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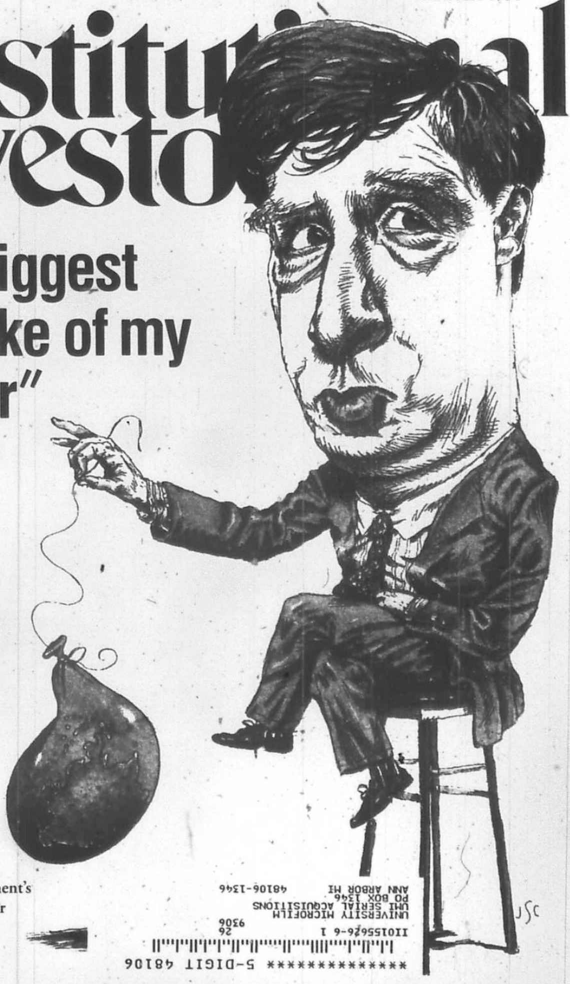

"The biggest mistake of my career"

Soros Fund Management's Stanley Druckenmiller

Quantum limp

George Soros may make world leaders tremble, but lately, top fund manager Stanley Druckenmiller is making his investors wince.

By Riva Atlas

LAST FALL STANLEY DRUCKENMILLER MADE good on a fundraising pledge to his alma mater, Maine's Bowdoin College. In 1992 Druckenmiller, managing partner of the $9 billion Quantum Fund, financier George Soros' flagship, set aside $1 million, guaranteeing that his management of that money would produce a $7 million gift five years later. If he fell short of his target, the near-billionaire vowed to make up the difference himself.

As it turned out, Druckenmiller didn't have to dig into his ample pockets. By skillfully trading in the global markets, applying considerable leverage and forgoing the usual 20 percent of the profits clipped by hedge fund managers, he transformed that little nest egg into $30 million by the time the gift was revealed last October. But it gets even better. By year-end, when the donation was officially delivered, Druckenmiller had made an additional $5.6 million, a 19 percent jump for Bowdoin in barely two months, contributing to an overall annual return of perhaps 90 percent. Such is the investing acumen of this intensely private man, the trading wizard who over the past decade has supplied much of the math behind the Soros mythos.

So much for the good news.

The bad news is that for all Bowdoin benefited from Druckenmiller's touch, Quantum shareholders have been suffering lately. The most successful and most famous of "macro" hedge funds, Quantum outpaced stock, bond and currency markets worldwide for years. Rival traders looked on in awe and politicians griped as Druckenmiller's daring big bets made billions. But after an extraordinary run in the early '90s, the fund manager is today mired in a deep trading slump.

Over the past three years, Druckenmiller has beaten the Standard & Poor's 500 index just once, in 1995. And that year's 39 percent return after fees was less than two percentage points better than the index. He followed that up by losing money, for his first time ever, in 1996, then stumbled badly through 1997, posting a 17 percent return — 16 percentage points behind the S&P. And 1998, so far, is little better. After plunging more than 9 percent in January, Quantum was up 1.5 percent as of late February, versus 6.6 percent for the S&P (see graph, page 64).

It gets worse. Investor returns could turn out to be even lower, thanks to the distinctive way Quantum shares trade. Like any closed-end fund, but unlike those of hedge fund rivals, its shares can be bought and sold daily, mostly through a London broker owned by the Soros funds. Investors pay a premium to the funds' net asset values to purchase shares. Today Quantum trades at 8 percent above NAV. That's a far cry from 1993, when investors had to pony up a 38 percent premium to buy into the fund (which returned a stunning 63 percent that year). A shareholder that bought Quantum in 1993 and wanted to sell today would get scalped on the trade alone, depressing total returns.

Not surprisingly, some shareholders are yelping — or bailing out. "We don't own Quantum anymore. I don't like the premium. To have the risk of the market plus the premium is unwise," says one former investor.

"The best measure of shareholder sentiment is the premium," admits a chastened Druckenmiller. "Certainly, the halo effect has disappeared."

Why is Quantum limping? It's not as if Druckenmiller has lacked for opportunities. Both the seemingly endless joyride of U.S. stocks and the market slides triggered by the Asian debacle presented great possibilities for funds like Quantum, which should excel in volatile markets. That's precisely when savvy investors want their money in the hands of the best, most nimble traders, who can roam the globe exploiting these swings. As Nicola Meaden, whose London-based TASS Management tracks hedge funds, says, "If you couldn't make money on a macro basis last year, something's clearly amiss."

What went wrong? Like many, more ordinary investors, Druckenmiller suffered from huge Asian miscues. First, he got smacked about in Japan, where he went long stocks and short bonds, betting prematurely on an economic recovery. Then he made a huge, bullish bet on the Indonesian rupiah, which promptly nosedived.

"This was probably the greatest opportunity to make money this decade for a fund like ours, and frankly, I just blew it," concedes Druckenmiller. "It was the biggest mistake of my career."

Like other prominent managers, Druckenmiller is partly a victim of his own success. With more than $19 billion in assets, Soros Fund Management, for which he's chief investment strategist, runs more money than any other hedge fund group. Quantum alone accounts for nearly half of that. It's far easier to get eye-catching returns from smaller pools, like the one Druckenmiller stashed his Bowdoin gift in, than from a multibillion-dollar colossus lumbering after investments around the world. Another reason: the proliferation of hedge funds competing for many of the same opportunities. The explosion of hot, leveraged money has driven some of the biggest players — Caxton Associates, Tudor Investment Corp. and Long Term Capital Management — to give back billions to investors over the past three years. Michael Steinhardt got out of the business entirely. Odyssey Partners began to liquidate its $3 billion fund last year.

"We're not going to do over 30 percent a year at this size. I've been saying this since 1991, and everyone laughed at me," says Druckenmiller. "To some extent, the chickens have come home to roost."

Illustration by John Cuneo

Of course, hedge fund performance is notoriously volatile. Consider Julian Robertson's recent comeback. After a poor performance in 1994 and 1995, *Business Week* all but wrote off the Tiger Management Corp. guru, who then filed a $1 billion libel suit. Last year he chalked up a 56 percent return, and the magazine publicly backed away from some of its statements. Druckenmiller, like Robertson, knows volatility firsthand. He was down 6 percent in June 1995 before ending the year up 39 percent. And long term it's hard to argue with the track record he and Soros have put together. Since Soros launched Quantum in 1969, the fund has averaged a smashing 32.6 percent annual return. It's been 31.8 percent since Druckenmiller took charge in 1989.

Indeed, if some shareholders are upset, others, encouraged by this track record, are staying the course. "I have been an investor in Quantum since it started in 1969, and I have confidence in the fellows who manage it," says Georges Karlweis, who runs a fund-of-funds affiliated with Geneva's Banque Privée Edmond de Rothschild. "In real estate it's location, location, location. In this business it's the manager, the manager, the manager."

Call it the dawn of the era of reduced expectations. Although he stresses that in times as extraordinary as last year he should have done better, Druckenmiller now says he would be content if, going forward, he could consistently earn the 17 percent he made in 1997. Nice work for those content to clip coupons, but not exactly what investors who pay Soros, Druckenmiller and their team handsomely — 1 percent of assets annually and 20 percent of the profits — have been expecting.

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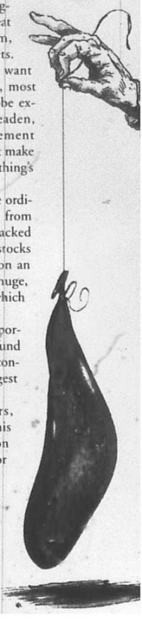

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But one thing's for sure: There's no sign that Druckenmiller is feeling burned out and ready to leave — à la Steinhardt — or that Soros is considering replacing his top lieutenant. Quite the contrary. "He really doesn't need my advice," says Soros. "He has his head together."

To the world at large, and even to some investors, Soros gets the credit — and sometimes the blame — for Quantum's activities (real or perceived). After Soros met with then-president-elect Kim Dae Jung of South Korea in January, Korean stocks soared on rumors that the Soros funds planned to invest $500 million there. (Druckenmiller says Quantum has yet to invest a cent.) According to news reports, last year Malaysian Prime Minister Mahathir Mohamad called Soros a "moron" and a "racist," blaming him for the crash in the country's currency, despite Soros' denials that his funds were involved.

Mere mortal Druckenmiller often suffers in comparison with the godlike Soros. "Stan Druckenmiller is very clever, but he's not George Soros, and it's shown in the performance," insists a former Quantum investor. "What's happened is that George Soros is too busy being a statesman."

That's much too harsh a judgment on Druckenmiller. He may not be a household name — he doesn't seem to want to be — but since late 1988 he has embodied Quantum. He dreamed up Soros' most spectacular triumph, a bet of close to $10 billion against the British pound in 1992, though Soros caught the flak: Fleet Street vilified him as "the man who broke the Bank of England."

But in recent years, as Soros reduced his day-to-day involvement with the funds, he continued to command headlines for his self-funded forays into global public policy. As Soros explains in his immodestly titled 1995 tome, *Soros on Soros*: "I had always wanted to get a hearing for my ideas, and for most of my life I didn't succeed. It is only after the sterling crisis that I became a public figure."

Soros has exploited this celebrity with a vengeance. Thanks to a network of 30 foundations he has launched and funded in Eastern and Central Europe, the former Soviet Union, Mongolia, South Africa, Haiti, Guatemala and the U.S., Soros seems ubiquitous. In the U.S. he has surfaced to denounce discrimination against legal immigrants and to pledge millions to explore changes in existing drug policy, including $1 million personally for state initiatives in California and Arizona advocating the use of marijuana for medicinal purposes. Over the past year he also created an uproar by penning critiques of

The other Soros

Stanley Druckenmiller may be the heir apparent at Soros Fund Management (story), but one of George Soros' real heirs, son Robert, 34, is carving a niche for himself making private equity investments for the firm. But the eldest of the five Soros children, and the only one to join the family trade, insists, "There was no pressure or encouragement from my father that I go down this path." Agrees dad: "If anything, I discouraged him. It's very hard for a son to work in a firm where his father casts such a large shadow."

Shy and unassuming, Robert worked briefly for SFM after graduating from New York University in 1986 with a degree in English literature. By 1994, after a series of investment positions that included a stint in the research department of a German bank, Robert was back home investing some of his family's capital. He was tapped to help run Soros' $2.8 billion Quantum Industrial Holdings in 1996.

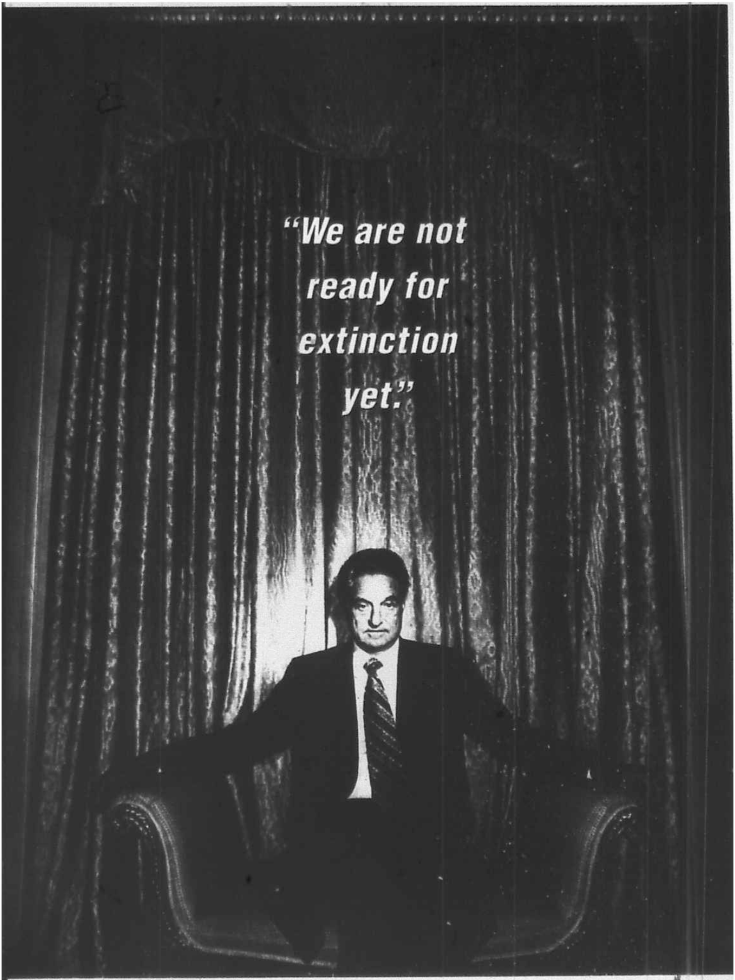
Launched in 1994 with a dividend from Quantum Fund, Quantum Industrial is Soros' main private equity vehicle. Competitors like Kohlberg Kravis Roberts & Co. will lock up investors' capital for years, but QIH is open-ended, meaning its shares are traded through the same London broker that makes a market in Quantum. When QIH cashes out of an investment, the money is reinvested, not returned to shareholders. Uninvested capital is allocated to Soros' other funds, not parked in cash. "That way we always have our money at work and don't feel pressure to do deals," says Robert.


Photograph by Rose Hartman/Globe Photos

Robert Soros: Feeling no pressure to do deals

So far Robert appears to be doing fairly well — a good thing, given his father's involvement in this area. In 1997 QIH returned 21 percent. Among recent deals: last year's $373 million takeover of Waukegan, Illinois–based boat and engine maker Outboard Marine Corp., engineered by shareholder activists Greenway Partners. SFM made out handsomely on an investment in Internet start-up WebTV Networks, acquired by Microsoft Corp. last year. One big dud: a $980 million investment by Soros Fund Management and affiliates in Sviazinvest, a Russian telecommunications company privatized last year, that was written down to about $700 million following an Asian crises–inspired slump in the Russian market.

Soros père is so taken with private equity that last year he decided to transform Quasar International Fund, an underperforming $1.7 billion fund-of-funds, into a similar vehicle. "We are seeing such tremendous opportunities on the private equity side that we felt we could handle more money there," says Robert, who also helps oversee Quantum Realty Fund, a $786 million fund set up with much fanfare in 1993 as a joint venture with Paul Reichmann, of Olympia & York fame. After two years Reichmann and George Soros had a falling out, and Soros discovered there were negative tax consequences for offshore investors directly owning U.S. property. These days management of the fund's investments is largely contracted out to third parties, such as Goldman, Sachs & Co.'s Whitehall funds and Washington, D.C.'s Carlyle Group. Last year Quantum Realty returned 13.4 percent.


"We are not
ready for
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contemporary capitalism for *The Atlantic*. Last year his foundations donated some $375 million to pet causes, and in the fall he announced he would donate $300 million to $500 million to Russia for charitable purposes over the next three years, chiefly to public health reforms. When *Forbes* magazine criticized some of his activities, Soros dismissed publisher and erstwhile U.S. presidential candidate Steve Forbes as a "capitalist fool."

Meanwhile, Druckenmiller has remained back at his midtown Manhattan office, across the street from Carnegie Hall. Though Soros stays in close touch, he describes his role as that of "coach" and readily admits that Druckenmiller sets the strategy.

Soros' most active role is in Quantum Industrial Holdings, which primarily makes private equity investments and is run with the help of his son Robert (see box, page 60). "He's been a capitalist; now he wants to be an industrialist," avers one source close to Soros Fund Management, who says that Soros' involvement with Industrial is greater than his role in Quantum "by a logarithmic amount."

Internally, Druckenmiller has assumed a more formal role at SFM. A January 1997 reorganization turned the firm into a limited-liability company with a three-man management committee — Soros, Druckenmiller and Gary Gladstein, who handles finance and administration. The trio oversee the Soros empire of six funds, a total of 18 managing directors and 125 staffers worldwide.

First among equals, Druckenmiller controls Quantum and also directs macro investing on behalf of the $2.8 billion Quantum Industrial fund. His nearest peer, Nicholas Roditi, manages Soros' $2.4 billion Quota Fund, a largely macro portfolio whose returns in recent years have far outpaced Quantum's. Technically, Roditi isn't an SFM employee; rather, he's an adviser to the firm and operates out of London. He and Druckenmiller talk daily, but their investments aren't always in sync.

"It's great having George's input, and in macro investing there's no one greater," notes Gladstein. "On any significant strategic move, Stan or Nick will want to get his thoughts. But they have trigger-pulling authority."

The son of a DuPont executive, Philadelphia-born Druckenmiller, 44, rose rapidly to this pinnacle of investment power. A 1975 graduate of Bowdoin, where he majored in English and economics, Druckenmiller quit graduate school in economics at the University of Michigan after less than a year, frustrated that the courses were too theoretical. He went to work for Pittsburgh National Bank, and after a year as an equity analyst, he was promoted to head of research. After just nine months he became director of investments for a $6 billion fund at the bank; he was only 25. Two years later, in 1981, he left to set up his own firm, Pittsburgh-based Duquesne Capital Management, with $1 million in assets under management.

Druckenmiller evolved from simply picking stocks to playing currency and bond markets. His superb macro results caught the eye of Howard Stein, then chief executive of Dreyfus Corp., who recruited him in 1986. Eventually, Stein gave him five mutual funds to run. In a highly unusual move, Stein allowed Druckenmiller to continue managing Duquesne. (Even today Druckenmiller runs this private fund, which is where the Bowdoin gift was managed, but he would not comment further on it.)

By 1988 Soros had come calling, publicly referring to Druckenmiller as his successor — well before hiring him. Druckenmiller was receptive. "George Soros had become my idol," Druckenmiller said in a 1991 interview for Jack Schwager's book *The New Market Wizards*. "In my opinion George Soros is the greatest investor that ever lived."

Apart from praise, Soros lured Druckenmiller with a chunk of Quantum's profits. Beginning in 1989, Soros has allocated 50 percent of the fees earned by the firm to his management team — $370 million last year alone — with a large chunk of this sum going to Druckenmiller. Today he's a very wealthy man, with his personal net worth estimated at some $800 million by *Forbes* magazine. But Druckenmiller, like many top traders, is also driven by the intellectual challenge, the gamesmanship. "He approaches the markets like a poker game. To him it's a mental exercise," says former Federal Reserve Board governor Lawrence Lindsey, who ran a hot-dog stand with Druckenmiller one summer when they were students at Bowdoin.

Initially, Soros looked over Druckenmiller's shoulder, but after the fall of Eastern Europe in 1989, he began to focus increasingly on his philanthropic activities. Druckenmiller flourished, most impressively in 1992 with the raid on the pound, which netted Soros a $1.1 billion profit — $800 million in Quantum alone. Spectacular as that was, the bet counted for less than half of the fund's 69 percent gain that year. "Despite all the hoopla in the media, the pound was not the only driver. The ripple effects from it were also impor-

Stan Druckenmiller, homebody

As much as George Soros loves the limelight, Stanley Druckenmiller shuns it. A certified homebody who seldom ventures into the Wall Street social whirl, Druckenmiller, 44, has been married since 1988 to Fiona Biggs, niece of Morgan Stanley Dean Witter market guru Barton Biggs. The couple met while working at Dreyfus Corp. in the mid-1980s and were married at the Lake Tahoe home of Jack Dreyfus, founder of the Dreyfus Corp. Devoted to his three young daughters, Druckenmiller gets home most nights by 7:00 p.m. Lights are rarely on after 9:00. But then he often arrives at Soros Fund Management's midtown Manhattan headquarters at dawn.

A rare foray into the limelight only confirmed Druckenmiller's predilection for privacy. During the federal budget standoff in the fall of 1995, Druckenmiller, who normally supports libertarian-leaning Republicans like former Massachusetts governor William Weld, hopped on the archconservative bandwagon to declare that a government default on Treasury securities wouldn't be catastrophic. "If the market believed there would be a balanced budget, it would forget all about any missed interest payments," he assured New Mexico Republican Pete Domenici, chairman of the Senate Budget Committee. Druckenmiller took out a full-page ad in *The Washington Post* with longtime friend and Home Depot co-founder Kenneth Langone, and the pair penned a letter to *The New York Times* on the issue.

"We both felt strongly about it," says Langone, now head of investment banking concern Invemed Associates and the godfather of one of Druckenmiller's daughters. "We felt it was impor-

tant to understand that the whole world wouldn't collapse."

But when Druckenmiller saw the budget impasse worsen, he backed off. By January 1996 he was denouncing the GOP's "failed strategy" and urging them to focus on the upcoming presidential election. Today Druckenmiller, who has contributed more than $250,000 to the GOP in recent years, laments the role he played. "The whole thing was a fiasco," he says. "I did the Republicans a disservice to the extent I encouraged them to do this high-noon thing. They got outmaneuvered by President Clinton."

Worth perhaps $800 million, with an apartment on Manhattan's swank Upper East Side as well as houses in Southampton, Long Island, and Palm Beach, Florida, Druckenmiller now prefers to devote his time and energy to private causes. Since 1996 he has been vice chairman of the Robin Hood Foundation, the charity founded by fellow hedge funder Paul Tudor Jones (*Institutional Investor*, July 1997), which funds and provides management assistance to programs that help New York City's poor. He manages more than $7 million of its $21 million endowment. Says Jones, "Stan genuinely cares about people less fortunate than him."

Agrees Geoffrey Canada, a fellow Bowdoin College alumnus who runs the Rheedlen Centers for Children and Families, where Druckenmiller is a board member: "I'm always amazed to think that Stan could hang out on 144th Street in central Harlem and feel totally comfortable. My kids are about as far apart in lifestyle and income from Stan as they could possibly be, yet he is right at home with them."

Within his Wall Street circle, Druckenmiller exudes charisma. At a recent Robin Hood Foundation benefit, a group of three charitably minded souls bid $100,000 to play a round of golf with him at Pittsburgh's famed Oakmont Country Club, where scratch golfer Druckenmiller is a member. That was $20,000 more than was pledged for a candlelit dinner in Paris with supermodels Elle Macpherson, Claudia Schiffer and Naomi Campbell.

tant," Druckenmiller says. "We realized the implications for European stocks and bonds and took advantage of every ripple we could."

He followed that up with another standout year in 1993, when Quantum surged 63 percent, thanks in part to bets on European bonds. In 1994 returns plunged to just 4 percent. Even then Druckenmiller fared better than macro hedge fund rivals, many of which posted double-digit losses after the Federal Reserve Board hiked short-term interest rates in February, causing bond markets to tank. Quantum lost $200 million on a bearish yen bet, but savvy moves spared the fund worse damage. Druckenmiller sold his European bond positions in January and made a few hundred million dollars in the copper market.

Quantum got off to a poor start in 1995 and was down as much as 6 percent by that June, again because of poorly timed bets on the yen. After boosting Quantum's U.S. stock market exposure that summer, Druckenmiller ended the year up 39 percent. Soros then hiked Quantum's fees from 15 percent of profits to an industry-standard 20 percent.

The fee hike came just in time for the worst performance of Druckenmiller's career. In 1996 the fund actually shed 1.5 percent of its value — Quantum's first loss since 1981. That year the S&P 500 was up by 23 percent. Huge losses in Japanese stocks and bonds and a decision to lighten exposure to the booming U.S. stock market overwhelmed a winning position in the U.S. dollar.

Last year Druckenmiller seemed to have anticipated the economic woes that hit several Asian countries, but flawed political analysis led to bad timing. The fund profited by shorting the Thai baht early in the year. In Malaysia Quantum also made money going short on the currency. But despite Prime Minister Mahathir's insistence that Soros was behind the collapse of the ringgit, Druckenmiller notes that Quantum was out before the steepest drop. "We had a short position taken very early that spring, but we covered too early," he acknowledges. Quantum closed its position after the ringgit had dropped 3 percent, missing a move of 100 percent more.

Japan continued to bedevil Druckenmiller last year. Quantum lost on long positions in a number of stocks, and a short position in bonds may have cost the fund as much as $500 million. Then, last fall, Druckenmiller made another huge blunder. Convinced that an International Monetary Fund rescue package would shore up Indonesian finances, Druckenmiller took a whopping long position in the rupiah. At its peak the position, which he started accumulating when the currency hovered around 3,500 to the dollar, reached $800 million in size. (Other Soros funds were long the rupiah by an additional $1 billion.) Then the currency went into free fall. By year-end it was at Rp5,402 to the dollar, skidding to Rp12,950 in January, before rebounding to about Rp8,900 in late February.

"The IMF program was as comprehensive as any I've seen, but [Indonesian President] Suharto just reneged on it," says Druckenmiller. "I was naive about the level of corruption there. If you lie down with dogs, you get up with fleas."

Then there was the U.S., where the October Asian-inspired routs in U.S. stocks and the dollar shaved $1 billion from

Quantum's gains. In addition, last year two big miscues in the funds' U.S. equity portfolio particularly hurt. A long-standing position in Newmont Mining Corp., a gold mining and exploration company, got hammered when shares dropped 33 percent in value last year. Also hit hard: a 5.4 percent stake in garbage hauler Waste Management held by Soros Fund Management, most of which was in Quantum's portfolio. The stock has sunk 28 percent in value since Soros first invested in it nearly two years ago.

The fund fared better in Europe, where an equity portfolio managed by rising star Scott Bessent soared by more than 50 percent. "There was a lot of restructuring going on in anticipation of EMU," explains one source familiar with Quantum's holdings. Among the fund's biggest winners: a stake in Volkswagen, which jumped in value by 70 percent last year, and a position in British Gas, which doubled in value.

"Embarrassment is a great motivator"

After consistently outperforming the markets, Stanley Druckenmiller's Quantum Fund has been a serious laggard for the past two years.

** Total returns through 2/20/98. ** Change from preceding year in net asset value per class-A share.*
Source: *Institutional Investor.*

In the midst of Quantum's overall slump, Druckenmiller managed to post his fabulous returns for Bowdoin. How? For starters, he didn't charge any management fees. Moreover, because he had pledged to make up the full gift out of his own pocket, he leveraged up his positions far more than he did with Quantum, even though many of the bets were the same.

But the difference in returns wasn't just a matter of leverage. Druckenmiller recognized that he needed to improve the fund's investment judgments as well as its trading discipline. Druckenmiller recently promoted Bessent to help him run U.S. equities. Says one source, "He's the heir apparent to the heir apparent." And one poor call after another in Japan led to last year's departure of John Zwaanstra, the Quantum partner responsible for investments there. Druckenmiller had given Zwaanstra direct authority to place his bets — a decision he had reason to sorely regret last year. "He has reasserted control," says Soros. "There were people in Asia who had the authority to make investment decisions without checking with him first."

Has the sprawl of Soros Fund Management, with its $19 billion-plus spread among six funds, been distracting Druckenmiller from producing outstanding returns? These days investors prefer to invest in focused hedge funds $500 million or less in size run by young and hungry managers. "The big, old funds lack discipline," says the head of one wealthy family. "I call them smart-guy funds. The managers' attitude is that they can do anything they damn well please."

Still, Druckenmiller's woes haven't necessarily been shared by all of the five Soros spin-off funds, which were launched with dividends from Quantum in recent years. Consider Roditi's Quota, whose $2.4 billion pool surged by 49 percent in 1997, after soaring by 82 percent and 159 percent the previous two years. Now the premium on his fund is 49 percent — stratospheric, but still down from 71 percent last spring. And Quantum Emerging Growth Fund, a $2.7 billion portfolio overseen by Arminio Fraga, former director of international affairs for the Banco

Central do Brasil, made 22 percent last year, after chalking up gains of 38 percent in 1996.

The problem child among the Quantum offspring is the $1.7 billion Quasar International Fund. Most of its money was invested with outside managers, but after the fund performed poorly — ending 1997 up just 8 percent — Soros and Druckenmiller decided to pull their money in-house.

Druckenmiller recruited David Gerstenhaber, a onetime Morgan Stanley & Co. economist and macro strategist for Julian Robertson, to run part of Quasar. Gerstenhaber became famous for having launched his own $400 million firm, Argonaut Capital Management, in 1993 and promptly losing 23 percent the following year. He rebounded to post returns of 32 and 57 percent in two Argonaut hedge funds in 1996. But he lasted only three months at SFM. "The chemistry wasn't right," says Druckenmiller. Gerstenhaber, who declined to comment, is said to be managing $100 million of personal funds from SFM managing directors. A portion of Quasar will now be run by Roditi. The rest will be invested in private equity, Soros' newfound passion.

It's true, given the volatile nature of the business and Druckenmiller's own track record, that Quantum's troubles could vanish this year with a couple of well-timed leveraged gambles. Indeed, as the fund recovers from the last of its rupiah hangover, it's becoming better positioned. Druckenmiller accumulated large U.S. Treasury holdings last fall, benefiting from that market's rally. And while he may have gotten singed in the October U.S. equity market rout, he also used the decline to pick up stocks on the cheap. In recent weeks he sold his entire Treasury position and added to U.S. equities, in time to catch the surge last month that took stocks to record levels. That's one reason Quantum went from being down 9 percent in January to being up 1.5 percent in late February.

Soros is undoubtedly sympathetic to how difficult it is to steer the behemoth that Quantum has become. As he notes in *Soros on Soros*: "We are not ready for extinction yet. Even so, we must not set the hurdle too high. We cannot possibly repeat the performance of our first quarter century . . . I would be satisfied if we showed half as good a performance in the coming 25 years as we did in the past 25."

That said, Soros himself implies that this might be just the time to invest, with the premium on the fund's net asset value at a relatively low 8 percent. "We look at it as a counterindicator," Soros says. "Usually, when the premium is at a low point is when we recover." Buying in at such a point could give investors a double shot at appreciation: the fund's returns, plus an increase in the value of the premium.

And a chastened Druckenmiller is vowing revenge on the markets. "I have enough of an ego that our performance of the last two years has substantially reinvigorated my drive," he says. "Embarrassment is a great motivator." ii