# The Billionaire's Apprentice:

The Rise of the Indian-American Elite and the Fall of the Galleon Hedge Fund

Author, Anita Raghavan

A review by Pradeep Anand

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I knew that the book would not have a surprise ending. I knew that Raj Rajaratnam and Rajat Gupta would be found guilty and be sentenced to jail terms. Yet, I had to read the book.

And when I embarked on this reading journey, Anita Raghavan's writing was so compelling, brisk and riveting that I couldn't put the book down.

There were also many personal hurdles that could have prevented me from reading and finishing the book. Firstly, I am an Indian-American and I wasn't pleased that an icon's reputation was being dragged through the muck and destroyed. Additionally, Gupta and I have common friends, and our families had met a few times, until fifteen years ago.

Also, I knew many other members of the book's cast of characters, especially those who received their undergraduate degrees, like me, from an Indian Institute of Technology (IIT). I wasn't pleased that one of them had copped a plea.

Yet, The Billionaire's Apprentice: The Rise of The Indian-American Elite and The Fall of The Galleon Hedge Fund by Anita Raghavan kept my attention and interest throughout the reading expedition. Ms. Raghavan has an eye for details that I enjoyed. She also avoided dime store psychology to provide "insights" into the players—she just laid out the meticulous minutiae in a "just-the-facts-ma'am" manner. The reader be the judge and the jury.

The book documented a business tragedy in a journalistic way. However, a reader, who chose to delve, could conjure images, parallels and lessons, even a screenplay.

First and foremost the book has drama.

At the center is a bright but boorish seducer of Sri Lankan birth, who has an aura of financial success that makes him larger than life. His success was due in part to his Wharton/Silicon Valley/South Asian network that he "played" for insider information at publicly traded companies. On the sidelines, is a persevering star, who propels himself out of humble and orphaned beginnings, and shines and sparkles as he crosses oceans and continents, only to fall ignominiously.

While reading the book, Greek and Shakespearean tragic images can be invoked. The Great Gatsby may also come to mind.

However, to this Indian-American, the Indian Epic, The Mahabharat, was recalled. Central to that epic is Yudhishtra, the eldest of the Pandava clan, who was also known as Dharmaraj—loosely translated into the "Righteous King" or "King of Dharma".

Yudhishtra, the novice, is drawn into a game of dice by Shakuni, the expert. Dharmaraj gambles away and loses his entire kingdom in a single game. In addition, he, his brothers and family are forced to a thirteen year exile. (They do return and are victorious after a battle at Kurukshetra; but, in this context, that sequel has yet to come.)

The book has minor characters who are very intelligent but possess a common flaw—these bright people believe that they should be richer, their net worth larger, comparable to the wealth of people of equal acumen. It was a flaw that any modern Shakuni could exploit.

Add to this brew of frail human traits more ingredients: ego, greed and frayed integrity. Spark it with rising market tides and you have a dramatic crucible for schemes that go splendidly for a while, and then abruptly and explosively go awry, when the tide recedes. The persistent good guys from the SEC and the US Attorney's office come in to clean up after the party is over.

And then there is the role of chance and diligence. A pull at what seems to be a weak thread that, when pursued diligently, unravels a ball of chicanery, tied to insider information. These 21st Century Untouchables were dogged and meticulous in their pursuit, seeking those decisive informational pearls in a vast ocean of data.

The drama ends in a courtroom battle, followed by sentencing, and the accompanying shocked agony of family and friends.

There are other tugs at emotional strings: Destroying the sanctity and joy of every future Diwali (similar to Christmas) celebration, which would be remembered as the day of arrest; the deep sense of responsibility that the oldest son of an orphaned family has for his younger siblings; the empathy and sympathy for the emotionally distraught families; the immigrant's pain in being rejected in corporate America; the humiliation of being found guilty, with the family in the gallery; the irony of Preet Bharara (US Attorney, Southern District of New York) visiting Harvard Business School to lecture on white-collar crime, with one of Gupta's daughters in the class; and many more.

Besides the human drama, this tragedy is another lesson in how much successful executives, caught in the euphoria of triumphs in the market, underestimate the role of uncontrollable factors in their achievements. Two uncontrollable factors affected Galleon, its principals and partners.

The first was growth trends in the technology sector in the 1990s. As is the nature of trends, this growth was accompanied by two abrupt decelerations—one, with the bursting of the dotcom bubble, and, two, due to the stock market meltdown that began in 2007 and persisted until 2009. Bubbles create blindness to alternate scenarios, especially to markets regressing to the mean.

The second uncontrollable factor was government regulation. In 2000, the SEC passed a rule called Regulation FD. This rule required publicly traded companies to disclose material information publicly to everyone. Before Regulation FD, large investors, like hedge funds, got a competitive edge because companies could provide information to select investors and analysts.

But, after Regulation FD was passed, that edge disappeared. Hedge funds—about eight thousand exist today—had a hard time in creating market-beating strategies that could be protected from competitors and not replicated. Unsurprisingly, these funds, as a group, have underperformed the market for nine out of the past ten years.

When uncontrollable factors overpower an industry, there is some backlash of illegal activities to maintain performance standards. Ponzi schemes are well known examples of such fraud—Bernie Madoff, Alan Stanford and many others have succumbed to them. Add "seeking insider information" and Rajaratnam to that list.

Gupta was caught in the net of an elaborate trap set by the SEC, meant for this bigger fish named Rajaratnam.

The book drove home another lesson. This one goes back to a key tenet from McKinsey's own Waterman and Peters, In Search of Excellence: Stick to your knitting.

In this case, many players moved out of their comfort zones, crossed legal lines of integrity, and were judged by precedence in their new environment.

As Federal Judge Jed S. Rakoff said, "The annals of white-collar crime in this district are filled with people who wanted to make themselves respected, powerful members of society by giving to charity."

In a similar situation, on familiar turfs, where "giving to charity" was not viewed with such suspicion, Gupta's global altruism, perhaps, would have permitted more character witnesses.

Finally, the majority of the pursuers and the pursued are South Asians. Therefore, the book has substantial South Asian content.

To many readers, South Asia is a generic name for the sub-Himalayan region that includes Bangladesh, Bhutan, India, Maldives Nepal and Sri Lanka. For students of South Asia and the Indian Diaspora, Ms. Raghavan sprinkles ethnic and cultural insights throughout the book.

For example, she highlights the appreciation of quality of education these fine people received at the best of schools and colleges in India and the US.

The Indian Institutes of Technology (IIT) are engineering and management institutes whose alumni have proved to be strong innovators and highly successful executives and technologists in the corporate world, entrepreneurial ventures, academia, government and other walks of life.

It is estimated that IIT graduates have created over 500,000 jobs in the U.S. and significantly more in India and the rest of the world. Almost 40% of technology start-ups in Silicon Valley, over the last 20 years, have an IIT graduate as a Founder or CEO.

In 2005, the US Congress passed House Resolution 227—introduced by Congressman Tom Davis and co-sponsored by then Congressman Bobby Jindal—praising the stellar work done by IITians.

Today, IIT alumni hold executive positions in many of the largest global organizations, like Gupta did at McKinsey.

When I was done with the book, I was left with the question: Why do people cross that fine line that separates ethical and unethical pursuit of money and wealth?

I found an insight in recent research done by Francesca Gino of Harvard Business School and Adam D. Galinsky of Northwestern University's Kellogg School. They concluded that when people feel psychologically close to someone who behaves selfishly, they are more likely to consider the behavior to be less shame-worthy and less unethical.

Like parents often warn their children: Be careful about the company you keep.

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