

# KEEPING UP WITH MR. JONES

Hedge fund founding father had roots in social justice.



BY JOHN ILKIW

Alfred Winslow Jones is best known as the father of the now trillion-dollar hedge fund industry through the founding of Manhattan-

based A.W. Jones & Co. in 1949. At age 50 and with \$100,000 of capital, \$40,000 of his own and the balance from four friends, Jones began investing using an innovative combination of long and short stock positions, financial leverage, undisclosed positions, a limited partnership structure, a minimum lock-up period and a 20% profit fee structure. In the first quarter of 1949, the fund was down 0.4%, including expenses versus a 2.3% loss for the Dow Jones Industrial Average. The fund had 15 long positions, including American Airlines and Caterpillar, and eight short positions, such as B.F. Goodrich.

The fund chalked up a remarkable track record and first gained industry recognition in an article called “The Jones Nobody Keeps Up With” that ran in *Fortune* magazine in 1966. It is replete with eye-popping return comparisons. For example, over the five years ending May 31, 1965, Jones made 325% compared to the Fidelity Trend Fund, which had the best performance of any mutual fund over the same period at “only” 225%. Success spawns imitators and within two years the Security and Exchange Commission counted 140 partnerships that it considered hedge funds. All the imitators copied the hedge fund partnership and fee structure, but few actually used short positions and with the two-wave stock market collapse between 1969 and 1974, hedge fund assets declined by 70% from losses and withdrawals. Only a few hedge fund managers survived, including the Quantum Fund, managed by Gyorgy Schwartz, otherwise known as George Soros.

The accolade “founding father” belongs to Alfred Jones because the *Fortune* article explaining his market risk hedging strategy launched the hedge fund industry as we

know it today. Respected commentators such as Warren Buffett point out that other investors managed hedge funds long before Jones, including the much-esteemed Benjamin Graham in the mid-1920s. However, none of these efforts received the catalytic and copy-cat profile attributed to Alfred Jones.

A review of Alfred Winslow Jones’s personal history reveals an individual who was driven more by a desire to achieve social justice than accumulate large amounts of money. Indeed, he characterized his long-short strategy as a prudent way to protect and grow accumulated capital, with the longer-term objective of moving “...away from business and pick up my old interest in social affairs.”

Born in 1900 in Melbourne, Australia to expatriate American parents, Jones returned to the U.S. at the age of four and graduated from Harvard College in 1923. After several years working as a purser on a passenger liner, Jones served in the U.S. Foreign Service and was vice-counsel in Berlin, where he witnessed Hitler’s rise to power. He travelled with his wife through Spain during its civil war and reported on civilian relief for the Quakers. Returning to the U.S., he earned a doctorate in sociology from Columbia University in 1941, with his thesis published as a book entitled *Life, Liberty, and Property*, which is still available through The University of Akron Press. The book examines the attitude of labour towards large corporations.

Jones considered poverty a U.S. national disgrace and as a sociologist was most concerned about the “humiliated poor.” In a 1968 interview with *Institutional Investor*, Jones sported a Eugene McCarthy lapel button and lamented that the Vietnam War had put the anti-poverty effort on the back burner. Perhaps his most innovative anti-poverty effort was the creation of the “Reverse Peace Corps.” Bright foreign social workers were brought to the U.S. to work with the poor in ghettos and depressed areas. Jones died in 1989 at the age of 88. ■

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