Investor lessons from FTX & 'Celebrity investing'

A BOOK REVIEW OF *GOING INFINITE: THE RISE AND FALL OF A NEW TYCOON* BY MICHAEL LEWIS

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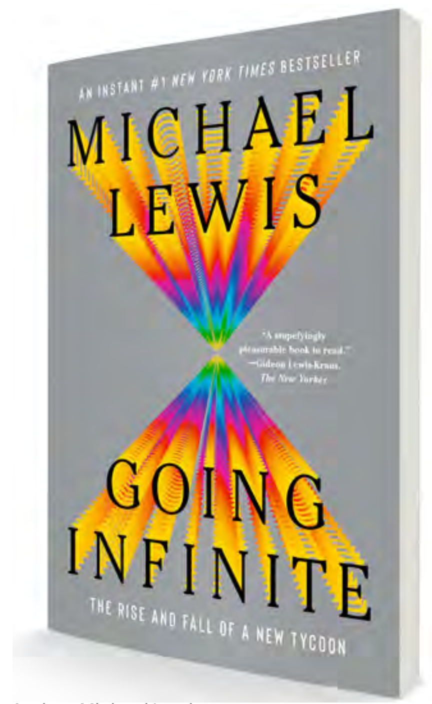

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Michael Lewis, the well-known author of an extensive range of books on financial markets and institutions, and other topics, has released his latest book on the meteoric rise and downfall of Sam Bankman-Fried (commonly known as SBF). He is the founder of cryptocurrency exchange FTX and was the most prominent figure of this 'industry' for several years.

Lewis, known for books like, *Liar's Poker*, *Flash Boy*s, *The Big Short* and *Moneyball*, is highly regarded for his ability to make complex financial subjects and misbehaviors accessible to a broad audience. In *Going Infinite* he focuses predominantly on the individual SBF and his personal and business behavior, and less on the intricacies of the crypto world. Not a principal element or objective of the book, between the lines investors can draw several lessons from it for their professional work. Therefore, the book is, besides being enjoyable and at times even hilarious, also an interesting read for non-crypto-investors and for crypto skeptics. These 'insights' for investors are addressed in the latter part of this book review.

SBF and FTX

SBF made a significant impact on the crypto-currency sector as the founder of FTX, one of the most innovative cryptocurrency exchanges globally during 2019-2022. He started his career at Jane Street Capital, a huge 'money making investment and trading machine',[1] after his time at MIT. Lewis briefly describes the inner working at Jane Street, where the philosophy and processes are all about being smarter than the rest of the trading and investment community. It involves detailed analysis of all potential scenarios impacting investments, similar as during playing games and poker. During his time at Jane Street SBF became interested in quantitative trading. Influenced by the philosophy of effective altruism, he ventured into crypto with two goals: to generate wealth and to use it for philanthropic causes.

In 2017, SBF founded Alameda Research, a quantitative trading firm heavily involved in cryptocurrencies. Based upon the success with Alameda he started FTX in 2019. FTX quickly gained a reputation for its approach to crypto derivatives and innovative features for retail and institutional investors.

SBF's public appearances in unconventional attire gave the impression of a social awkward and maverick entrepreneur that pledged to donate the majority of his money towards effective altruism. Lewis describes how SBF crisscrossed the globe meeting businessmen, potential investors, celebrities and politicians assisting to promote FTX. During video calls he was often quasi-absent as he played video games around the clock. He was omnipresent as the acclaimed propogandist of a regulated crypto industry. That also stoked the rivalry with Binance, the largest crypto exchange, and his founder Changpeng Zhao (sentenced to jail in 2024). FTX also sucked up struggling competitors during its exponential growth.

SBF and FTX attracted billions of investments from institutional investors like Temasek, Ontario Teachers, Thomas Bravo, Sequoia Capital and Tiger Global. Subsequently during that brief period of fame, glory and exponential 'wealth creation', SBF spent vast amounts of money on the FTX-office and the villas of FTX-staff in the Bahamas. In addition, he threw tens of millions in single marketing and sponsorship deals as well as towards a range of venture capital investments. Most of these deals and investments were made by himself, not an investment committee or other governance structure, and on the fly without any due diligence and/or reviews of their merits for FTX. SBF was also willing to 'donate' millions on influencing politicians on crypto-regulation and even considered offering Trump $5 billion to abstain from running for president again in 2024. At least that can be dissected from the accounts of Lewis's writings.

However, in late 2022, FTX collapsed under allegations of financial mismanagement and fraud. Reports and rumors, also stoked by competitors, surfaced that FTX had (illegally) used its customer funds to cover losses at Alameda Research, sparking a liquidity crisis similar to a classic bank run. The subsequent bankruptcy filings revealed a chaotic financial structure and raised fundamental questions about the existence of any oversight and governance within FTX. SBF was arrested and faced multiple charges, including fraud and money laundering. It was an abrupt fall from grace. As Lewis his book was published during the extensive and newsworthy public trials, SBF was found guilty on seven counts and has been sentenced to jail for 25 years. Several other employees, who admitted to the charges and provided evidence against SBF, will face limited sentences.

Lewis's 'surprise' writings on SBF and FTX

Similar to his previous books, Lewis's writing captivates readers and keeps them engaged. However, contrasting his previous books, Lewis's portrayal of SBF's life and FTX's final year, when he often met and travelled with SBF, reads and feels one-sided. As if he wants to present SBF as the 'hero' against all the 'villains' in the (crypto)world. Lewis lacks a certain level of critical analysis of SBF his behavior as well as the business set up and activities. Lewis complements this with a staggering negative description of John Ray. Ray was appointed to oversee FTX during its bankruptcy. This surprising style of writing by Lewis might be due to a fascination for the unconventional life, management and business style of SBF in an unregulated, innovative and constantly evolving crypto world. The crypto world at that time was like the 2023-2024 period for genAI developments, but on steroids. Lewis does not explore why FTX lacked a CFO or how, as was quickly revealed after the meltdown, investments and operations were obviously not separated between the different businesses of FTX and Alameda as well as how private investments and expenditures were accounted for.[2] Other topics that readers, and especially financial market participants, might be interested in were:

1. How could a smart individual like SBF, who learned and adopted thorough scenario analysis at Jane Street, handle so many aspects at FTX on the fly? It was an accident waiting to happen. Was he just naïve, recklessly ambitious and/or over-whelmed by the public attention and the vast sums of money literally thrown at him?
2. Why did respected institutional investors invest so much money on behalf of pensioners without performing any basic (operational) due diligence that would have uncovered numerous red flags? Didn't they learned the lessons from the Madoff and other frauds, including those of misappropriation of investor funds and company accounts?

SBF on the podium with 2 former head of State (Bill Clinton & Tony Blair) at a crypto conference on the Bahamas in 2022.

Were these topics not further explored as the editor and publisher wanted to release before the start of the trials? Did the rapid developments at FTX, the large than live person of SBF and his unconventional style in addition to his call for regulation enchant and intoxicate everybody? And can investors draw lessons from this interesting chapter in the financial and crypto world?

Lessons for investors

Around the time of reading this book on SBF, I also read the following two books: *The Fund* on Bridgewater and Ray Dalio, as well as *The Bond King* on Pimco and Bill Gross. Both were also founders, celebrated businessmen, remarkable characters and their well-recognized speakers at world class economic and investment events. They founded and led firms and were individuals that investors wanted to be 'familiarized with' as Keynes noted: *'Better to fail conventionally than to succeed unconventionally.'* However, also these Sun Kings and charismatic founders, had their dark sides as described in these books by more neutral and critical writers compared to Lewis. These elements of their management style and/or operational practices often only surface after time and/or during a thorough due diligence. Even then, it is up to the investment decision-makers to take the less positive findings into account when making investments. Can these decision makers properly balance the addictive 'spell' of a celebrated Sun King with a detailed independent assessment of the investment process, operations and business management, including (ethical) culture in a firm? That same question, framed differently, can be posed to Lewis and other biographers, as well as venture capitals nowadays investing in genAI.

Too much money, hubris, hype, or fame as well as being too naive can be a hazard at times. This does not have to be an issue if you want to publish a non-critical biography on a person or set of events (though it should be obvious and transparent), it should be avoided when having a fiduciary duty towards your clients. Celebrity investing is as dangerous as statements like '*this time is different*' among others.

Notes

1 For more info on this trading and investment firm see for instance: FT 7/10/2024: *New titans of Wall Street: how Jane Street rode the ETF wave to 'obscene' riches.*

2 For instance John Ray noted within a week after the filing of Chapter 11: 'Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here'. He also spoke about 'overseeing an unprecedented mess'.