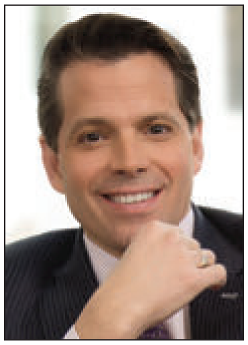
The SkyBridge Story

An Interview with Anthony Scaramucci,
Founder and Co-Managing Partner, SkyBridge Capital



Anthony Scaramucci

EDITORS' NOTE *Anthony Scaramucci is the author of* The Little Book of Hedge Funds: What You Need to Know About Hedge Funds but the Managers Won't Tell You, *and* Goodbye Gordon Gekko: How to Find Your Fortune Without Losing Your Soul. *Prior to founding SkyBridge, Scaramucci co-founded Oscar Capital Management, which was sold to Neuberger Berman, LLC in 2001. Upon Neuberger Berman's sale to Lehman Brothers in 2003, he served as a managing director in its Investment Management Division. From 1989 to 1996, Scaramucci was at Goldman Sachs & Co., where in 1993 he became a vice president in Private Wealth Management. Scaramucci earned a B.A. in Economics from Tufts University and a J.D. from Harvard Law School. He is a board member of Warrior Gateway, The Brain Tumor Foundation, and Business Executives for National Security, and is a member of the NYC Financial Services Advisory Committee. Scaramucci is the recipient of the Ernst & Young Entrepreneur Of The Year® 2011 New York Award in the Financial Services category.*

COMPANY BRIEF *SkyBridge Capital (skybridgecapital.com) is a global investment firm with approximately $10.9 billion in assets under management or advisement as of May 31, 2014. The firm offers investment services for commingled funds of hedge fund products, customized separate account portfolios, and hedge fund advisory services. SkyBridge provides investment management products, including long-only mutual funds, portfolio management, and advisory services addressing every type of market participant. Headquartered in New York, the firm also has a presence in Zürich, Switzerland.*

Is true recovery taking place and are there opportunities for growth in this market?

There is a general hesitancy by most allocators of capital, so if you define CEOs in the U.S. as allocators of capital, they are hoarding cash now because of policy uncertainty, growth uncertainty, some geopolitical uncertainty, and the rise of China.

With these factors plus low interest rates, one can raise a lot of money in the debt markets and put it on the balance sheet.

These are all defensive postures that would make psychological sense given the fact that in 2008, we had a crisis such that no one living had ever witnessed before.

The U.S. needs corporate tax reform every 25 years. It's hard to do that. Before the 1986 tax reform, the last tax reform was in 1952. Any good student of policy knows that you have to strip down the corporate tax code, even the personal income tax code, every 25 years. We're in our 28th year without tax reform, so you have thousands of pages of regulations built up. Then CEOs start focusing on avoiding taxes as much as they are focused on making product. You see all these tax inversion mergers going on now.

So we need tax reformation and better guidance from the U.S. government. We have been operating the government on a continuing resolution over the past six years.

A President needs to submit a budget and Congress needs to pass the budget. Then you will have more long-term guidance and the economy will start to grow again.

Internationally, many look at the problems that China and Brazil have experienced. Are these natural growing pains or systemic problems?

They're not systemic as much as cyclical. But what we learned in 2008 is that when the U.S. catches a cold, the rest of the world gets pneumonia.

In 2007, the buzzword on Wall Street was "decoupling." The world was so strong economically that it was going to decouple from the U.S. and it didn't matter what happened to the U.S. economy – the rest of the world would continue on its growth track. But that's not true.

We also know the world is super tied into Federal Reserve monetary policy. So anytime the fed jawboned a rise in rates, you saw the emerging markets quake.

Until the U.S. starts growing again the way we think it can, you're going to see this desultory pattern in emerging markets.

Has true reform taken place since the crisis in 2008?

There has been reform, but have we done away with too big to fail? Most people in our industry would say that is not the case.

I'm actually more worried about deflation than inflation. We fought an inflationary-based war in the '60s, '70s, and '80s, and everybody is girded up for inflation. But I'm seeing an excess supply of goods and services, and pockets of deflation in Europe and other parts of the world if you think about their factory capacity. The reason the Fed hasn't moved is they're also worried about deflation.

Why is deflation the worst thing in the world? It has to do with debt destruction.

If I'm making $50,000 a year and I have $350,000 in debt and we have deflation, my wages are going down to $25,000. My debt remains constant. In an inflationary environment, you're paying back the money with dollars that are worth less than the dollars you borrowed. Inflation is positive for the person doing the borrowing. In a deflationary environment, the person borrowing the money is crushed. Debt destruction means he cannot pay the debt back, so that debt has to be marked on the balance sheet of the lender. This is a world annihilation for a modern economy.

How much can be done to prevent this from happening?

The Fed is doing it. You can do a lot from a monetary policy perspective, but you can't do it all because you need wage growth, which will stop any type of deflationary spiral. The U.S. hasn't had any wage growth in 10 years. Purchasing power is down; over the past six years, since the crisis, it is down about 9 percent.

If you get a combination of purchasing power being down and no wage growth, show me where the inflation is. People will tell me it's in food and energy prices. But when you look at the total pie of goods and services, that is a slice and it's an important slice, although it doesn't show you the whole pie.

Prices are down all over the place. You can't cure it through monetary policy, but the good news is the Fed is aware of the problem and they're on top of it.

What moves allowed you to maintain the firm's success after the financial crisis?

The first move was the decision to not take a defensive posture. We went forward in an aggressive way. We started the SALT Conference in Las Vegas. The reason the conference business is so successful is that people are getting off of their smartphones and interacting with others. We predict these events will continue to grow throughout all industries.

Second, we contacted Citibank because we learned they had to shed non-core assets and wanted to see if they had any assets that would fit with our existing business. There were, so we bid on and bought those assets right after the crisis.

We're at $11 billion today because we were successful at integrating that management team with our management team and making it one firm. ●