Jim Chanos Resource Page

“Jim has the combination of an accountant’s ability to dive into the numbers and a detective’s ability to sniff out nonsense, and he has done it throughout his whole career...He has been crucial to investors in ferreting out fraud and using his skill sets for making money for his investors by basically identifying short selling opportunities where there has been bad behavior and fraud.” - Barry Ritholtz

Background & Bio

Chanos grew up in a Milwaukee suburb, in a Greek immigrant family that operated a chain of dry-cleaning shops. He helped pay his way through college with a summer job as a union steel worker. At Yale, he majored in economics and political science. His non-academic credentials included lightweight crew and two years as social chairman at Davenport College.

After college, Chanos got his start as a bottom-rung analyst for Blyth Eastman Dillon in Chicago, working 80-hour weeks at $12,500 a year. It began to dawn on him, he says, that “I could’ve made more money shoveling snow in Milwaukee.” But when a group of partners split off to start their own firm, Gilford Securities, they took Chanos along. And there Baldwin-United Corp. entered his life.

From the Yale Alumi Magazine:

Baldwin was a piano company that had transformed itself, by a series of acquisitions, into an insurance giant and Wall Street darling. When it announced its latest acquisition in the summer of 1982, Chanos got the job of figuring out if the proposed deal would be good for Gilford clients. I started looking at this mess of a company and couldn’t figure out how they were making money and what their disclosures were saying. I was just simply calling up people and asking questions and trying to figure this thing out.”

Then one night when he was working late his direct line rang. “Is this Jim Chanos?” the
caller asked. “You’re the guy asking all the questions about Baldwin-United?”

“Yes,” Chanos answered. “Who’s this?”

“It’s not important who this is.”

The caller proceeded to point Chanos to public files of correspondence between Baldwin and state insurance regulators in Arkansas. Those files turned out to be a beginner’s guide to financial shenanigans. The regulators had belatedly discovered, among other things, that Baldwin was improperly using insurance reserves to finance its acquisitions. Chanos put out his report—saying, sell Baldwin and sell it short—in mid-August, 1982, the start of what would become one of the longest bull markets in Wall Street history. Baldwin’s stock price promptly doubled. “So my sense of timing was impeccable,” says Chanos.

Steinhardt and other clients were soon flushing money down the drain on his advice “and not happy about it.” The firm’s New York partner wanted to hand them the 24-year-old analyst’s head, but the Chicago partner fended him off. Chanos went home for the holidays feeling miserable about screwing up on his first real job. Then, on Christmas Eve, the Chicago partner phoned to give him the news: Arkansas had just seized the assets of Baldwin-United.

Until then, Chanos had never felt any predisposition to be a short-seller. But Baldwin was a good early lesson, he says, “because it was painful as heck and I was almost fired, and yet we were sitting on all this evidence that the market was ignoring. And it was completely accurate and completely predictive.” Baldwin developed into what was then the biggest financial bankruptcy in US corporate history, and the question soon came filtering down from clients: “What else does Chanos not like?”

Chanos attributes his insight into Baldwin’s true state of affairs to persistent digging, open-minded questioning and a ‘back-to-basics’ scrutiny of filings and other freely available information such as insurance forms. “A lot of the radioactive aspects of Baldwin was hiding in plain sight – you could see it if you looked at public documents.”

**Kynikos Associates**

Chanos started Kynikos Associates in 1985 and the group has since become the world's largest exclusive short-selling investment firm.

Kynikos provides investment management services for domestic and offshore clients. Through investment funds, partnerships, corporations and managed accounts — domestic and offshore — Kynikos maintains private portfolios of securities for clients. The Ursus, Kriticos and Kynikos Opportunity funds seek to profit from the unusually high alphas found on the long and short side of the U.S. and non-U.S. equity markets.
Chanos's Kynikos Opportunity Fund fell 14% during 2013, the largest decline in at least a
decade, according to a document detailing fund performance. Over the same period the S&P
500 gained 32%, including dividends. That was the second consecutive year of losses for that
fund, which dropped less than 1% in 2012. Kynikos Associates LP manages at least $4 billion
across several funds. However, this dismal performance followed double-digit gains in four of
the previous five years, including a 19% rise in 2008, when many hedge funds lost money
during the financial crisis.

Investment philosophy

Throughout his investment career, Chanos has identified and sold short the shares of numerous
well-known corporate financial disasters; among them Baldwin-United, Commodore
International, Coleco, Integrated Resources, Boston Chicken, Sunbeam, Conseco and Tyco
International. His celebrated short-sale of Enron shares was dubbed by Barron's as "the market
call of the decade, if not the past fifty years."

Chanos’ most famous short landed Chanos on the cover of Barron’s in 2002 as “The Guy Who
Called Enron.” But the list of his targets stretches from Michael Milken’s junk bond empire
through the real estate boom of the late 1980s, the telecom bubble of the late 1990s, Dennis
Kozlowski’s Tyco and Bernie Ebbers’s WorldCom at the turn of the century, subprime
mortgage lenders and home builders in 2007, and most recently China.

Chanos sees himself as a sort of sheriff for the markets. He is on the look out for financial
fraudsters:

“One of things we like to say is that in virtually all cases of major financial market fraud over the
past 20 years, the only people who really brought forth the fraud into the light were either
internal whistleblowers, the press, and/or short-sellers...Short-sellers played an important role in
the marketplace not only in terms of capping, sometimes, irrational exuberance in terms of
prices, but also in ferreting out wrongdoing."

And Chanos uses multiple methods to uncover fraud, including voice detection, or Bedford’s
law, which looks at numbers and repetition patterns in accounting. All these methods help him
find the best stocks to short. A surprising tell of fraudsters is philanthropy:

“... if you look at Bill Black’s theory of the corporation as both a weapon and shield (we teach a
lot of Bill Black’s things in my class), you can begin to see that that would be one way in which
the bad guys in corporate suites would basically use the corporation as a shield…” Chanos
interview.

Case Studies

Chanos famously shorted British software maker Autonomy Corp, calling its chief operating
officer unqualified, its customers unenthusiastic, its market share and growth numbers
questionable, its financial disclosures “very poor,” and its margin profile “suspiciously high.”
Autonomy was at one point the firm’s largest short position in Europe and Chanos thought that
“this was one of the great shorts of all time.” However, before the scale of Autonomy’s fraud could be unveiled, technology giant Hewlett-Packard acquired Autonomy from a premium of 64%. Chanos was soon shorting HP as enthusiastically as he had shorted Autonomy. In November 2011, Hewlett-Packard acquired Autonomy for $11.1bn. Just six months later, Mike Lynch, founder of the UK software maker, was fired. In the summer of 2012, a team of finance executives based at Autonomy’s Cambridge headquarters began an internal investigation. HP booked a $8.8 billion writedown on the Autonomy acquisition, $5.5 billion of which was stated to be due to “accounting misrepresentations” at the company. By this point Chanos had already booked his profits and moved on.

Enron is perhaps the most famous target of Chanos. Creative accounting at Enron was very similar to that employed at Baldwin, the insurer covered above. Both companies had very charismatic leaders that managed to keep their ‘stories’ alive in the public eye. According to Chanos, Enron’s filings revealed a high level of both insider selling and a number of high level executive departures. These clues, as well as a number of questions arising from Enron’s public filings helped Chanos piece together the reality at the energy company.

Enron was nothing but a leveraged hedge fund sitting on top of a pipeline, remarked Chanos, quoting a colleague’s description, after they scrutinized Enron’s financials. What’s more, entities floated by company management were trading against the company in a peculiar structure that apparently had the blessings of McKinsey!

“Enron was one of the easiest shorts we ever did. People are surprised when we say that. We started shorting it around $60 in November 2000. In January, it peaked at $80, but the first shorts we did were very small in size. Then it went straight down right through the bankruptcy. There were many rallies in between, but it was not one of these great wars. It was never a bull-bear struggle. We were one of the few shorts in it even in 2001, then people came piling in. The stuff we found was hiding in plain sight as well. I have been involved in a lot more rigorous battles where companies are hiding stuff and aggressively playing games. Enron was not like that. Once you knew what you were looking for, it was easy to figure out”

“A friend of mine who was a Dallas money manager called me up and asked if I had seen the “Heard on the Street” column by Jonathan Weil, in the Texas edition of The Wall Street Journal. I had not, so he faxed it to me. It said that the energy merchant banks had gotten approval by the SEC to use mark-to-model accounting for their derivatives books. Many accounting professors were worried, given that there was not a transparent marketplace for electricity and other things that Enron and Dynegy were trading. In the hands of an unscrupulous management team, they could make the assumptions on the length of the contract, volatility, and other characteristics, and book whatever they wanted. And that is exactly what Enron did…”

“...As soon as I looked at Enron, I saw an exodus of executives leaving. There was huge insider selling at the company throughout 2000. It had all these classic short selling checklist signs: opaque accounting, odd disclosures in the footnotes about entities set up by Enron executives to trade with Enron, etc. We now know those were
the infamous Raptors and LJM Partnerships. When you spent a little time with Enron, it was clear that something was wrong and people were voting with their feet. We just did not know until the end that it was outright fraud.”

Source.

Most recently Chanos has profited from big bets against Petrobras and Vale, as well as the wider Brazilian market. Concerns over the falling oil price, iron ore price and worries about the country’s presidential election have all worked to help Chanos profit.

Articles

- Jim Chanos on Tesla at Sohn London - Business Insider
- Jim Chanos Tanked Brazil - Business Insider
- Short-seller Chanos says China seeing faster capital flight
- Chanos calls China syndrome
- Wall Street power player: We're incentivized to cheat
- The Catastrophe Capitalist
- Short Seller James Chanos Targets China's Casino Industry
- Jim Chanos: China is one large construction site
- Brazil Stocks Sink As Jim Chanos Slams Petrobras
- The New House of Money: Jim Chanos' Interview With Steven Drobny
- Chanos up as many shorts stumble
- Kynikos Alumni Start Hedge Fund Betting on Declining Stocks
- Jim Chanos' Kynikos Opportunity Fund Lost 14% in 2013
- Q&A With Jim Chanos Part III: Inside The Fall Of Enron
- Lessons in Short Selling: Why Jim Chanos Targeted Enron
- Q&A With Jim Chanos Part III: Inside The Fall Of Enron
- Jim Chanos: "Radioactive" Stuff Often In Plain Sight
- Jim Chanos on Tesla at Sohn London - Business Insider
- Jim Chanos Buys Yelp, Arch Coal, Sells Microsoft, Deere

Videos

- Jim Chanos on Petrobras, China, Fed, Hedge Funds
- What I'm shorting: Jim Chanos
- Bloomberg Radio Masters in Business
- Jim Chanos Talks Alibaba And Enron Shorts: 1987 Crash