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A Rich Education for Summers (After Harvard)

By [LOUISE STORY](#)

[Lawrence H. Summers](#) plays down his stint in the hedge fund business as a mere part-time job — but the financial and intellectual rewards that he gained there would make even most full-time workers envious.

Mr. Summers, the former [Treasury](#) secretary and [Harvard](#) president who is now the chief economic adviser to [President Obama](#), earned nearly \$5.2 million in just the last of his two years at one of the world's largest funds, according to financial records released Friday by the White House.

Impressive as that might sound, it is all the more considering that Mr. Summers worked there just one day a week.

Much is known about Mr. Summers's days in Washington and Cambridge, but little attention has been paid to his two years in New York, from late 2006 to late 2008, advising an elite corps of math wizards and scientists devising investment strategies for D. E. Shaw & Company.

Mr. Summers said in an interview that his experience at Shaw, however brief, gave him valuable insight into the practical realities of Wall Street, insight he is now putting to use in shaping economic policy in the White House.

"I have a better sense of how market participants sort of think and react to things from sort of listening to the conversations and listening to the way the traders at D. E. Shaw thought," he said.

Mr. Summers and Shaw executives say his role there was to be a sounding board for Shaw's traders. But interviews with friends and former colleagues suggest that Mr. Summers's role at D. E. Shaw was wider and more complex.

Mr. Summers, these people say, was a marquee hire, a prized spokesman for Shaw. He routinely made himself available for private consultations with Shaw's clients, an attractive perk for investing with the firm, as one client put it.

Mr. Summers, who taught economics and public policy at Harvard while advising Shaw, also met with investors in the United States, as well as in the cash-rich Middle East and Asia. He spoke at industry conferences, mixing with officials from public pension funds, endowments and other large institutions with many billions of dollars to invest.

While at Shaw, Mr. Summers also peered into the inner workings of the \$2 trillion hedge fund industry, which the Obama administration is now relying on to buy billions of dollars of worrisome assets from the nation's beleaguered banks.

Some of his critics worry that such ties raise questions about whether the government's ever-changing effort to bolster the financial industry will benefit Wall Street in general, and hedge funds in particular, at the expense of taxpayers.

“This is what might be called contamination,” said Andrew Sabl, an associate professor of public policy at the University of California, Los Angeles. “Did Summers spend so much time with the hedge fund, or its investors, [sovereign wealth funds](#) and so on, that he started to think like them?”

Mr. Summers joined the hedge fund world after his tempestuous, five-year term as the president of Harvard came to an unhappy end in February 2006, after a statement he made that women might lack an intrinsic aptitude for math and science.

It was at that time, to the surprise of some colleagues, that Mr. Summers seriously contemplated his options on Wall Street in part because he believed his chances to return to a prominent position in Washington had dimmed, friends say.

Although he once compared finance to ketchup sales, Mr. Summers discussed job possibilities with [Goldman Sachs](#), long considered the premier Wall Street bank, and with [Citigroup](#), where [Robert E. Rubin](#), Mr. Summers’s predecessor as Treasury secretary, had become a senior adviser.

Then a young Harvard graduate named Julius Gaudio, whom Mr. Summers had met at alumni events, raised another possibility: D. E. Shaw, where Mr. Gaudio is a managing director. As part of Shaw’s rigorous screening process — the firm accepts perhaps one out of every 500 applicants — Mr. Summers was asked to solve math puzzles. He passed, and the job was his.

In a rare interview, David E. Shaw, who founded the firm in 1988 above a communist book shop in Greenwich Village, put it simply: Mr. Summers is “a brilliant, brilliant guy.” That is from a former computer science professor at Columbia who now spends his time researching areas like treatments for cancer, while others run his hedge fund day-to-day.

D. E. Shaw does not like to talk about what goes on inside its modish headquarters near Times Square. There, esoteric trading strategies are imagined, sketched on whiteboards and modeled on supercomputers by an elite corps of math wizards and scientists, most of them unknown to the outside world.

It is nothing like a button-down Wall Street brokerage firm. Jeans, sweatshirts and sandals are common. The firm has not one, but two libraries, where textbooks on computer coding are stacked near academic finance journals dating to the 1960s. For a time, the décor included light bulbs strung from the ceiling on various lengths of wire, each determined by a computerized random-number generator.

It is a quicksilver business and wildly lucrative. Mr. Shaw is said to be worth \$2.7 billion, and today his firm manages \$30 billion.

At Shaw, Mr. Summers, the professor, was often the student. The arrogant personal style that turned off some Harvard colleagues seemed to evaporate, Shaw traders say. Mr. Summers immersed himself in dynamic hedging, Libor rates and other financial arcana.

He seemed to fit in among Shaw's math-loving "quants," as devotees of math-heavy quantitative investing are known. Traders joked that Mr. Summers was the first quant Treasury secretary because he had once ordered dollar bills to be printed with the transcendental number pi — 3.14159... — as the serial number.

"We could call or e-mail him anytime," a former Shaw trader said. "He always asked me more questions than I could ask him. He would dig through my entire way of thinking."

At Harvard and at Shaw, Mr. Summers cultivated a small circle of financial professionals — particularly hedge fund managers — to serve as an informal brain trust. He consults with them on policy matters from his perch in the White House.

Among these insiders are Kenneth D. Brody and Frank P. Brosens, the founding partners of another hedge fund, Taconic Capital Advisors, for whom Mr. Summers did consulting work from 2004 to 2006.

Mr. Summers reached out to Mr. Brosens in December to discuss the Obama administration's economic priorities. This year, he campaigned to have him run the federal office overseeing the [\\$700 billion bailout](#) program. Mr. Brosens withdrew his name from consideration last month.

Others in this inner circle include Nancy Zimmerman, a longtime friend and hedge fund manager in Boston; [Laurence D. Fink](#), the chairman and chief executive of BlackRock, a large money management company that hopes to play a potentially lucrative role in the administration's bank rescue plan; H. Rodgin Cohen, the chairman of the law firm Sullivan & Cromwell, who was briefly considered for a senior Treasury post; and three other top fund managers, Orin S. Kramer, Ralph L. Schlosstein and Eric M. Mindich.

Friends of Mr. Summers say he has always been meticulous about avoiding conflicts of interest and that he was just as careful at D. E. Shaw. For instance, Mr. Summers went to lengths to pay the [Social Security](#) taxes on payments he made to even occasional babysitters from the 1980s, said Jeremy Bulow, an economics professor at Stanford, who has known Mr. Summers since graduate school.

"To Larry, it was not about figuring out where the line is and making sure you're on one side of it," Mr. Bulow said. "He would never even get close to it."

In addition to his salary at Shaw, Mr. Summers enjoyed growing wealth through investments in the firm's funds. Unlike most hedge funds, which lost money as the markets plunged in 2008, Shaw posted returns of about 7 percent in its so-called macroeconomic fund. A separate multistrategy fund lost 8 percent, far less than most hedge funds.

When investors rushed en masse to withdraw their money from hedge funds last year, Shaw asserted its right to block redemptions from its fund. An exception was made for Mr. Summers, however, because the White House job he was taking required him to divest.

A spokesman for Shaw said Mr. Summers's main job was not to act as a salesman. But in the fall of 2007, as the [financial crisis](#) simmered, Mr. Summers traveled to Dubai for a series of meetings with Shaw's marketing staff and potential investors. Bankers from across the region flew in for the event. Mr. Summers spoke at several lavish dinners and met with local parties involved in Shaw's real estate investments in the area, people briefed on his trip said.

Last September, Mr. Summers explained to Shaw traders what appeared to be an aberration in a key interest rate, the London interbank offered rate, or Libor, thus helping its traders avoid losses. He spoke at the firm's 20th anniversary gathering for its investors and at a prominent hedge fund investor conference in Boston, weeks before the presidential election. In December, he attended the firm's annual holiday party, held in the [American Museum of Natural History](#) in New York, beneath the giant model of a blue whale.

Even so, Mr. Summers, who, before the crisis broke out, spoke and wrote about the need for greater financial regulation, has not resisted the efforts to tighten up on hedge funds like Shaw. The administration, for instance, is moving toward closing a tax loophole that these funds have long enjoyed. A White House spokeswoman says his actions supporting hedge fund regulation prove he is not biased.

Some people in the financial world say they have more confidence in the White House's plans because of Mr. Summers' time at D. E. Shaw.

"He had insights into one of the best hedge funds in the world. That can only add value to the things the government is struggling with right now," said Robert Borden, chief investment officer of South Carolina's pension fund, which has invested \$350 million with Shaw. Mr. Borden met Mr. Summers to discuss how much money a large institution should allocate to hedge funds.

"It was a nice perk to have access to some of his thoughts and insights," Mr. Borden said.

Mr. Summers's experience in hedge funds might leave some wondering if he will return to private investing when his latest White House assignment ends, perhaps even to run his own lucrative fund.

Asked about that, Mr. Shaw laughed. "Oh, boy, I have no idea," he said. "Thankfully he's doing what he's doing. I'm really glad he's running this. It's a scary time, and I can't think of anybody I'd rather see there."

See on the web at <http://www.nytimes.com/2009/04/06/business/06summers.html?pagewanted=all>.