots," page 55.)

For years, billionaire macro managers such as Soros, 76, and Julian Robertson, 74, dominated the hedge fund scene.

'The hedge fund's mission is to make sense of an extraordinary moment in time,' Thiel says.

In 1990, about 71 percent of the industry's then $39 billion in assets were stashed in macro funds, according to HFR.

Then, as the tech boom ignited the longest bull stock market in U.S. history, hedge fund investors deserted the macro men to chase high-flying Nasdaq stocks. The same forces that made Thiel a multimillionaire ended macro funds' reign. Soros lost big when the Nasdaq bubble burst and eventually passed his New York–based Soros Fund Management LLC to sons Robert and Jonathan. Robertson, who shorted tech stocks during the runup, lost billions and quit managing other people's money, telling clients he no longer understood the markets. Today, macro hedge funds collectively sit atop $146 billion, or less than 11 percent of the industry's $1.34 trillion in assets, according to HFR.

These days, Wall Street firms and fund managers control more hedge fund money than Soros or Robertson ever did. The 20 largest hedge fund firms collectively manage $316.1 billion, or 24 percent of total industry assets, according to HFR. The largest, New York–based Goldman Sachs Group Inc., manages $29.5 billion. Westport, Connecticut–based Bridgewater Associates Inc., the second largest, has $28 billion. No. 3, New York–based D.E. Shaw & Co., manages $23.2 billion.

These giants exemplify a seismic shift taking place on Wall Street. During the 1980s, hedge funds catered mostly to rich people. Today, insurance companies, endowments and pension funds have invaded the market in hopes of earning the investment returns they'll need to keep their promises to clients and retirees. Many institutional investors don't want to take the risks that managers like Soros did. "Larger investors would rather make a little and risk a little than make a lot and risk a lot," says Sol Waksman, president of Fairfield, Iowa–based Barclay Group, a hedge fund consulting firm.

Thiel, by contrast, is a throwback to the days when managers like Soros and Robertson made—and sometimes lost—vast fortunes by staking everything on their views of the world economy. "We are trying to pursue a systemic view of the world like that which Soros and others said they pursued," Thiel says.

Thiel has wagered all of his clients' money on his conviction that aftershocks from the go-go '90s will jar the U.S. His vision of the future isn't pretty. The housing bubble will collapse and economic growth will stall, he says. An oil shock will add to the pain.

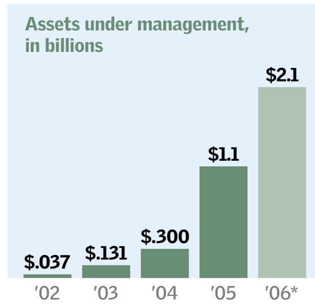
Few money managers are prepared for the turbulence ahead, Thiel says. Clarium is ready, he says. "The hedge fund's mission is to make sense of an extraordinary moment in time in the world—a time of retail sanity amid wholesale madness," Thiel says.

On a sunny September morning, Thiel and his 10 traders and analysts are at work in Clarium's offices in the Presidio, the former U.S. Army post, now a national park, on the edge of San Francisco Bay. It's an odd place to find a hedge fund. Like most San Francisco money managers, Thiel used to work downtown, in the city's financial district. Then, last June, he moved Clarium to the Presidio, where *Star Wars* director George Lucas has built a gleaming new headquarters. A statue of Jedi master Yoda gazes over one of the courtyards.

Star Wars happens to be Thiel's favorite movie. That's not why he came here, though. Thiel has built his hedge fund on

Bulking up

Clarium's assets have soared in the past five years.



*As of Oct. 31; others as of year-end. Figures are rounded. Source: Clarium Capital Management

the premise that people follow the herd. Swept up in the crowd, they lose sight of reality. Thiel moved from the Bank of America Center downtown to keep his team away from other money managers and investment bankers who might cloud their thinking.

Yoda would feel right at home here. Press a button, and the doors hum open—BRRRMMMM!—as if you were boarding the Death Star. The 22,000-square-foot (2,044-square-meter) digs include a library stocked with leather-bound works of Charles Darwin, William Makepeace Thackeray, Guy de Maupassant and Leo Strauss. Every few months, Thiel brings in eminent scholars from the worlds of math, psychology and economics to address his troops.

Ralph Ho, Thiel's chief operating officer, says Clarium is part hedge fund and part think tank. "We are trying to repeat the George Soros of the late '90s and learn from his mistakes," says Ho, who was PayPal's treasurer. Clarium doesn't want to get too big and risk becoming unwieldy. If all goes well, Clarium might one day manage as much as $10 billion, Ho, 36, says. For now, the fund is closed to new investors.

A few Clarium traders are hunched over their screens on the trading floor, a pit surrounded by the glass-walled offices. Thiel's team members typically arrive at 5 or 6 a.m., hit the gym or go running in the late afternoon and then return at 5 p.m. or so to work a few more hours. They spend 85 percent of their time doing research rather than trading with clients' money. Each has a small account to test trades. Thiel, who favors polo shirts, jeans and sneakers, tends to keep odd hours. He sometimes answers e-mails in the middle of the night, Clarium General Counsel Bruce Gibney says. Thiel starts his workweek on Sunday nights, following markets in Asia.

Rather than dart in and out of markets, like many hedge fund managers, Thiel has made three broad bets and plans to let them ride. All reflect his big-picture economic view. One is that the price of 30-year U.S. Treasury bonds will rise as the U.S. economy slows and deflation sets in. Another is that the dollar will strengthen against the euro as investors scale back investments in emerging markets funded by borrowing dollars. And the third is that energy stocks will keep climbing along with the price of crude as world oil production reaches its zenith. Thiel uses leverage to juice returns, typically borrowing $3–$8 for every dollar under management.

"We only do one big trade a week," says Matthew Kratter, Thiel's head trader. Kratter, 36, has a Ph.D. in English literature from the University of California, Berkeley. Kratter started his finance career in 1999, day trading with his scholarship money.

Clarium investors need a stomach for risk, because Thiel has put all their eggs in a few baskets. In 2003, for example, Clarium made a fortune partly by betting—correctly, it turned out—that the dollar would weaken. Clarium turned heads by posting a 65.6 percent return that year. "Investors often called to ask whether he was lucky or good," says Steven Drobny, a partner at Manhattan Beach, California–based Drobny Global Advisors, which advises global macro funds on world markets. "Whenever you have someone who puts up sensational returns out of the gate, people wonder if he's rolling the dice or if there is real thought behind it."

Then, in 2004, Clarium posted a return of just 5.6 percent. It roared back in 2005 with a 57.1 percent gain, thanks in part to the payoff from a 2003 bet that the price of oil would soar. Thiel is a proponent of a geologic theory known as peak oil, which holds that global oil production is now at or near its apex. Among his picks was Calgary-based EnCana Corp., which wrings oil from the tar sands of Canada. EnCana stock rose 54 percent in 2005.

Clarium has taken some hits along the way. Three times, Thiel has lost as much as 11 percent in a month. This past September, as the Dow Jones Industrial Average marched toward an all-time high, Thiel read a decline in U.S. new home sales as a sign that his forecast for the U.S. economy was coming true. He bet that the Russell 2000 Index would decline. Instead of slumping, the index kept rising. By the second week of October, Thiel exited the trade after hitting a stop-loss limit. Thiel was down 5.2 percent for the year through Nov. 3.

"Thiel can be a scary guy if he's the only one in your portfolio," says David Philipp, a Clarium investor and managing partner at San Francisco–based Gyre Capital Management LLC. "He's not afraid to put his money where his convictions are, and he's not the guy who's happy with 5 percent returns and 3 percent volatility."

Thiel has even more riding on Clarium than most of his clients. He says he's invested his entire liquid net worth in his fund. Unlike most hedge fund managers, Thiel doesn't charge his customers an annual management fee. Instead, he pockets 25 percent of Clarium's trading gains. Hedge fund managers typically charge a 2 percent annual fee and take a 20 percent cut of profits.

It's hard to say when Peter Andreas Thiel first decided that one person could outsmart the crowd. Born in Frankfurt in 1967, Thiel bounced among seven elementary schools—from California, to Namibia, to Ohio, to South Africa—as his father, Klaus, a chemical engineer, worked around the world. Klaus; his wife, Susanne; Thiel; and Thiel's younger brother, Patrick, eventually settled in Foster City, California, north of Silicon Valley.

At San Mateo High School, Thiel became a math and chess prodigy—he's a rated U.S. chess master today—and graduated first in his class. He also read *The Lord of the Rings*, by J.R.R. Tolkien, a book that has stayed with him. Thiel says he's drawn to questions that Tolkien's tale of Middle Earth raises about use and abuse of power.

> As the U.S. culture wars flared at Stanford, Thiel set out to provoke and offend, an alum says.

When the time came for Thiel to head to college, he didn't go far. He enrolled at nearby Stanford in 1985 and majored in philosophy. It was there, he says, that his politics tilted further toward free-market libertarianism. Thiel says people should be free to do as they please, provided they don't abridge others' freedoms.

Thiel's view of human behavior—and the markets—was shaped by French literary critic René Girard. Girard, now a Stanford professor emeritus, maintains that people essentially borrow their desires from others. To Girard, our longing for a certain object is provoked by the desire of another person for this same object. Girard calls this "mimetic desire."

Such behavior often drives financial markets, Girard says. Sometimes, people want to buy a stock simply because they see everyone else buying it. "The market is a quintessential mimetic phenomenon," says Girard, who had dinner with Thiel's team at Clarium this past August.

By the time Thiel arrived at Stanford, America's culture wars, smoldering since the 1960s, were flaring on campus. Students were complaining the curriculum was skewed toward the European canon of great books—Aristotle, Shakespeare and the like—and gave short shrift to non-Western cultures, women and minorities. Students debated whether to impose a speech code prohibiting racist, sexist and homophobic remarks.

Thiel says the shift toward political correctness troubled him. Students weren't just attacking Chaucer or Kant—they were undermining academic rigor and the freedom of speech, he says. So, in 1987, as a sophomore, Thiel founded the *Stanford Review*, now the university's main conservative newspaper. The *Review*'s motto is *Fiat Lux*, which is Latin for *Let There Be Light*. Several of the paper's former editors, including Ken Howery and David Sacks, later joined Thiel at PayPal. Clarium General Counsel Gibney was also a *Review* editor.

"The *Review* stood for free speech, no speech code, admission on merit and great works in the curriculum," says Sacks, who later got Thiel to help him produce *Thank You for Smoking*. Sacks is now president of Los Angeles–based Room 9 Entertainment.

The *Review* set out to provoke and offend, says Rachel Maddow, a former Stanford activist who is now a host on Air America Radio, a progressive talk station. "They took a particularly mean-spirited and juvenile approach to the consequences of their actions," Maddow says. "They were very good at generating an uproar."

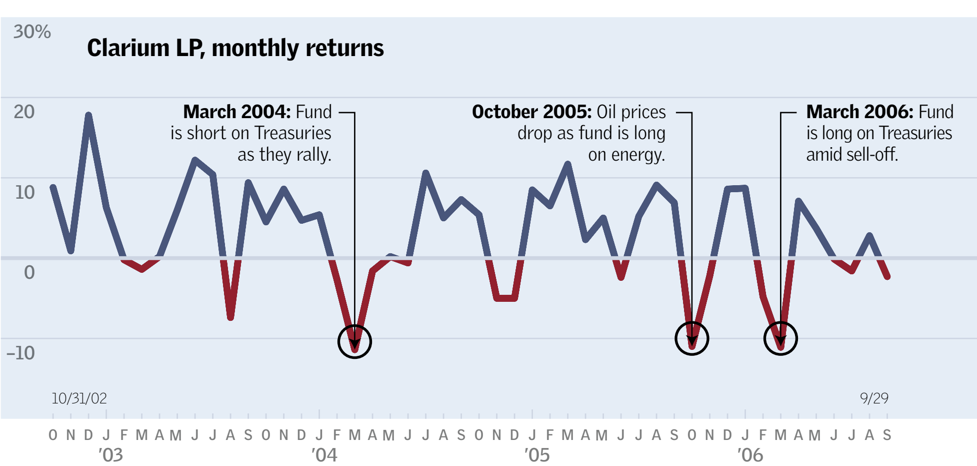
Thiel graduated in 1989 and went on to Stanford Law School. He hung out with Sacks, playing chess and debating the finer points of Leo Strauss, the political philosopher who is considered a father of U.S. neoconservatism. In 1995, the pair wrote an op-ed essay in the *Wall Street Journal* poking fun at Stanford's curriculum. The piece prompted a letter to the editor from then Stanford President Gerhard Casper and then Provost Condoleezza Rice, now U.S. Secretary of State. "[They] concoct a cartoon, not a description, of our freshman curriculum," Casper and Rice wrote. Later that year, Sacks and Thiel made headlines with a book entitled *The Diversity Myth: Multiculturalism and the Political Intolerance on Campus*.

One of the examples of political correctness that Thiel and Sacks cite in their book involves a law student named Keith Rabois. In a misguided attempt to assert his freedom of speech, Rabois yelled "Faggot! Faggot! Hope you die of AIDS" outside a lecturer's home. He was hounded out of Stanford, Thiel and Sacks say. Rabois later joined PayPal.

Rabois's behavior was

Wild ride

Clarium has posted big gains—and sometimes big losses—because it focuses on only a few investment themes.



Source: Clarium Capital Management

offensive and stupid, Thiel says. He says he still thinks the incident was overblown. "The extreme reaction to it was not quite proportionate to what happened," he says.

After collecting his law degree, Thiel clerked for U.S. Federal Circuit Judge Larry Edmondson in Atlanta and

By 2000, PayPal was losing millions. Two years later, Thiel sold it to EBay for $1.5 billion.

then joined Sullivan & Cromwell LLP in New York. He lasted seven months and three days before quitting out of boredom, he says. He jumped to CS Financial Products, a unit of what's now Credit Suisse Group, where he traded derivatives and currency options for a little more than a year. Then he went home to California, raised $1 million from his friends and family and started his first macro fund, Thiel Capital Management.

With no track record, Thiel struggled to drum up investors, he says. By early 1998, he had more than $4 million under management. That year, he hired his first employee: Howery, who'd been managing editor of the *Review*. By this time, Internet stocks were on fire, and Thiel was insisting that his fledgling firm get an office on Sand Hill Road, the venture capital hub in Menlo Park, California. Silicon Valley real estate developer Tom Ford eventually rented the duo a utility closet in his office at 3000 Sand Hill Road, headquarters of Sequoia Capital, Sand Hill Advisors and Mohr Davidow Ventures. "There were two desks and no windows, so Peter brought in pictures of outdoor scenes to put on the wall," Howery, now 31, says.

It was about this time that Thiel happened upon a young software engineer named Max Levchin. What followed would change both men's lives forever.

It was a sweltering August day, and Levchin—who was dreaming about an Internet startup—was milling around campus looking for a place to escape the heat. He stumbled into an air-conditioned building where Thiel was lecturing students on international finance. The two hit it off and agreed to meet for breakfast at Hobee's, a Palo Alto institution known for its blueberry coffeecake.

There, Levchin, then 23, asked Thiel to invest in his idea for a startup to develop a secure way for handheld computers to communicate. Thiel bought in. "We thought we would only be there for six months to help the company raise additional financing," Howery says.

Instead, Thiel ended up putting his hedge fund career on hold and devoting the next four years to the company, which grew into PayPal. His quick decision to back the company was typical Thiel, Levchin says. "Peter is very fast. He usually decides in 1.5 seconds," Levchin says. A few months later, in December 1998, Thiel himself joined the startup as chief executive officer.

Thiel had grand ambitions for the company. "PayPal was the new currency for the world economy," he says. Like many young dot-commers, he believed the Internet would empower the individual. For Thiel, PayPal was all about freedom: It would enable people to skirt currency controls and move money around the globe.

Before Thiel could change the world, however, he had to guide PayPal through life-threatening challenges. Russian hackers were stealing millions from the company. Credit card companies were claiming PayPal was violating their rules. By early 2000, PayPal had only enough money to stay afloat for eight weeks and was losing more than $10 million a month, according to Luke Nosek, a former PayPal director of strategy.

That March, as the Nasdaq Composite Index roared its way to a record 5048, Thiel set out to raise money from venture capital investors. Dot-com fever was running high, and VCs valued the money-losing PayPal at $500 million. "Everyone thought that wasn't high enough," Sacks says.

Everyone except Thiel. He looked at the Nasdaq frenzy and concluded the dot-com bubble was about to pop. He seized his opportunity. Based on the $500 million valuation, Thiel raised $100 million, more than his colleagues had planned, and closed the deal in three weeks, on March 31, 2000. He was just in time. The next day, the Nasdaq began a plunge that would eventually send it tumbling 67 percent in 18 months. "If he hadn't made that call, the company wouldn't be around today," Howery says of Thiel.

By mid-2001, Thiel had positioned the company as the pre-eminent Web payment service and was contemplating an initial public offering. He registered for the IPO just weeks after the terrorist attacks in New York and Washington. The day PayPal stock began trading, Feb. 15, 2002, the shares soared 55 percent.

Out in the parking lot of PayPal's Palo Alto offices, Thiel and his crew celebrated by doing "keg stands." That's when you're held upside down over a running beer keg and chug as much of the flowing brew as you can. Thiel raced around playing 10 games of speed chess simultaneously. He won all but one, against his Stanford buddy Sacks. Thiel, who says he hates to lose at anything, swept the pieces off the board. "Peter smashed the pieces," Sacks recalls. Thiel doesn't apologize for his competitive streak. When someone calls him a bad loser, he replies, "Show me a good loser, and I'll show you a loser."

Thiel won big with PayPal. Eight months later, in October 2002, EBay agreed to buy the company for $1.5 billion. The PayPal crew cashed in and moved on. Chad Hurley, Steve Chen and Jawed Karim founded video-sharing Web site YouTube Inc. and sold it to Google Inc. in October for $1.65 billion. Levchin went off and founded Slide, a photo-sharing site. Executive Vice President Reid Hoffman founded LinkedIn Corp., a business networking site. Vice President Jeremy Stoppelman created Yelp, a site that helps people find restaurants, shops and other businesses in their area. And Thiel went back to hedge funds and founded Clarium.

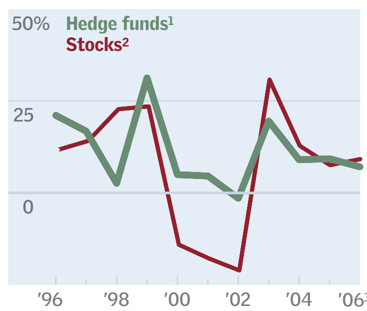
Thiel has invested in several of his former employees' startups through a $50 million venture capital firm, the Founders Fund, which is run by Howery and Nosek. Thiel says he regrets not having invested in YouTube. "It kind of fell through the cracks," he says.

Thiel has high hopes for Facebook, however. "It is the largest independent Web 2.0 company," says Thiel, who's one of three Facebook board members.

Mark Zuckerberg, who founded Facebook with zero business experience, calls Thiel a mentor. "He helped shape the way I think about the business," Zuckerberg, 22, says. When Thiel backed the startup in 2004, he told Zuckerberg to move to Silicon Valley. Zuckerberg dropped out of Harvard and did just that. If Facebook one day pulls off a deal like YouTube's, Thiel would pocket about $100 million.

Performance

Hedge funds have outperformed stocks seven of the last 10 years.



[1]HFRI Fund Weighted Composite. [2]MSCI U.S. World Indices. [3]As of Sept. 30. Source: Bloomberg

On a cloudy September afternoon, Thiel is picking at a chicken pesto salad in his 32nd-floor apartment on the Upper East Side of New York, explaining his plan for Clarium. "Our long-term goal is to rehabilitate the more classical approach to qualitative investing," Thiel says. "Nowadays, people think everything is mathematical or that everything is just noise and random. There is no in-between space."

Thiel has run Clarium like a dot-com and scaled up rapidly. He stepped up marketing in 2005 and has since doubled the number of employees, to 42. "The company is an extension of Peter," Ho, the COO, says. "It is a combination

'Thiel can be a scary guy if he's the only one in your portfolio,' one Clarium investor says.

of startup, think tank and hedge fund."

Thiel plans to keep hiring. To find candidates, he asks his employees to name the three smartest people they know and then contact those people to see if they'd like to work for him. Employees more than pay for themselves if they come up with moneymaking investments. "They only need to have one good idea a year," Thiel says.

Thiel's alter ego at Clarium is a physicist named Kevin Harrington, who used to do mathematical research for the U.S. Department of Defense. The two sometimes talk strategy for five hours at a stretch. "Peter is my foil, and I'm his foil," Harrington, 37, says.

Harrington says the U.S. economy and American stocks are headed for a fall. In September, he worked 36 hours straight completing a 21-page report entitled "The Petrodollar Illusion," which lays out his case. According to Harrington, a deluge of money from oil-producing countries such as Saudi Arabia and Iran has propped up the U.S. economy and financial markets. As the price of a barrel of crude climbed to a record $78.40 last July from $25 in 2003, about $50 trillion worth of petrodollars flooded into the U.S. That money has artificially boosted U.S. stocks and spurred subprime mortgage lending. The results are overvalued U.S. stock and housing markets.

At some point—Thiel and his team are still debating when—the petrodollar illusion will vanish. When that happens, the housing market bubble will burst, equity markets will collapse and the U.S. economy will sink into a deflationary funk.

Thiel hardly comes across as a doom-monger. And yet, despite his success, or perhaps because of it, he's thrown up walls to protect himself from the world. Levchin has known him for eight years and can't recall a single time that Thiel has mentioned his personal life. Just once, Thiel asked Levchin about his girlfriend. "I was shocked," Levchin says.

Thiel finds his wealth unsettling at times. Asked why he's unattached, he pauses. "There is this weird downside to the money thing," he says.

"I don't want to come across as misanthropic," Thiel continues. "The degree to which people will just push to meet you, on some level it's flat-tering, but there's a point where it can get utterly exhausting."

For now, Thiel is only getting richer. He has replaced his Ferrari with a silver McLaren supercar. He's sold his apartment in the Four Seasons to exit a frothy housing market. In New York, he rents a two-bedroom apartment high in Beacon Court. The building is the home to Le Cirque restaurant and the headquarters of Bloomberg LP, parent of Bloomberg News. Thiel also rents a place in the Marina district in San Francisco.

Both homes were decorated by his friend, designer Shane Reilly. Thiel told Reilly to work fast. She got 45 days and a $1.5 million budget to decorate the New York apartment and 60 days and $2 million for San Francisco. Both homes look like stage sets, and it's hard to tell someone actually lives in them. There are no photos, magazines or personal mementos. The San Francisco pad overlooks a swan-filled lake and the remains of the Exploratorium, site of the 1915 World's Fair. From the penthouse lounge, you can see the Golden Gate Bridge. His New York apartment boasts an $8,000 armchair designed by 20th-century designer Tommi Parzinger, whose clients included Marilyn Monroe;a $15,000 sofa by Mattaliano; and $25,000 Neidermaier dining chairs.

Every few weeks, Thiel invites eight guests from the worlds of business, politics, the military or academia for dinner and conversation. One September evening in New York, Thiel hosted a fund-raising dinner for Dan Lubetzky, a Stanford Law classmate of Thiel's, whose OneVoiceMovement foundation seeks to mobilize Israelis and Palestinians against violent extremism. The A-list guests—and potential donors—included philanthropist Baroness Arianne de Rothschild; Ted Waitt, founder of Gateway Inc.; and Michael Wolf, president of MTV Networks.

As Thiel's guests tucked into Taylor bay scallops and rack of Colorado lamb, the conversation ranged from former President Bill Clinton's foundation to Middle East politics. Thiel didn't say much, until one of the guests mentioned someone who had made a religious slur.

Thiel jumped in. "Was the statement offensive—or was it perceived as offensive?" he asked. He sounded like he was still editing *The Stanford Review*, zigging when everyone around him zags. It's a habit that's made Thiel millions. His hedge fund investors can only hope it will pay off for them, too.

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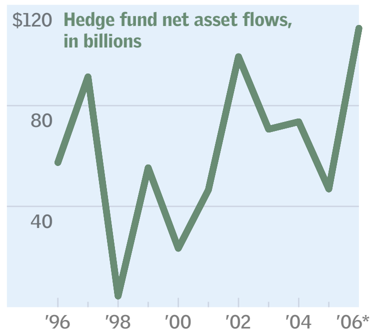
Piling in

Hedge funds are luring record amounts of money.



*As of Sept. 30. Source: Hedge Fund Research

BLOOMBERG TOOLS

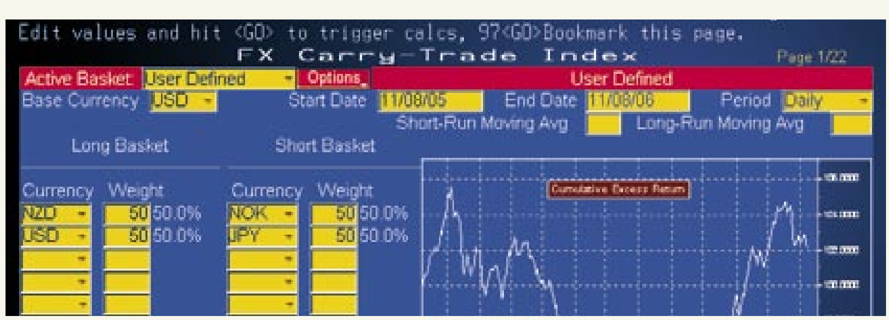
Examining a Carry Trade

You can use the FX Carry-Trade Index (FXCT) function to track the performance of a currency carry trade, a common strategy sometimes used by macro hedge funds. A carry trade involves borrowing in a low-yielding currency and investing the borrowed funds in a higher-yielding currency. The investor earns the difference between the interest rates plus or minus the change in the exchange rate between the two currencies.

Type FXCT <Go>, and use the arrows to the right of the fields in the Currency columns under the Long Basket and Short Basket headings to select currencies to invest (go long) in and borrow (sell short). Enter the percentages you want to assign to each member of the baskets of currencies in the corresponding fields in the Weight columns.

For example, to analyze a carry trade in which you go long the New Zealand dollar and the U.S. dollar and short the Norwegian krone and the yen, click on the arrows to the right of the first two fields under the Long Basket heading and select NZD and USD. Select NOK and JPY in the first two fields under the Short Basket heading. Enter *50* in each of the corresponding weight fields, as shown below. Press <Go> to calculate the excess return of the trade. For the 12 months ended on Nov. 8, this carry trade returned 2.13 percent.

JOHN DIXON



For a menu of hedge fund indexes, type HFND <Go> 22 <Go>.