

**EPISODE 645**

[INTRODUCTION]

[00:00:33]

**FT:** Ever wonder how Wall Street works? I mean, really? Welcome to So Money everyone. I am your host Farnoosh Torabi, and we keep it real on this show. We take you behind the scenes when we can to demystify money and finances and today is no exception.

We see how Wall Street is portrayed in dramatic movies, like *Wolf of Wall Street* and *The Big Short*, and of course the iconic movie *Wall Street* with Michael Douglas. Personally, I'm obsessed to the show time show *Billions*. Raise your hands if you're with me. I know you are.

How accurate are these portrayals really? Well, today we go behind the scenes a little bit. Thanks to our guest and her groundbreaking reporting. Sheelah Kolhatkar is a staff writer for *The New Yorker*, and has published her first book called *Black Edge: Inside Information, Dirty Money, and the Quest to Bring Down the Most Wanted Man on Wall Street*.

We're not talking about Bernie Madoff. This book details the story of a billionaire trader Steven A. Cohen, and the rise and fall of his hedge fund SAC Capital. It is the largest inside our trading investigation in history. This is the kicker, Cohen was never charged.

We will dive into all of these with Sheelah, as well as her background as a former hedge fund analyst herself. How did that experience bring her to her role today as an investigative business reporter? As I mentioned, she is currently a staff writer for *The New Yorker*, where she covers Wall Street and Silicon Valley, the economy and national politics.

She also writes the magazine's financial page and is a regular contributor to NPR's marketplace. She's an incredible journalist and I'm honored to have her on the show today. Here we go.

Here is Sheelah Kolhatkar.

[INTERVIEW]

**FT:** Sheelah Kolhatkar, welcome to So Money. It's great to connect with you.

[0:02:38.3]

**SK:** It's great to be here.

[0:02:40.0]

**FT:** I've been a real fan of your work. Been reading your byline in so many important pieces over the years, and so really excited to now you get you on the Skype and talk about your latest creation, which is *Black Edge*. It's a book that debuted earlier this year, kind of looking at the behind the scenes of one of the most incredible investigations in insider trading in US history. It's about billionaire trader Steven A. Cohen, his rise and fall of his hedge fund SAC Capital.

This was a book that I would suspect was very difficult to write, Sheelah, because you didn't get a chance to talk to Steven, did you?

[0:03:21.0]

**SK:** I certainly did not. I knew from the outset that it was very unlikely that he would cooperate with me, because I really started reporting the book in earnest in 2013 when the legal case surrounding him and his firm was very much unresolved. I mean, it was actually in the thick of the case. They were new charges being brought against his employees and former employees over the course of that year.

I knew that there was no way his lawyers were going to tell him, "Oh, yes. Sit down and cooperate with this investigative book about everything that's going on at your firm," when he was facing the possibility of criminal charges himself.

[0:04:04.0]

**FT:** At what point did you realize, “I need to write a book about this.” Wasn’t there already enough reporting on this, and did it almost seem like – he didn’t even go to jail, right?

**[0:04:16.8]**

**SK:** Well, of course in the end yes, it turned out that his firm SAC Capital was indicted and shut down and he paid almost two billion dollars in fines, but he himself was never charged with any crimes.

**[0:04:29.5]**

**FT:** What was unresolved for you as a writer, as a journalist, where did you want to begin your story and what were you hoping to find that maybe had not been widely reported or reported at all?

**[0:04:41.8]**

**SK:** Well when I started out, of course the resolution of the case wasn’t known. In fact, many of the publishers I spoke with did ask about this, “What are you going to do if he doesn’t go to jail?” Of course, I knew as a former hedge fund analyst, because that was sort of the job I had at the beginning of my career before I became a journalist.

I also knew sort of a long-form storyteller and writer that this is a story of our time. I mean, it was a juicy narrative with a lot of drama and intrigue and really fascinating flaw, the brilliant characters. I thought that was really important just in terms of holding my attention while I worked on the book.

But I also knew it really touched on some bigger themes that are really important. For example, the rise of this class of extremely wealthy billionaires and centimillionaires who have emerged from finance, from hedge funds in particular.

These people, I think are largely unknown to the broader public, but many of the new wealth has come out of the hedge fund industry, has created the new class of political donors and major philanthropists and people who are affecting our society in ways that are not always known. I thought it would be really helpful for people to see just how a hedge fund works, and some of the things that can potentially go wrong.

**[0:06:13.1] FT:** Right. There are many movies and series that touch on this. There is a lot of fascination from the public about this. We've all watched Wolf of Wall Street, The Big Short, Billions is a very popular series on show time. Where does this book fit in the public curiosity? What is this going to feed other than of course, giving you the behind the scenes of this very, almost like unbelievable industry. How do they actually make money? Why is it so much money?

Then of course, your book also discusses the fact that there is a very gray areas in how they are allowed to make money and what they can get away with. What were you hoping this book would actually introduce for the first time maybe to this audience? It's already kind of already curious about Wall Street and hedge funds and the billions.

**[0:07:11.1]**

**SK:** Well, so this era, I would say approximately the last 20-ish years, it's the first period of time where we've seen the emergence again of these incredibly wealthy multi-billionaires who have made their money through financial speculation. These are people who have amassed historic generational wealth, not by inventing products or inventing medicines or creating new technology that people around the world are buying.

They don't build companies. They don't lay railroads. They're not mining – I mean, these are all things that in the past have led to enormous fortunes and influence in society. These are people who take money and place bets in the market and make more money out of it. That's new. That's a new thing in our society, and Wall Street overall generates an enormous amount of wealth for a relatively small group of people. But in fact, that sector of the economy does not create as many jobs as you would expect relatively to the wealth it generates for the people running hedge funds, for example.

I thought that was just really interesting to explore and what does that look like. Just another broader societal question arose for me, because as I was reporting this book, I came across one after another of these young ambitious hedge fund employees. Most of them are men, frankly, but a few women. But these were young people, people in their 30s who had come out of the best university programs this country has to offer.

These were people with PhDs in math and engineering and biosciences and business degrees from Ivy League colleges, and they were all flocking into the hedge fund industry to make a million dollars really quickly. Again I thought, “Why is that a good allocation of intellectual capital in our economy? Does that make sense?”

**[0:09:18.2]**

**FT:** What do you think? Does it make sense? Because some of these people will spend their 20s making the millions and then maybe go and do something more passion-driven, or purpose-driven.

**[0:09:28.4]**

**SK:** I think some of them do that, and I certainly applaud them. I think often, it is very hard once you're in that world and you're making that kind of money to walk away from it. I have heard that from people over and over again, and you see that with people even like Steve Cohen who just can't retire. It's like almost a compulsive thing.

I guess, if you were going to design a society and an economy in such a way as to maximize your assets, I don't know if you would allocate that much intellectual brain power to financial trading. I just don't think it makes sense. Given the scale of the problems we have in our economy; income inequality, the opioid crisis, climate change, education. We need our best people helping to tackle those problems. Of course, some people from the financial do try to do that, but I just think these are bigger questions that we're just thinking about.

**[0:10:26.0]**

**FT:** I mean, really money is kryptonite to some people, right? That's the bottom line is that that is more attractive than winning a Nobel Prize.

**[0:10:36.0]**

**SK:** Yes, and I could certainly understand the allure of enormous amounts of money. It does buy you many beautiful things, beautiful works of art. I mean, Steve Cohen – there's a familiar pattern for many very successful hedge entrepreneurs that they become very wealthy and then they become interested in acquiring Picasso paintings for a 150 million dollars. I cannot blame them. That certainly is appealing.

**[0:11:03.3]**

**FT:** You had mentioned you started in hedge fund as an analyst yourself. Was there a moment in that career timeframe for you that you thought, "I don't want to be the one that's analyzing this for the hedge funds. I want to be analyzing this for the public as a journalist." What was that transition for you to go from the business of hedge funds to reporting on the industry and business at large?

**[0:11:29.5]**

**SK:** I fell in to the hedge fund industry somewhat by accident. I was just out of college. I was looking for a job. I really was not sure what I wanted to do, but I certainly was not pursuing a career in finance. But I ended up working part-time just to make some money answering the phones at a small hedge fund. It was at that particular time when the industry was still quite small and very entrepreneurial, and the manager of that fund liked me and convinced me to say.

It was actually an amazing experience to just learn almost in a emergent crash course fashion about that industry. I did feel like an anthropologist, sort of drop-down in the middle of this whirlwind of drama and deals and trading. I mean, it was interesting. But I knew pretty quickly that I did not have the right personality for that kind of work.

A tolerance of risk is a really big part of being a successful trader, especially at a hedge fund that's doing more short-term investing. That is just not my personality. I am much more of a deliberative, thoughtful, long-term thinker. I like to learn everything I can about a problem, probably too much, more than I need to know before making a decision or figuring out how to solve the problem. I was the person who would always over-prepare for the test.

Having to make decisions in the market based on small amounts of information and do them really quickly was extremely stressful for me. I was really unhappy. The decision to leave that field was not really difficult. That was pretty miserable. One thing I was really interested in was writing, and it was something I've been fairly good at from an early age.

It was enormously help to me in my journalism career to just have this experience in this big money world that is often very opaque to most people. I mean, I feel like I can serve a bit of a public function in just explaining it to people, you know.

**[0:13:44.2]**

**FT:** Absolutely. I want to talk a lot about your personal fans and perspectives. I'm sure you've learned a lot just through your reporting, in addition to your own experiences in your own life. But back to Steven Cohen's story, I mean, he didn't go to jail. I read that he's working on his next big venture. He's going to try to get back into the game somehow, some way. Where does that leave us? Are we just not a society that's equipped to really go after these individuals who are for our own sense of purposes criminals?

They don't do perp walks, even during the 2009-2010 financial crisis, we expected so many more people to go to jail and that just never happened, because real crimes were committed. Are we going to get there to a place where we actually look at this stuff as legitimate crime that deserves jail time?

**[0:14:41.4]**

**SK:** Well there was a time when high-level financial criminals were pursued more aggressively for their crimes. Many people point out the Enron prosecutions in the 90s. Certainly there were

the Michael Milken, Ivan Boesky cases in the late 80s, early 90s. But definitely over the last 20 years or so, there has been a real erosion in our will or ability or both to pursue high-level financial crime.

That is absolutely true. I think the explanation as to why is complicated, but I mean it's hard to ignore the fact that the people in that industry have amassed a lot of political influence and a lot of wealth, and it coincides with the period where we've stopped prosecuting them. The government is still pretty good at picking off low-level financial criminals, but these came up a lot after the financial crisis, because certainly to the average reader watching the news and getting foreclosed out of their house, it seemed obvious that there was a lot of financial fraud that had occurred at major banks in the US.

However, not a single senior banker ever even faced prosecution for any of those frauds. During that same period, the government did charge a number of insider traders. But as you pointed out, they'd never charged Steve Cohen, the one who surveyed most of the money and employed many of these people.

If you ask the government why, they would say, "Well, we just didn't have the evidence." I believe they say that sincerely. But there are many people who believe that they just did not pursue the high-level offenders aggressively enough. I don't see any sign that that problem is going to improve anytime soon just given the current atmosphere in Washington.

**[0:16:33.1]**

**FT:** As you pursued this story and others, was there ever a time where you felt that your active reporting was putting you in jeopardy, at risk of being threatened, or because this is sensitive stuff. People don't want this information out there necessarily and you're the one that's exposing it, similar to someone else who is maybe reporting on politics, or someone who is a whistleblower in some ways. Did you ever feel concerned about that?

**[0:17:00.5]**



**SK:** I definitely felt a little anxious and aware of the possibility of something like that happening. There were a couple of incidents when I first started out where people on Steve Cohen's behalf said, "You better watch yourself," kind of thanks to me. Other people warned me and they just said, "Listen, you should really want to take care. Someone might be going through your garbage." I never saw any evidence of any of those things actually happening, but I did think about it.

It was actually a very stressful period for me. It was also very exciting and fun and interesting and a huge challenge that I enjoyed untangling to sort of do the reporting for the book. Yeah, it was not a relaxing project. I think that's fair to say.

**[0:17:47.1]**

**FT:** Yeah, not exactly the word most would use. In describing your personal financial philosophy, what are the words you would use if you have a money mantra of sorts?

**[0:17:59.5]**

**SK:** Conservative. Always worrying about what could possibly go wrong in the future. Now that is not very fun sounding, I admit. But I think part of that arises just from my background and my career, because when I started working on Wall Street as a hedge fund analyst, as I mentioned I got plunked into this industry from nowhere and looked around. I really did feel a bit like an explorer on another planet.

I was seeing everything with fresh eyes. I just was not yet at that point part of the culture. Things that maybe seem normal to people who work at Wall Street who trade in the markets every day seemed patently absurd to me.

For example, I remember in the late 90s watching various tech companies. There is a huge internet stock bubble going on at the time. Yeah, there were these companies like pets.com and Qualcomm and Rambus. You couldn't even really explain what they did, but they were just shooting up to crazy new high prices every day and everyone was just trading technology

stocks, and there was this real go-getter, like we're all getting rich atmosphere in the financial press and the financial industry.

To me, it just seems a little absurd. I was constantly saying, "Yeah, but what's underpinning all these? What is this base? What does pets.com actually do?" I think a lot of people who had just been immersed in that world never stopped to ask those questions. But there I was brand new, trying to figure it all out and it just seemed ridiculous to me.

I was a little reluctant. It did infuse me with a little bit of skepticism about the stock market and all the hype that goes into it. I think that has actually served me well. I'm sure I have lost some opportunities, but in general I am not a gambler. I tend to think about financial things in a very careful measured, conservative way, and I feel that that has been helpful.

**[0:20:02.4]**

**FT:** We're seeing a repeat of a lot of that now, would you say with companies like Snapchat and a lot of the social media platforms. The internet has had a lot of – a lot of internet companies, I feel like get this billion dollar evaluation and they're not even profitable. How do you see history repeating in some ways?

**[0:20:23.4]**

**SK:** Well, so of course, I should just say I would never give anyone a financial advice. But there are many signs of a bubble that are familiar to me having seen the last bubble. I don't have a good explanation for it other than the fact that the history is really destined to repeat itself. We're about to enter into an environment where there is a lot of deregulation going on. I think we can expect even more bubbles and even possible frauds to emerge.

But yes, when I look some of the tech stock evaluations, I think that they don't really make sense in a logical level. I think if something is going on in the market that you would have trouble explaining to an average person, I think that's a sign that there is a problem.

I don't know when the reckoning will come, but again there are a lot of tech investors who made a lot of money and they are all competing and looking for opportunities. That can sometimes lead to imprudent decisions. So yes, there are definitely signs of that.

**[0:21:28.8]**

**FT:** Not to get too ominous, but I agree with you. I totally agree with you. The world isn't ending yet, but –

**[0:21:36.9]**

**SK:** But.

**[0:21:37.9]**

**FT:** Yeah, but. Back to your personal journey Sheelah, I would love to learn a little bit more about how money was introduced to you as a child. I feel like so much of our relationship with money as an adult; our conservatism, our risk averseness, our risk tolerance stems from very momentous experiences. They don't have to be a lot of experiences. Maybe just like one instance. Was there one very, very big memory that you have about money growing up?

**[0:22:15.3]**

**SK:** A very predominant just sort of sense I have about my youth and financial matters is just this really strong impression that my parents were frugal and bordering on cheapskates sometimes. They're still a bit like that, although they also will occasionally do things that seem reckless to me. But in general, they're pretty money conscious. My mom in particular really brought that into the house.

She grew up in a very modest household where money was extremely tight. She did not ever have a sense of confidence or comfort. She was always worrying about the future, about not having enough. My father who was a professional, he was a corporate executive and did very

well supporting the family, but he always used to say, “Well, your mother really helps us not to blow all our money, because she’s so cost-conscious.” I really appreciate that actually about her.

Another thing that I think was extremely valuable that I had was, you know I grew up with a real expectation from certainly from high school on that I would have a part-time job and earn my own money anytime it was feasible and mainly that happened during the summer. But even during college, I was often working part-time during the school year.

I think at some point that stopped being the model that most kids were following, but it has been enormously helpful to me. I learned so much working as a cashier, the supporting good store for example. I worked as a part-time copyeditor when I was a college student. That allowed me to save my own money. It really taught me about saving and spending and bouncing a checkbook and all that stuff.

I think when you’re spending someone else’s money all the time, your parents’ money, it really teaches you a very different set of lessons than when you’re having to go out and work. You’re having to leave, go home early from the party because you have to get up and go to work in the morning. It teaches you something really valuable. I think everyone should have that experience, even if they don’t necessarily have a financial need to do that.

**[0:24:25.6]**

**FT:** When you left the hedge fund world as an analyst, although you were still in the younger phase of your career, did you still have a – was a part of you a little concerned or worried or anxious about money, because as journalists at least on average it’s not like the most lucrative industry. Whereas, hedge funds the end is obvious. The end is like stick with this, you will make a lot of money if you survive. Were you reluctant at all because of that, or did that actually motivate you?

**[0:24:59.3]**

**SK:** Well, my parents certainly have that question and it’s a very valid question. I think –

**[0:25:05.4]**

**FT:** What did your father and mother say?

**[0:25:06.3]**

**SK:** Yeah, my father who is from India he was very worried. Still not quite sure if I've been successful not going to medical school or whatever he wanted me to do. I mean, I was concerned about it. But to be honest, I was very naïve and just did not know exactly what the earning situation was in journalism. I had a passion for that. I knew that that's what I wanted to do.

It was my second career, so I just attacked it in this way that I probably wouldn't have if it was just the first thing I'd done right out of school. I was so deeply unhappy in the environment where I was just working for the money.

Now that's not to say that having more money wouldn't be nice, but I really learned some valuable lessons there just about personal happiness and just my stress and mental health. I would not trade it for anything. I mean, my life has just been blessed and I feel really lucky that my career has gone the way it has. But yes, of course I left a much more lucrative field. People bring that up to me all the time. I think just the fact that I did that helps me to write about it in a more clear-eyed way, to be honest.

**[0:26:20.3]**

**FT:** What are you looking for to covering in the years to come in your particular beat, that being I suppose all things business, and the economy? I know you were in some really important pieces about women and business and women in Wall Street. What is the next frontier under reported stuff?

**[0:26:42.5]**

**SK:** Well, I feel business journalism in general, I think is just in such a golden period right now, because of – well what's happened politically in this country is very distressing to a lot of people. But I can see very clearly that it's an economic story actually.

I believe the reason we have, the leadership we have in Washington is because of the economy. All other things aside, I think that something has happened in the economy where you do have a small subset of people taking most of the gains, and then you have large numbers of people who are losing opportunities.

Some of that is the result of the rise of finance and its influence in our economy. Everything going on actually connects back to business on some level. I feel very excited to help just explain that dynamic to people. I think a lot of average readers don't necessarily connect the dots between President Trump and economic issues, but I see all that very clearly.

I'm very excited to just have the opportunity to explain that and illuminate that for people. Just on a period of more selfish level, the stories in that world, the narratives, the characters, the drama and the lessons to learn are really fascinating and entertaining and important. I just think there is no better time in history possibly to have been a business journalist as right now.

**[0:28:19.5]**

**FT:** We will never see the end of this era, only because people say it's going to live in books and movies and television shows and series, because there is just so much that once these Washington aids are no longer in office or – obviously Trump is going to write several books. Tiffany will probably write a book. We know and look forward to that Tiffany book. Tell me, what was your so money moment to date? So money, meaning a time in your profession, in your financial life that you just really felt super proud, super accomplished?

**[0:28:56.2]**

**SK:** Intriguing question. Becoming a home-owner was a very exciting moment. I remember sleeping my first night in my husband and my new house and feeling so peaceful, like everything was okay. Yeah, so I'm proud of that for sure.

**[0:29:19.1]**

**FT:** Many people are saying that that is a false version of the American dream that home ownership is not a good thing, but I'm with you. I am obsessed with real estate, and I don't know what it is, but I'm always on street easy.

**[0:29:35.0]**

**SK:** No, in New York City it is a blessing. I feel grateful every day that I did that when I did.

**[0:29:42.0]**

**FT:** Especially to your city, right. Because here, I mean, historically let's be honest real estate has been good to an owners and investors over the long run.

**[0:29:52.7]**

**SK:** As they say, you always need a place to live.

**[0:29:54.4]**

**FT:** You do. That's comforting to know. If nothing else, you can always go to your house and a landlord can't kick you out.

**[0:30:01.5]**

**SK:** Exactly.

**[0:30:02.0]**

**FT:** Sheelah, what's a habit that you have that helps with your money? Is there something that you do consciously every month or daily?

**[0:30:10.7]**

**SK:** Well, a couple of years ago my husband connected all of our finances together in mint. He started to know every time that I bought something with our credit card. To be honest, that has probably had a positive chilling effect on my spending.

I don't know, I can't really take credit for because it's something that he did, but it has been helpful. When I go to Sax and want to splurge on something, like a shirt or whatever, I think – well he's going to get a little alert that I did this. So I really have to want it for that to be worth the scolding I may get from him. I mean, frankly he's pretty tolerant most of the time, but occasionally he will just raise an eyebrow and say, "Are you sure?"

**[0:30:59.4]**

**FT:** Does he have his thing that he buys that is eyebrow raising?

**[0:31:05.6]**

**SK:** I mean, he has his own weaknesses, but my clothing shopping is probably outshines his occasional purchase of new running shoes.

**[0:31:17.8]**

**FT:** Right. Well you work hard for it, Sheelah. You deserve it, you know.

**[0:31:22.0]**

**SK:** That's what I tell him.

**[0:31:23.7]**

**FT:** Tell him I told you.



**[0:31:25.8]**

**SK:** Okay. I appreciate that. Thank you.

**[0:31:28.0]**

**FT:** Sheelah Kolhatkar, thank you so much for coming by. We started on a summer note, we're talking about this crazy human being that you wrote a book about. A story that The New York Times an absolute thriller; I can't wait for the movie. Is that actually going to happen? Because I feel like – Yeah.

**[0:31:50.5]**

**SK:** Well, there are conversations happening. So hopefully yes.

**[0:31:54.1]**

**FT:** I had a very good feeling. Well wishing you continued success, Sheelah. Thanks for coming on this show and we'll be looking for your byline in the future. Thank you.

**[0:32:06.5]**

**SK:** Thank you. It's great to be here.

**[END]**