Hedge fund manager makes $2.5 billion betting on US bailout of Wall Street

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David Tepper, manager of the hedge fund Appaloosa Management, is set to pocket more than $2.5 billion this year after successfully gambling that the Obama administration would provide unlimited public funds to bail out the major banks. According to an article in Monday's *Wall Street Journal*, Tepper's firm, which specializes in buying up "distressed" shares and assets, has already racked up $7 billion in profits this year.

In the early stages of the bank bailout, the *Journal* reports, investors were fearful that the government might ultimately nationalize major banks, which would have wiped out shareholders. These fears, combined with the virtual collapse of credit markets and huge losses reported by some of the biggest Wall Street firms, led to a sharp fall in bank stocks.

But, according to the *Journal*, when the Obama administration announced its Financial Stability Plan in early February of this year, including a virtually open-ended commitment to inject capital into the banks, Tepper interpreted the plan as a signal that the government would do whatever was necessary to cover the bad debts of the financial elite. He took for good coin repeated statements by top administration officials that they had no intention of taking control of teetering Wall Street firms.

Thus, when most investors were dumping bank stocks, driving their prices to bargain basement levels, Tepper directed his traders to begin buying bank stocks and debt. By the end of the following month, the flood of cash, cheap loans and other government subsidies to the banks began to lift bank stock prices, fuelling a run-up on the markets that has seen the Dow rise by more than 50 percent since its lows in early March.

Tepper bet that the Obama administration would respond to the financial crash with an unprecedented plundering of the national treasury, and he bet right.

On February 20, for example, Bank of America stock hit a low of $2.53. Citigroup had fallen to 97 cents by March 5. Tepper responded by buying huge blocks of shares and cashing in when Citigroup shares tripled and Bank of America stock rose five-fold from its low point.

Tepper, the *Journal* reports, has generally kept his hedge fund profitable—it has averaged 30 percent yearly returns—by betting that markets would recover after major crises. During the Asian financial crisis of 1997, he bought Russian debt and Korean stocks, both of which staged major rebounds. He made a killing when commodity purchases he made in 2007 took off in value amid a general commodity price boom in 2008. "His biggest scores over the years have come from buying large chunks of out-of-favor investments," the *Journal* notes.

However, his fund lost more than $1 billion in big bets in 2008, and its earnings fell 25 percent, worse than the industry's average decline of 19 percent. His fortunes turned in 2009 when he bet everything on the government's total subordination to Wall Street.

In many ways, Tepper's success is emblematic of the social layers that have benefitted from the Obama administration's financial policies, even as millions of workers have lost their jobs, seen their wages and benefits cut, lost their homes and been thrown into poverty.

This is how the *Journal* describes Mr. Tepper:

"The husky, bespectacled trader laughs easily, but employees say he can quickly turn on them when he's angry. Mr. Tepper keeps a brass replica of a pair of testicles in a prominent spot on his desk, a present from former employees. He rubs the gift for luck during the trading day to get a laugh out of colleagues."

The newspaper reports that Tepper has turned his attention to a new investment target, purchasing about $2 billion in "beaten-down" commercial mortgage-backed securities. He is betting that the government will make sure that the billions in such toxic assets on the books of the major banks will rebound, allowing the banks to eventually sell them off at top dollar.

To put Tepper's windfall in perspective, his $2.5 billion in personal earnings this year is larger than the $2.4 billion allocated by the federal government for homeless assistance programs. It is equivalent to the medium household income of 50,000 Americans. His hedge fund's $7 billion profit is greater than the gross domestic product of 57 of 190 countries listed in the 2008 CIA World Fact Book.

Tepper's payout comes alongside an expected $140 billion in compensation this year for employees of the biggest Wall Street firms, according to estimates by the *Wall Street Journal*. The top 50 hedge fund managers took in a combined sum of $29 billion last year.

Hedgefund.net, writing on Tepper's windfall, commented that "David Tepper pulled a John Paulson," referring to the hedge fund manager who took home $3.7 in 2008 after betting on the collapse of the subprime mortgage market.

Paulson made billions betting on the collapse of the market, Tepper bet on its bailout. This social layer made money on the way down, and even more on the way up. That these people should receive such immense sums for activity that produces no real value is an indictment of capitalism. Tepper's bonanza demonstrates further that the entire economic policy of the Obama administration has been crafted to preserve the wealth of this parasitical elite.