Cohen directs operations from the middle of the Stamford trading floor. He earns 10 percent of the firm's profits with his own trades.

Steve Cohen's TRADE SECRETS

The founder of SAC Capital, whose first losing year was 2008, is taking in new money as hedge funds around him collapse.

By KATHERINE BURTON and ANTHONY EFFINGER

Photograph by Ethan Hill

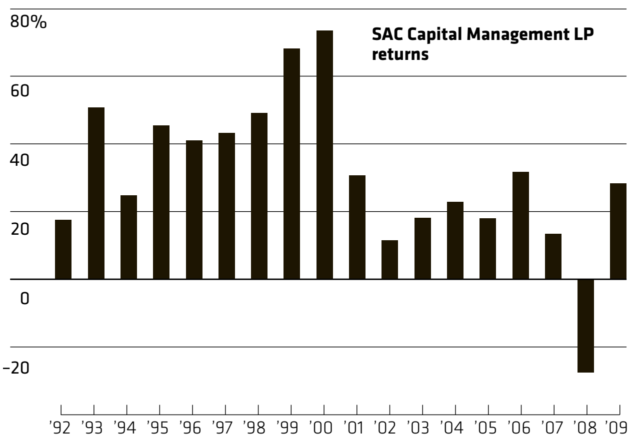
IN LATE JANUARY, billionaire Steven A. Cohen hosted a golf outing for two dozen people at the Bear Lakes Country Club in West Palm Beach, Florida. Most of his guests were investors in his hedge fund firm, SAC Capital Advisors LP, plus a few prospects. The party played the Lakes Course—so named because 12 holes out of 18 have a water hazard—as 30-mile-per-hour gusts blew off the Atlantic Ocean, says Jeffrey Vale, director of research at Infinity Capital Partners LLC, who was one of Cohen's guests. Cohen, who's proud of his 10-stroke handicap, hit shot after shot straight down the fairways, Vale says.

The outing was unusual for Cohen, 53. He spends most days trading stocks on his 180-person trading floor in Stamford, Connecticut. He and 100 portfolio managers buy and sell 100 million shares a day, about 1 percent of all shares traded on U.S. exchanges.

Two years ago, Cohen didn't need to take his investors golfing. He let his record—a 30 percent average annual return for 18 years—speak for itself. "There was a perception that Steve was the wizard behind the curtain," says Vale, an SAC client since 2001. "Performance was so good, most investors probably didn't care."

Almost Always a Winner

Cohen's fund has lost money only once in 18 years.



Return for 1992 was for August to December. All returns are net of fees.
Source: Investors

Cohen has become more sociable because he sees an opportunity to grow as the hedge fund industry shrinks, investors say. SAC, an acronym of its founder's name, now manages $12 billion, down from $16 billion at its mid-2008 peak. The firm's flagship SAC Capital International Ltd. fund suffered a 19 percent loss in 2008—its first ever—amid a stampede out of hedge funds by panicked investors. The financial crisis and subsequent recession killed off 2,300 hedge funds in 2008 and 2009, according to Chicago-based Hedge Fund Research Inc. Cohen, one of the survivors, is raising money so he can hire and mentor new investment professionals to keep the firm going after he retires.

The new openness may put current investors at ease. Two former employees of SAC have been linked to the Galleon Group LLC scandal, the largest insider-trading probe ever to shake the $1.6 trillion hedge fund industry. Neither is accused of engaging in insider trading while he worked for SAC.

Cohen is dropping the veil because he must, says Peter Rup, chief investment officer at Artemis Wealth Advisors LLC, a New York–based company that manages $352 million for wealthy families. He says investors stopped tolerating SAC-type secrecy after New York investment manager Bernard Madoff was exposed as a fraud. "After Bernie Madoff, nobody will invest in an operation that is very clandestine," Rup says. "Even the most crass and abrasive managers are more investor-friendly now."

Rup considered investing in SAC in 2005, he says, then balked

Cohen paid $14.8 million for his north Greenwich estate in 1998.

VINCENT LAFORET

when neither Cohen nor any of his analysts would meet with him.

Cohen, who lives on a 14-acre (6-hectare) estate in Greenwich, Connecticut, for which he paid $14.8 million in 1998, allowed a reporter to visit his offices in Stamford. He declined to comment for this article.

Though Cohen attends more golf and other outings than he once did, most days the balding, blue-eyed, stocky investment manager does what he knows best: He trades. He has a perch in the middle of the Stamford floor, and his trades account for about 10 percent of profits—down from more than 50 percent 10 years ago. He doesn't like noise, so the phones on the floor don't ring; they light up. He prefers jeans and sweaters to suits and looks more like a tax accountant on casual Friday than a trading titan running a $12 billion hedge fund firm.

Near the trading floor hang pieces from Cohen's extensive art collection, which includes works by Vincent Van Gogh, Pablo Picasso and Andy Warhol.

Cohen maintains the temperature on the trading floor at 69 degrees Fahrenheit (21 degrees Celsius) to make sure no one dozes. If a portfolio manager or analyst can't answer a question about a stock, Cohen is likely to lash out. "Do you even know how to do this f---ing job?" is a standard barb, current and former employees say. Portfolio managers make money, or they're fired. They usually last about four years.

Cohen snapped back from his 2008 loss in 2009. The $6 billion, offshore SAC Capital International fund was up 29 percent, after fees, according to investors. The gain was about the same at Cohen's main onshore fund, the $3 billion SAC Capital Management LP. It was a return to form after the 2008 loss, which was mostly due to credit investments that went bad. While a 19 percent downturn was about average for hedge funds, according to HFR, Cohen has since turned his focus back to what he has done for most of his career: buying stocks and selling them short. Cohen doesn't so much own stocks as rent them: He typically holds positions for 2 to 30 days, although some might remain on the books for six months or more, according to a document sent to potential investors in early 2009.

Two former SAC employees are linked to the Galleon insider-trading probe, which resulted in the arrest of more than 20 people.

The 2008 loss could have been much worse. Months before Lehman Brothers Holdings Inc. went bankrupt in September 2008, Cohen saw trouble coming in the credit markets and sold off as much as $7.5 billion of bonds, primarily debt issued by banks and finance companies, along with related securities, according to four people familiar with the situation.

Amid the wreckage of the market crash, SAC and other survivors are trying to vacuum up money from pension funds and other institutions that must chase higher returns to meet obligations. Many of those investors are choosing big hedge funds with long track records such as SAC.

DURING HIS JANUARY visit to Florida, Cohen pitched prospective investors at Morgan Stanley's annual conference on hedge funds, people who attended say. He spoke at a similar conference in May that Goldman Sachs Group Inc. organized for its clients, and recently made a marketing trip to Europe, according to people familiar with his fundraising efforts. The campaign has worked. During the last six months of 2009, investors poured $1.3 billion into SAC, about 10 percent of the $15 billion raised by all hedge funds during the period. Investors are handing Cohen their money even though he collects some of the highest fees in the industry—a 3 percent management fee and as much as 50 percent of profits. Most managers charge 2 percent and 20 percent.

The new investments are flooding in despite the fact that SAC's name cropped up in the Galleon probe. That investigation goes back to at least 2007, when the Justice Department used wiretaps in an insider-trading case for the first time and recorded phone conversations that led in October to the arrest of Galleon founder Raj Rajaratnam and five others. Another 15 people have been charged since, and 9 have pleaded guilty. Rajaratnam managed $7 billion at Galleon's peak.

Two people linked to the Galleon case have ties to SAC. Richard C.B. Lee pleaded guilty on Oct. 13 to charges that he traded on insider information at Spherix Capital LLC, a San Jose, California–based firm he co-founded in 2008. Lee worked at SAC from 1999 to 2004. He's cooperating with authorities. No one has alleged that Lee engaged in insider trading while at SAC.

Portfolio manager Richard Grodin left SAC to start New York–based Stratix Asset Management LLC in 2004, taking Lee with him. Last year, his new firm, New York–based Quadrum Capital Management LLC, received a subpoena regarding its trading, according to a person familiar with the investigation. He hasn't been charged. Grodin didn't return calls seeking comment.

A third former employee, analyst Jonathan Hollander, was allegedly involved in another insider-trading ring while he was employed by Cohen at SAC, according to two people familiar with the matter. In January 2009, the SEC filed a civil complaint against Ramesh Chakrapani, then a Blackstone Group LP managing director. The SEC alleged that in January 2006 Chakrapani told a person identified as "Tippee 1" that supermarket chain Albertsons was about to be purchased. About a week later, a consortium that included the private-equity firm Cerberus Capital Management LP announced the buyout. Tippee 1 used the information to reap $18,000 in a personal account and to generate $3.5 million for his employer, who wasn't identified. Hollander is Tippee 1, the two people say.

Neither Hollander, who left SAC in late 2008, nor SAC is accused of wrongdoing in the Chakrapani suit. After it was filed, SAC examined Hollander's trades, SAC spokesman Jonathan Gasthalter says, and the firm continues to cooperate with the U.S. inquiry. Hollander didn't return a call seeking comment. His lawyer, Aitan Goelman, also declined to comment.

The Securities and Exchange Commission and the Justice Department are looking into the trading patterns of even larger players than Rajaratnam, according to a person familiar with the case. The SEC and the Justice Department declined to comment.

At least one agent at the Federal Bureau of Investigation, B.J. Kang, has been inquiring about SAC's trading for several years, according to a person who's been interviewed by him. Kang was the lead agent in the Galleon investigation and is pictured in

FBI agent B.J. Kang, below right, takes Rajaratnam into custody. Kang has been inquiring about SAC's trading for years.

BRENDON MCDERMID/LANDOV

photos taking Rajaratnam into custody on Oct. 16.

No one at SAC has been accused of wrongdoing, and the firm has received no subpoenas. Kang didn't return a call seeking comment. FBI spokesman James Margolin declined to comment.

People who have worked for Cohen say they never saw any evidence of insider trading. Cohen doesn't need pilfered information to succeed, says a person who worked at SAC.

Another former portfolio manager for SAC says working there is like working for the New York Yankees—a team that always wins and that everyone who's not a fan hates.

Other hedge fund managers say that one reason federal investigators might be asking questions about SAC is that, like Galleon, Cohen's firm made its name with rapid trades in and out of stocks.

Cohen has also made a practice of investing in the funds of some of his former employees, including Grodin's Stratix, according to investors. Cohen told clients at the beginning of the year that he will no longer make such investments because of the risk to his reputation if something goes wrong.

SAC takes strong measures to prevent traders from dealing in insider information, investors say. Cohen's staff of 800 includes 20 legal and compliance workers who, among other things, monitor instant messages and e-mails, including those sent and received by Cohen. Harvey Pitt, former chairman of the SEC, and Stephen Cutler, former head of the regulator's enforcement unit, have held workshops with SAC employees about complying with SEC rules.

Cohen's most aggressive accuser may be his former wife, Patricia. She sued him in U.S. District Court in New York in December, alleging that Cohen lied about his net worth during their divorce, thereby reducing payments to her. They were married for a decade and had two children before separating in 1988.

PATRICIA ALLEGED IN court papers that in 1986 Cohen, then a trader at investment firm Gruntal & Co., told her that he had received inside information about the soon-to-be-announced takeover of RCA Corp. by General Electric Co. Patricia says she asked her husband if trading on such information was legal, and he answered that the source was a former classmate of his and that the information had come via a "mutual friend," not directly from the source, so it didn't count as insider trading. Patricia's lawsuit says that Cohen was questioned by the SEC and that at times he invoked his Fifth Amendment right against self-incrimination. No charges were brought.

"These are ludicrous allegations made by a former spouse that are entirely without merit," Gasthalter said in a statement e-mailed to Bloomberg News on Dec. 16. In mid-January, Patricia dropped her suit, switched attorneys and said she

Cohen's art collection includes a work by **Van Gogh**, left, and **Damien Hirst's** shark floating in formaldehyde, below.

TIMOTHY A. CLARY/GETTY IMAGES(TOP), ROBERT CAPLIN/POLARIS

Andy's Warhol's *Turquoise Marilyn*, above, and **Willem De Kooning's** *Woman III*, left, were part of a Sotheby's exhibition of Cohen's art.

TIMOTHY A. CLARY/GETTY IMAGES(2)

planned to file a new complaint. She had not done so as of mid-February.

A week after his ex-wife's court action last year, Cohen was featured in the tabloid *New York Post*, which put up a video on its Web site showing Cohen and his second wife, Alexandra, then newlyweds, appearing on a talk show in 1992 devoted to men who can't separate from their ex-wives even after starting new relationships.

Cohen, looking trim with a full head of dark hair and orb-like horn-rimmed glasses, spars with a man in a muscle shirt in the audience after admitting he slept with his ex-wife while courting Alexandra. "I don't think it's unusual when you're separated that you go back a few times to just find out that it doesn't work," Cohen says on the show. "It clarified things."

Cohen is a rich target for an angry former wife. About half of the $12 billion managed by SAC belongs to Cohen or his employees, according to a document provided to investors in 2009. His mansion in the woods north of downtown Greenwich has an indoor basketball court, an outdoor ice rink and a two-hole golf course. Inside hangs his eclectic art collection, which includes works by Marc Quinn, who casts sculptures of his head in his own frozen blood. In April 2009, Cohen exhibited some of his collection at Sotheby's in New York, including works by Paul Cezanne, Lucian Freud and Edvard Munch. All 20 images were of women.

The son of a dressmaker, Cohen gives tens of millions to charity. In 2008, he gave $8.6 million to the Robin Hood Foundation to fight poverty.

Art dealers estimated that the paintings on display, just a small part of Cohen's collection, were worth $450 million.

Cohen gives tens of millions to charity. Alex, as his second wife is known, is president of the Steven A. and Alexandra M. Cohen Foundation. Among its biggest beneficiaries is the Robin Hood Foundation, started by hedge fund billionaire Paul Tudor Jones in 1987 to fight poverty in New York. Cohen sits on the board. In 2008, the Cohens gave $8.6 million to Robin Hood, according to their charity's most recent public filing with the Internal Revenue Service.

The same year, the Cohens gave $50 million for emergency pediatric care at Morgan Stanley Children's Hospital at New York–Presbyterian hospital in Washington Heights, the northern Manhattan neighborhood where Alex, who is of Puerto Rican heritage, grew up. In 2009, the foundation gave $30 million to Brown University for undergraduate financial aid. Cohen's son Robert graduated from there in 2008.

Cohen has been interested in the stock market since he was 13 years old. He started following stocks listed in the *New York Post* that his father, a dress manufacturer, brought home to suburban Great Neck, New York, each night.

Cohen left Long Island for the Wharton School of the University of Pennsylvania, where he would often skip class to watch stocks at a local brokerage. He taught himself to be a master "tape reader," according to people who know him, able to predict the direction of a stock by watching each tick of the price and the volume of shares traded.

After graduating in 1977 with a degree in economics, Cohen joined Gruntal, a New York brokerage firm. Cohen came on board as a proprietary trader, buying and selling stocks with Gruntal's money. He thrived and in 1985 became the firm's head proprietary trader, a job he held until 1992, when he quit to found SAC.

In 1991, a transaction at Gruntal became the sole black mark on his record. He bought 100 shares of a very thinly traded stock at the end of the month, enough to drive the share price up sharply, increasing the value of the firm's holdings by more than $100,000. In January 1995, a New York Stock Exchange panel sanctioned Cohen, saying he "engaged in conduct inconsistent with just and equitable principles of trade." The NYSE barred him for four weeks from working for a company that was a member of the exchange. By that time, Cohen, who neither admitted nor denied wrongdoing, had left the broker-dealer to found SAC.

At Gruntal, glass walls separated Cohen's team from the retail brokers, says Dan Cherniack, who was a clerk on the retail options desk. "He was a pretty good yeller and screamer back in the day," says Cherniack, who admired Cohen's trading prowess.

One day, Cherniack and Cohen struck up a conversation in the elevator. Cohen said his trading clerk had just left and asked whether Cherniack wanted the job. Cherniack took it on the spot. The move made his career. He was one of nine people who started the firm that became SAC. Everyone stumped up cash. They took some from investors, too, and raised a total of $25 million. About half came from Cohen, Cherniack says. They rented an office at 14 Wall Street, across from the NYSE. Everyone sat at one long desk shaped like a capital *I*, with Cohen in the middle.

Steve and **Alexandra** at a charity event in 2009

JENNY BOYLE/CORBIS

THE NEW COMPANY traded mostly large-capitalization stocks such as 3M Co., Merck & Co. and GE, as Cohen had done at Gruntal, Cherniack says. The difference was that the money they were risking was theirs, and that made the group overly cautious, he says. Cohen became impatient. "He ripped into everybody," Cherniack says. "He said, 'What, are you scared because it's your own money now?'"

The group got the message. In August 1992, its first month, SAC returned 3.41 percent, according to SAC marketing documents. For the year, it earned 17.5 percent, after fees. As a sign of things to come, the group made money every month that year and for all of 1993, when SAC returned 51 percent. The firm didn't have a losing month until December 1994, when it dropped 0.02 percent, according to SAC documents.

"It was a brotherhood," Cherniack says.

Cohen married Alexandra Garcia the same year he started SAC. She worked as an administrative assistant at brokerage Hoare Govett Ltd. before marrying Cohen.

In 1999, Cohen bet on the rise of tech and Internet stocks and returned 70 percent. In 2000, he wagered they would tank and made 72 percent.

Cohen's best years were yet to come. In 1999, at the height of the Internet bubble, the firm's biggest fund returned 69.7 percent, after fees, betting that technology shares would soar. Then SAC turned around and bet that the Internet and tech bubble would pop, which it did. The fund earned 71.8 percent in 2000.

Cohen's natural ability as a tape reader has been a big part of his success, former employees say. In addition to trading his own stocks and overseeing 300 managers, analysts and traders globally, Cohen buys and sells "minis," says one former employee. "Mini" is short for a security called the S&P 500 E-mini future, an electronically traded derivative that rises and falls with the Standard & Poor's 500 Index and is sold in smaller units than other index futures. "He does that all day, every day, completely intuitively," the former employee says.

Unlike many hedge funds, which tend to have a handful of executives making investment decisions, SAC runs what amounts to 100 small funds. SAC borrows as much as $4 for every $1 of its own from prime brokers, including Goldman Sachs, Morgan Stanley and JPMorgan Chase & Co., then distributes the hoard to various teams. Managers' contracts have "down-and-out" clauses: lose 5 percent from your peak assets, and SAC can take away half of what remains. Suffer a 10 percent loss, and you could be out. In 2008, 12 portfolio managers and their teams were fired or resigned, according to a person familiar with the matter.

Each team manages from $300 million to $500 million, on average, according to an SAC marketing document. The teams are paid based on their own performance, and SAC's higher-than-normal fees ensure that each portfolio manager's take is almost as high as if he or she were running an independent shop.

After an interview process that can take 14 months, including multiple rounds with executives, including Cohen, and a background check that employees joke will turn up the name of a candidate's second-grade teacher, a manager will sign a two- or three-year contract, which will be renewed if he meets his return targets. There can be heated competition among portfolio managers, who are often vying with colleagues covering the same industries. SAC has 13 teams trading health-care stocks, for example, and 11 doing technology, according to an October 2009 marketing document.

In his own trading, Cohen solicits ideas from everyone at the firm, people familiar with the arrangement say. Send "Stevie" an idea that makes money and you get paid something extra, they say.

When pitching a contrarian bet on a stock to Cohen, his minions must explain what other big investors think of it, and why that's not correct. Whether the stock is cheap or expensive is irrelevant. There must be a catalyst that will make it move, a former employee says.

The boss has a sense of humor that's dry, along the lines of Jerry Seinfeld, former employees say. In September 2008, before Lehman's bankruptcy, Cohen sent a companywide e-mail: "It's all up to the government now. I have no idea what will happen. Good luck to you all. This is a recording."

Working at SAC is tough, even as hedge funds go. One of the worst aspects, at least for people who like weekends, is Sunday "homework." Every week from 5 p.m. to 9 p.m., Cohen has his portfolio managers and analysts call in to tell him what's coming up that week for the companies they follow. One former analyst says she worked every weekend one summer before, fed up, she quit.

SAC portfolio managers produce profits or they're fired. Analysts spend hours with Cohen every Sunday going over plans for the week.

Cohen succeeds because he cuts his losses quickly when things go south, former employees say. A case in point was his move out of corporate bonds. In 2006 and 2007, a team of traders at SAC's New York–based subsidiary, which does business as Sigma Capital Management LLC, spent $400 million of the firm's cash, plus as much as $7 billion in borrowed money, on the debt, according to people familiar with the transactions.

IN THE FOURTH quarter of 2007, Cohen and one of his senior bond managers, Peter Abramenko, concluded that with subprime mortgages starting to tumble, banks were about to lose billions of dollars on home loans made during years of easy credit and rising prices. They decided to sell everything and, by mid-2008, had gotten out of most of their positions. Abramenko declined to comment.

That June, SAC closed down the bond arm of Sigma. Three months later, Lehman failed, and the debt of financial institutions fell in price by more than 40 percent during the next six months. Had SAC held on, it would have faced punishing margin calls and might have had some of its assets stuck at Lehman, one of its prime brokers, after it declared bankruptcy.

On Oct. 8, 2008, after the S&P 500 had fallen for six consecutive days, Cohen told most of the SAC managers trading stocks to liquidate. By the end of the year, SAC held $7.9 billion in cash, according to a document sent to potential investors in early 2009. Even so, his biggest fund had dropped by almost a fifth, mostly from losses in its holdings in convertible bonds and other securities tied to the credit markets.

Cohen is a restless manager of both stocks and his company. In 2005, he branched out from stocks into bonds, currencies and private equity. By the end of 2008, he had fired almost everyone who didn't trade stocks, saying the lesson of the market crash was that he couldn't trade every asset class successfully.

Investors don't mind if Cohen is fickle, so long as he continues to bring in 30 percent annual returns. "It's Cohen's ability to adapt to a changing environment that's his biggest strength," Infinity Capital's Vale says. "My biggest fear is that he retires." **B**

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Following Cohen

You can use the 13F Filings Search (FLNG) function to track the holdings of Steven A. Cohen's SAC Capital. Type FLNG <Go>, tab in to the Company Name field, enter *SAC* and press <Go>. To set an alert that will notify you when SAC's 13Fs become available, click on the bell icon to the left of SAC's name in the list of results. In the Create 13F Alert window that appears, click on the Create button to set the alert.

You can also use FLNG to analyze total holdings reported in 13F filings to the U.S. Securities and Exchange Commission. Click on the View Aggregated 13F Filings button on the red tool bar and select Current Report. Click on the arrow to the right of Institution and select Hedge Fund Manager for analysis of total holdings reported by hedge funds, as shown at right.

You can use the Bloomberg Law Search (BBLS) function to access the complaint in the suit brought in December 2009 by Cohen's ex-wife. Type BBLS <Go>, click on United States under Available Sources. Next, click on U.S. Courts, on Court Dockets, and then on All Court Dockets so that it appears under Selected Sources at the bottom of the screen.

Dockets are a court's official record of a case, identifying the parties and their lawyers and listing the documents filed with the court. Click on the blue Docket link under Search Options. Tab in to the Party field in the window that appears, enter *STEVEN A COHEN* and type <Go> 1 <Go>. Type 1 <Go> to search. In the list of matches, click on the case titled "Cohen v. Cohen et al, Docket No. 1:09-cv-10230" to display the docket. Scroll down to the Docket Proceedings section and click on the Manually-Collected Complaint link to display the complaint.

JON ASMUNDSSON