Want to Run a High-Flying Hedge Fund? Don't Be a Cheapskate

Whitney Tilson's successful hedge fund sputtered and closed. Now, he's teaching others how to avoid the mistakes he made

By Anne Kadet
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Last fall, after trailing the market for eight years, Whitney Tilson closed his once-highflying hedge fund. So what's he up to now? Teaching others how to start a hedge fund.

"I did it, and I screwed it up. So I can teach you both things. What to do, and what not to do," the 51-year-old recently told me.

His $2,000, one-day "How to Launch and Build an Investment Fund" seminar is pitched at stock pickers who didn't go to Harvard or intern at Goldman Sachs, said Mr. Tilson, who did go to

Harvard and worked in the nonprofit sector before launching his fund, Kase Capital Management, from his Manhattan bedroom in 1999.

“There are super-talented investors who didn’t come down that narrow track, and good luck getting a job in the hedge-fund industry if you didn’t,” he said.

His most recent seminar was held at the swanky New York Athletic Club on Central Park South in Manhattan. Most of the students on hand said they worked in finance, but their ranks included a fashion stylist, an aerospace engineer and a real-estate broker. There were 13 men and three women. Half were white.

“In 20 years of business, this is the most diverse room I’ve ever been in,” Mr. Tilson said. “It’s usually all guys who look like me!”

Whitney Tilson, shown in 2015, launched Kase Capital Management in 1999. It eventually closed and now he is teaching others how to avoid the mistakes he made during his $2,000, one-day ‘How to Launch and Build an Investment Fund’ seminar.

Mr. Tilson said he started his fund after enjoying success with his personal portfolio, including a big bet on AOL.

“I was a bull-market genius,” he said. “I was so full of myself I decided to run other people’s money.”

He had several advantages: He was living rent-free in an apartment belonging to his wife's grandparents. And his wife, a lawyer, was earning six figures.

Don't try this at home, he advised, unless you have three years of living expenses in the bank.

Still, he noted, there are few barriers to starting a fund. He launched his own with $1.1 million raised from his parents and in-laws. He said he spent just $18,000 the first year on expenses such as a computer, cellphone and travel.

The morning's seminar presentation covered logistical issues such as how to choose a brokerage. When it comes to fees, Mr. Tilson recommended charging the usual 20% of returns plus a 1.5% management fee.

"It's an obscene and usurious fee structure, but it's the industry standard," he said. "Anything out of the norm and you waste half your time answering questions about your stupid-ass fees."

To raise one's profile, Mr. Tilson recommended taking informed but contrarian positions on hot topics. He made his name, in part, by predicting the housing bubble. CNBC called him "the Prophet."

He also made smart trades. Between 1999 and 2010, Kase Capital returned 184% compared with 2.6% for the S&P 500.

Investors came flocking. At his 2010 peak, Mr. Tilson had $200 million under management.

That performance should have attracted more business, he said. He regrets not hiring a marketing pro: "I was a stupid cheapskate in so many ways."

During the lunch break—chicken wraps, assorted salads, cookies—Bronx real-estate broker Ovan Morrison told me the seminar had inspired him to get serious about starting his own fund.

No one in his circle has $100,000 to invest, he said, but they likely would contribute smaller sums: "My mother will do it. My friends will do it."

"I feel like I've seen the promised land, being in this environment. And I can't turn back," Mr. Morrison said.

Student Eric Schleien said the class would have saved him a lot of effort had he attended before launching his own firm, Granite State Capital Management, three years ago.

"The investing aspect, I knew how to do that very well," he said. "But when it comes to operations, a lot was learning on the job."

No one shares the information Mr. Tilson presents, he said. "In this industry, they're very secretive."

After lunch, we got to the fun part: How to raise a billion dollars.

Start with friends and family, followed by high-net-worth individuals, Mr. Tilson said. The institutional money comes later.

Cultivate personal relationships with investors, he advised. Buy them gifts and bake them cookies. Give them your cellphone number.

Ugh. This business was sounding less fun by the minute.

The final topic was investor presentations and letters. Mr. Tilson showed examples of what not to do, including an investor update from a fund manager who went on for eight pages about his pet position. “If you’re an obsessive lunatic, hide it from your investors,” he advised.

I know what I’ll be doing this summer: Not starting a hedge fund.

The father of three daughters, meanwhile, said he’s happier these days, and is determined to avoid repeating his cheapskate mistakes with his new Manhattan-based venture, Kase Learning. He’s hired three employees to manage and market his seminars, and has planned a global tour of 13 cities.

“I’m $700,000 in the hole right now, and burning,” he said of his personal investment in his new business. “I hope I’ve got the tiger by the tail.”