'Bond King' Can Really Think on His Head; Bill Gross's Pimco May End Up Managing Elements of Federal Rescue


Abstract (Summary)

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Full Text (817 words)


Bill Gross, who is head of the world's largest bond fund, leaves the trading floor every morning for yoga and meditation. He especially enjoys standing on his head. Some of his most important thinking, he says, is done while hanging upside down.

The other day he was on his mat when he decided to unload U.S. Treasury bonds. He reasoned that the market will be flooded with them to pay for the government's $700 billion bank bailout, meaning prices might fall. He e-mailed his team when he got back to his office.

"The best ideas come when the endorphins are maxed out and they are really maxed out with meditation or exercise," Gross said, post-yoga. "So, yes, that's a very productive time for me, I would say."

Who is this yoga-loving, so-called bond king? While Gross is not a household name, average investors, who are now acutely attuned to the bailout and financial markets, could be hearing his name a lot more soon. His California firm, Pacific Investment Management Company, or Pimco, is a contender to manage assets the federal government is purchasing through the bailout. Pimco could also help manage a separate Treasury Department program to buy commercial paper, the short-term loans used by corporations to fund operations.

In the annals of eccentric investors, Gross ranks near the top. He is a philatelist, with a complete collection of 19th century U.S. postage stamps. Besides his devotion to yoga, there is the origin of his investing acumen: blackjack, which he mastered in college while recuperating from a car accident in which the top of his head was sliced off. (A police officer found the missing scalp, and it was reattached.)
"In terms of basic intelligence, I'm sure he's one of the smartest people I've ever met," said Timothy Middleton, a mutual fund expert and author of "The Bond King: Investment Secrets from PIMCO's Bill Gross." "I think he has a computer for a brain."

Gross is Pimco's chief investment officer, and he has made himself, and his company, an outsized fortune in the dull, safe haven world of bonds. Since its inception in 1987, his Pimco Total Return fund, with more than $132 billion in assets, has on several occasions recorded stock market-like returns -- 19.7 percent in 1995, 10.2 percent in 2002, 9.1 percent in 2007. For the last three years, the fund's return rate has been 4.2 percent, beating 97 percent of bond funds in Morningstar's intermediate term bond category.

How does he do it? Lawrence Jones, a senior mutual-fund analyst at Morningstar, said that even though Gross's fund is in the fixed-income category, "they are not afraid of making big bets when they think they have a real good shot at being right."

The fund's most recent big bet is a case in point. Pimco bought up bonds backed by income streams from Fannie Mae and Freddie Mac mortgage pools, reasoning that despite the problems in the housing markets, there was no way the federal government would let them fail. He was right. When the government took over Fannie and Freddie, Gross's fund jumped 1.3 percent, its best day ever.

Gross thanks blackjack for such a betting style. He began studying the table game in college while recuperating from being catapulted through his windshield. In the hospital, Gross read the famous blackjack book "Beat the Dealer," written by mathematics professor Edward Thorp, who devised a system for counting cards combined with a set of rules calling for a player to bet cash in proportion to his edge against the house.

"I made small bets when the odds favored the dealer and doubled, tripled and quintupled them when the remaining cards in the deck favored me," Gross once wrote.

To learn the system, Gross dealt himself about 10,000 hands in the hospital. After graduating in 1966, he moved to Las Vegas with $200. For the next three months he spent 16 hours a day playing blackjack. Gross said: "I had no friends. I had no girlfriend. I didn't go to the movies. I didn't stop to eat except at the buffets. It was a compulsion to prove that the system worked." He said he turned the $200 into $10,000.

He headed off to Vietnam for Navy duty, and he said paid for business school at UCLA with his blackjack winnings, figuring he could "apply mathematical thinking and risk management in the adult world."

"He started at Pacific Mutual, working in the vault clipping coupons from bonds to mail in for dividend checks. Pimco was formed in 1971 as a division of Pacific Mutual, and he hasn't left. (Pimco is now owned by owned by Allianz Global Investors.)

Gross no longer has the time or interest in serious games of blackjack, but, he said, "I think of those old days fondly in that they led me to what I'm doing now."

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Author(s): Michael S Rosenwald - Washington Post Staff Writer