

Orol, Ronald D. – Extreme Value Hedging

John Wiley & Sons, 2008, [Equity Investing] Grade ★★☆☆

To some, activists are a flock of locusts destroying all what comes in their way. Others see them as champions of the rights of owners and slayers of corporate waste and inefficiency. In 2000 Financial journalist Ronald Orol got assigned to the task of scanning the SEC filings called 13D to scout for news. These filings, where activists describe the strategic options they propose to companies paved the way for a carer reporting on a growing segment of the financial markets and further for this book. Having interviewed more than 50 investors Orol aims to clarify the activist investors' strategies and to explain how they think and operate. A second goal is to clarify many of the flourishing misperceptions around activists.

In the author's own words this three part book is a patchwork of narratives. Part one simply describes the activist investors themselves including the American history where today's activists emanated from the corporate raiders of the 1980s, many of the most prominent practitioners and the tools they use or niches they occupy; the goal of increasing shareholder value (or in some cases simply the shorter term share price); how they have come to work more in groups – or wolf packs as Orol calls them; the type of companies and topics targeted plus the US regulatory playing field. This is done in a number of chapters covering one topic that is then exemplified by a number of real life stories collected in the interviews. The next segment covers the relationship between activists and institutional investors. On the one hand institutions are the ones funding most activists as they have shown to generate good returns that are often relatively uncorrelated to those generated by the institution itself. Activists are also at times seen as those who have the resources and skills to fight for the same shareholder rights that institutions cherish but

either cannot or will not champion as openly. This gives activists invaluable firepower when pressing corporations for change. On the other hand the relationship at times turns sour when activists take a too short-term stance and try to force actions that potentially hurt the long term value of companies. As the institutions will be owners long after the wolf pack has moved on this is clearly not in their interest. The last section is called Activism 2.0 supposedly pointing to future developments but is rather a hodgepodge of other related topics including amongst others an interesting chapter on the relationship between value investing and activist investing and an overview of international markets.

My main problem with the structure of this book is that although it is packed with short war stories and name-dropping, it lacks analysis, structuring and conclusions drawn from the material. As a reader you find yourself wanting to take a step back to see a fuller picture and to understand the direction of the book. Without this the text becomes a bit uninteresting. Also, I somewhat thinks the book misses to portray the more operational and strategic changes that activists try to accommodate. All too often the activist agenda is described as either trying to apply leverage to the corporate balance sheet and distribute the cash to shareholders or simply trying to force companies to put themselves up for sale. Even so, the book gives a number of valuable insights into the large international differences when it comes to shareholder rights where the corporate governance in the US is very much staged in favour of management instead of the shareholder.

All in all this is one of very few books on a fascinating subject but it could have been better crafted.

Mats Larsson, May 14, 2014