

## The obsessive life of bond guru Bill Gross



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One Sunday evening last year, Bill Gross was settling down in front of the television to watch some football when his wife's cellphone rang.

"I've had a beer and a half - that's as far as I go - but I'm feeling good," he recalled earlier this month. His wife, Sue, picked up the phone and said, "It's for you, sweetheart - somebody by the name of Tim Geithner."

One of the world's legendary investors, Mr. Gross doesn't have a cellphone. So when the U.S. Treasury Secretary needed to reach him, the call was routed to his wife. "We chatted for 30 minutes in my inebriated state about what to do about the U.S. economy," he says with an impish smile.

The story is Mr. Gross's way of illustrating his political naivety, but it also says something about the role he occupies in finance, and especially the world of bonds. Mr. Gross is responsible for over \$1-trillion of other people's money, which they have handed over in large part because of his reputation, stretching back decades, for turning it into more money.

He is constantly sought out for his views, which at times represent market-shifting news. His statements might be considered oracular if there weren't so many of them. He believes that investors should face up to a "new normal," a world of feeble economic growth where returns on stocks and bonds are stubbornly low.

At 66 years old, Mr. Gross is at a point in his career where most people are easing up on work, but slowing down doesn't appeal to him. Trading is one of the ways he expresses what he cheerfully describes as his "obsessive" personality.

We're sitting in a very small conference room at his firm, Pacific Investment Management Co., better known as Pimco. On the table are two sandwiches in clear plastic containers - tuna for him, ham-and-cheese for me - and bottles of water. Out the window is Newport Beach, and beyond it, the Pacific Ocean.

His lanky frame folded into a chair, Mr. Gross looks slightly ruffled. A sky-blue tie is draped slackly around his neck. His routine is unvarying: he rises at 4:30 a.m. and is in the office an hour later, before the trading day begins on the East Coast. At 8:30 a.m., he heads across the street to a Marriott hotel to exercise and practice yoga.

It was during a yoga session several years ago that Mr. Gross had the idea to dispatch analysts to cities across the country to pose as homebuyers. They brought back street-level intelligence which confirmed Mr. Gross's hunch that the boom was out of hand. Pimco decided to avoid the world of subprime mortgages.

"You get endorphins, you get free space, and all of a sudden simple little ideas just pop into your head," Mr. Gross says. "It seemed sort of heretical at the time, especially coming over and saying, 'The 10 of you, go there.'"

For a titan of finance, Mr. Gross doesn't hew to type. There's the yoga, the lack of a cellphone, the fact that he majored in psychology and once aspired to be a rock star. A man of enormous ambition, he is prone to loud bursts of laughter at his own expense.

Mr. Gross is extremely wealthy, with a net worth of \$2.1-billion (U.S.), according to Forbes magazine. Yet he eschews what a friend calls the "dog and pony shows" for the socially prominent in Orange County, the prosperous enclave south of Los Angeles where he lives and works. His idea of a good evening usually involves a quiet dinner with his wife. He adores his iPad and devours novels (thumbs up: Philip Roth, thumbs down: Jonathan Franzen).

Lately, he has been trying to loosen up a bit in the office, where he prefers to focus, in silence, for hours in front of his trading screens. To break the quiet he helps impose, the

morning we meet he starts a new ritual: at 8 a.m., a song that someone recommends is blasted over the sound system. Mr. Gross kicks it off with Short Skirt/Long Jacket by the alt-rock band Cake. He even helps lead a conga line past rows of stunned-looking traders.

To hear Mr. Gross tell it, he has spent his life channelling his more compulsive tendencies. He once ran more than 120 miles over six days, from San Francisco to Carmel, not stopping even when his kidney ruptured. He amassed, piece by piece, what may be the world's finest stamp collection.

His roots, it turns out, are in Canada. Mr. Gross is a first-generation American, born in Ohio to parents originally from Winnipeg. His mother's family farmed wheat in Manitoba; his father, an executive with a steel company, played hockey.

The path toward finance began with a near-death experience. A bad car accident in his final year in college sliced off much of his scalp. As he recuperated, he read a book which became a cult favourite among investors: *Beat the Dealer* by Edward Thorp, then a math professor.

The book detailed how to win at blackjack by using a system for counting cards. After Mr. Gross recovered, he hopped a freight train to Las Vegas. Over the next four months, playing 16 hours a day, he turned \$200 into \$10,000.

He began thinking about the future. "I said, well, I obviously enjoy mathematical application of a system of some sort, and hard work, and diligence," he remembers, his sandwich and water still untouched. "What's the adult form of gambling? It's the stock market. Maybe you can't outfox it, but let's see if it can be done. Right then and there I said, 'I'm getting into the money management business.'"

He couldn't get a job working in stocks, so he started as a credit analyst at an insurance company in Newport Beach. Part of the job involved physically clipping bond coupons to receive the associated interest payments.

Needless to say, Mr. Gross had bigger plans. Pimco got its start in 1971 under the insurer's umbrella. Two years later, when Mr. Gross's parents visited, he informed them he was going to be the best bond manager in the world. "Of course, they looked at me and said, 'What's that?'" he recalls, laughing.

Rather than simply hold bonds, Mr. Gross pioneered ways to trade them, generating fat profits. He employs complex mathematical tools but excels at making big-picture assessments of economies, markets and governments, which then direct his bets.

"He seems to be able to make macro judgments about what's going to happen ahead of time, with a better batting average than chance by a significant amount," says Mr. Thorp, now a successful hedge-fund manager. The two men have lunch from time to time.

Mr. Gross "has never been complacent," adds one former colleague. He "made sure he was a step ahead of the average investor in identifying potential land mines."

Pimco, meanwhile, has become a colossus - indeed, some consider it too big. Its headquarters consists of two unremarkable buildings across from a shopping mall. Inside, it is well-appointed but not opulent (hedge funds a tiny fraction of Pimco's size have offices with more bling). It opened an office in Toronto in 2004 and plans to bring its mutual funds directly to Canadian investors.

Do obsessive 66-year-olds ever retire? If they're asked to, Mr. Gross says, naming other investing legends - Warren Buffett is 80 - who are still hard at work.

"I like to think that I could recognize it in myself that I've lost it, but most of the time you don't," he says, laughing heartily.

"I hope not to abuse the privilege of being one of the founders and therefore not being tapped on the shoulder when the time is right," he says. "But I think we're doing fine."

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## BIOGRAPHY

William Hunt Gross

Born in 1944, 66 years old

Educated at Duke University; MBA from the University of California, Los Angeles

Served in the U.S. Navy during the Vietnam War

Married, three children

Hobbies: reading, collecting stamps, playing golf

In 1971, helped found Pacific Investment Management Co.; as of this June, it managed \$1.1-trillion (U.S.)

Manages Pimco's Total Return Fund, the largest mutual fund in the world, with \$252-billion in assets

Shares the title of chief investment officer at Pimco with Mohamed El-Erian, formerly an official at the International Monetary Fund and head of Harvard's endowment

Has contributed millions to stem cell research, local hospitals, and Doctors Without Borders

On growing up

Even though your parents are dead, you're still looking over your shoulder saying, 'Mom or Dad, are you proud of me?' It's ridiculous when you're 66. For the most part, you grow up. You do make the transition. But all these obsessions along the way are really attempts for love and attention.

On whether bonds' best days are over

It is disheartening to some extent, but to be fair, I started in the midst of the beginning of one of the worst bear markets [for bonds] all the way until '81... I had a good first eight years in which I was smacked in the face with the reality that bonds can go down in price as well as up, so I don't forget that.

On getting out of the crisis

Ultimately the question becomes how many checks do you have to write, and how many checks can you write. A lot of people say you can't solve a debt crisis with more debt. You have a big contingent there. Then you have the other contingent... that would say as long as the dollar is the reserve currency, and as long as the Fed can write checks, then we can do anything we want to do. These are the balls that you juggle.