

THE FUND

RAY DALIO,
BRIDGEWATER ASSOCIATES,
AND THE UNRAVELING OF
A WALL STREET LEGEND

ROB
COPELAND

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When you're rich, they think you really know.

—“If I Were a Rich Man,” *Fiddler on the Roof*, 1964

AUTHOR'S NOTE

Ray Dalio does not want you to read this book.

He told me as much. At the start of this project, I reached out to him by email to seek his perspective. He responded with skepticism about my intentions. After considerable back-and-forth, he elected not to be interviewed, as is his right.

I am endlessly grateful that hundreds of people in and around Bridgewater Associates trusted me with their time, and with their experiences. I also relied on contemporaneous notes, emails, recordings, court records, myriad other internal and external company documents, and published interviews and articles. All of the names that appear here are real, except for one pseudonym, used to conceal the identity of a former employee who alleged sexual misbehavior.

In some instances, the dialogue in this book comes directly from the subject; in others, it is from others in the room, or people briefed afterward, or those who listened to recordings of an event. It should not be assumed that the people quoted spoke to me. As the Pulitzer Prize-winning author James B. Stewart wrote, “Given the vagaries of human memory, remembered dialogue is rarely the same as actual recordings and transcripts. At the same time, it is no more nor less accurate than many other recollections.”

As for Dalio's own recollections, the public lacks no opportunity to hear them. He wrote a bestselling autobiography-cum-self-help book, *Principles: Life and Work*. Over the past decade, he has given hundreds of media interviews on five continents, preaching the gospel of Ray. He's appeared on major broadcast and cable networks, popular podcasts, and magazine covers. He was interviewed by Gwyneth Paltrow. As of publication, nearly 2.5 million people follow him on LinkedIn. His TED Talks have been viewed nearly 7 million times and his most popular YouTube video more than 34

million times.

While Dalio is hardly the first financier to develop a taste for the spotlight, he might be the first to claim that he alone has discovered the solution to what he sees as two of mankind's greatest challenges: Our reluctance to disagree with one another, and our desire to pursue meaningful lives. Dalio has for years stuck to a narrative that all Bridgewater employees are judged on an equal playing field, and that any difference in rank or authority was due only to a rigorous system that susses out merit. The truth is rather more Orwellian. At Bridgewater, some are more equal than others.

This is the story of Ray Dalio, the most equal one of all.

—ROB COPELAND

INTRODUCTION

A few minutes after hanging up the phone, Paul McDowell carefully smoothed his button-down shirt, knelt in the snow, and dry heaved.

McDowell wasn't so much upset as overwhelmed. The balding Canadian tended to shy away from big risks, yet he had just taken the biggest gamble of his life, negotiating with one of the world's wealthiest men—and winning, or so it seemed. Not for the last time, he wondered what the hell had just happened.

When his cell phone rang earlier that afternoon, McDowell was seated at his desk in the tiny office that counted as the Canadian headquarters for BearingPoint consulting, the sort of sad corporate advisory firm that picked up the projects that McKinsey & Company wouldn't touch. He picked up the phone and heard the low, gravelly voice of Ray Dalio.

“Paul,” Dalio said, skipping any small talk, “it's so hard to find anyone like you.”

McDowell felt his chest fill with heat. That anyone was calling at all—let alone laying on compliments—was its own feat. If McDowell was known at all to his colleagues elsewhere in the company, it was simply as the Canada man. Unlike many consultants, he loathed the slick presentations or client glad-handing endemic to the career. But divorced and in debt, he needed his well-paying job. He had made himself an expert in technology infrastructure, human resources, and compensation management—dull topics, but areas where hard work and a high tolerance for spreadsheets could whittle out a corporate life. Though McDowell often felt underappreciated, he also valued being something of an expert in how to find novel ways for BearingPoint's clients to make small changes that had big impacts on their operations.

It was confusing, and deeply flattering, that someone like Ray Dalio had sought him out. Dalio wasn't just any business titan; he was founder of one of

the world's largest hedge funds, Bridgewater Associates, and a burgeoning celebrity in the financial world.

This was December 2008, and while most of Wall Street was being thrashed, Dalio was having the best year of his professional career. He had famously rung the alarm on the housing bubble, publicly warning a year earlier that mortgages seemed on the brink of collapse. He looked like an oracle, and so now Federal Reserve chief Ben Bernanke—the world's most important banker—consulted with Dalio on how to pull the country out of its tailspin. A week after McDowell's phone call, the *New York Post* would write, "Dalio has been so prescient about the state of the economy that reading his daily observations has been like reading the financial papers two weeks in advance."

The idea that Dalio needed McDowell made little sense. McDowell was one of a slew of consultants Bridgewater had brought in, and he helped not with the investments that made Dalio so much money, but the less sexy work of cleaning up back-office processes. But as Dalio described his situation, McDowell began to see how he could help. Bridgewater was growing at a punishing rate, Dalio explained, and he needed help to oversee the day-to-day management of the firm. He spent much of his time traveling the world, meeting with wealthy individuals and institutions and advising them on what to do with their money. McDowell, Dalio said, could be just the man to tend the store at the hedge fund's Connecticut headquarters.

BearingPoint had done some consulting work for Bridgewater and helped the hedge fund design a system to analyze talent, saving it money. McDowell figured his team had done a pretty good job because in 2008 alone Bridgewater added 211 new employees, ballooning the firm's ranks by more than a third in just one year. McDowell had not interacted much directly with Dalio, but when McDowell had, he had noticed immediately that Bridgewater's staff seemed in awe of the founder. There was scarcely a meeting where Dalio did not stop to share lessons from his experience, as those around him furiously scribbled down notes. His words were cited constantly by others, whether he was present or not.

One afternoon, while working out of a conference room at Bridgewater's headquarters during a torrential rainstorm, McDowell spotted the billionaire Bridgewater founder helping underlings dodge puddles as they carried in catered trays of lunch. McDowell made a mental note that such an important

man would pitch in even when it seemed nobody was watching.

McDowell knew that Dalio had a reputation for hiring the best, regardless of résumé. Dalio would often say that he weighed values and character over specific skills. He instructed Bridgewater's recruiters to prize logical thinking and a tolerance for frank feedback from all employees, from the C-suite down to Bridgewater's janitorial staff. Don't just hire people to fit the job, Dalio would say, but people with whom you want to share your life. McDowell, Dalio now told him, was one of the few people the Bridgewater founder had met who met the mark.

"I think you would be fantastic," Dalio told McDowell. "You absolutely understand the way we are, and you can do anything here you want. You could even run the company."

McDowell was flabbergasted and momentarily speechless. That didn't matter much, because Dalio blazed ahead with his pitch, launching into an extensive explanation of McDowell's broad future responsibilities at Bridgewater. They included finding a way to reorganize staff across the company in accordance with Dalio's unique values. Dalio was on the hunt for a new chief executive to take over when the founder retired, and he told McDowell that he was one of a handful who could get the job.

"Paul, I am so thrilled about our partnership," Dalio said, finally wrapping up. "What do you say?"

"Ray, my only concern is that I've noticed that a lot of people seem to be intimidated by you. I don't want us to have that kind of relationship. I'd like us to be able to be very honest and straight with one another and not worry about that."

There was a long pause before Dalio responded. "I think the problem with those people, Paul, is that those people can't distinguish between 'goal' and task. You absolutely understand things at the 'goal' level." Finally, McDowell thought, here was someone who saw him as a leader.

McDowell asked about salary and was quoted a generous sum, more than a million dollars in the first full year alone including a bonus. "You'll make a ridiculous amount of money. Soon you'll be making *millions* of dollars," Dalio said.

Dalio then asked what McDowell was currently making, and in the spirit of the honesty the two men had just pledged, McDowell answered truthfully: Bridgewater's base salary alone was \$100,000 higher than his current pay.

“Okay, actually, then that’s what I’ll pay. I only pay people what they’re currently making,” Dalio said airily.

McDowell’s skin prickled. He had just been dangled, and had now apparently just as quickly lost, what seemed to him a small fortune. “Wait, you just said what I was worth. Why would I take less than what you believe me to be worth?”

“I can’t believe a hundred thousand dollars a year is going to make a difference to you to join this place. Don’t let that guide your choice.”

The two men began to talk over each other, until it was clear Dalio’s patience for this conversation had worn thin. “All right, Paul, I never, ever, ever do this, but okay, I’ll pay what you ask. That’s the deal.”

The billionaire wished him a merry Christmas, and the line went dead.

★ ★ ★

THE DAYS and weeks that followed were a whirlwind for McDowell. He didn’t for a moment take it for granted. He was forty-eight years old and reasoned he was long overdue to catch a break.

A descendant of coal miners in northern England on both sides for generations, McDowell came from what could charitably be called a modest background. The closest his family had ever come to glory was when his father briefly served as a guard clad in the traditional red dress uniform and bearskin hat outside Buckingham Palace during World War II. McDowell’s parents moved to Canada three years before he was born, to a poor neighborhood on the outskirts of Toronto.

Though they were north of the U.S. border, the family in many ways exemplified a traditional American work ethic. McDowell’s father rode a bicycle to work at an oil refinery and would return home after a long, dirty day only to head straight to the basement for a punishing sequence of pull-ups, push-ups, and sit-ups. He discouraged the household from watching a smash television hit of the era, *Hogan’s Heroes*, because the sitcom mocked German soldiers. McDowell’s father never quite lost his wariness of, and respect for, the other side, and he ingrained in his son a lingering vigilance against unsuspected dangers.

McDowell faced a lot of dangers growing up. He was perennially slight of build compared to his classmates, a distinction that became only more

prominent when he skipped most of the fourth grade. He avoided attention from high school bullies by offering free tutoring in calculus. His voice hadn't changed by the time he went to college, where he spent much of his spare time in the library reading book after book on ham radios, the Soviet gulag, and the Watergate scandal.

In search of greater meaning to underpin a career, McDowell became fascinated by research into how to effectively manage a workplace through a controversial system called requisite organization. The theory posited that employees should be tested and ranked by their overall problem-solving ability—known as stratum—and that managers must always be more capable of complex, broad thinking than their subordinates. The downside, among others, was that requisite organization encouraged a highly structured corporate hierarchy that bordered on a caste system and justified extreme pay gaps between executives and the lower ranks. Lower-level workers, the theory held, were not merely performing different work from that of their superiors, but were intrinsically different from them; people were assigned work to which they were innately capable.

At Bridgewater, McDowell found the perfect petri dish for his interests. He started in March 2009 and was immediately thrust into weeks of emergency meetings. Everyone seemed in a panic to justify his or her position, in what McDowell would later learn was one of Dalio's regular reorganizations. The current reorg, McDowell was told, stemmed from Dalio's big-picture view of the economy. Convinced that the global financial recession was still in its early stages, Dalio had sought a series of what he called "beatdowns" inside Bridgewater. Most departments' budgets, no matter how small, had to be slashed by 25 percent.

Most interestingly to McDowell, Dalio was willing to take the same approach to personnel. On one of McDowell's first days, Dalio reminded him that just as the firm's hedge fund was, at its core, a machine, so was each person who worked there. The key was to figure out which people (Dalio called them "pieces of equipment") worked best together to produce the desired output, and to get rid of any unneeded parts.

Though McDowell found the approach a little impersonal, he saw its merits. Management as a machine, with its emphasis on the subordination of different roles at a company to one another, was just a rougher version of the philosophy of requisite organization. And one thing seemed certain: Dalio's

approach—beatdowns and all—was wildly successful. A month after McDowell started, industry researcher *Alpha* magazine announced that Bridgewater had leapfrogged no less than blue-chip firm JPMorgan & Co. to operate the world's largest hedge fund.

True to his word, Dalio immediately began relying on McDowell's advice. Dalio appointed the Canadian an adviser to the firm's management committee, which gave him an immediate seat at the table for decisions debated among the firm's top executives. Dalio often asked for McDowell's advice. By year-end, he had assigned McDowell to help figure out who at Bridgewater should be shifted into a different part of the machine or cut. McDowell suggested that evaluating employees on their stratum might prove helpful. Dalio loved the idea. *Let's do that immediately*, he said.

Eager to impress the boss, McDowell flew in a stratum expert. The three sat around a small table as their guest explained that stratum rankings were intended to help assign people into positions that fit them, roles that were neither too simple nor too complicated. Individuals underwent psychological interviews and were then ranked from stratum levels one through eight, based on their ability to independently process complex assignments. A factory worker might be a level one stratum, for instance, while the ideal chief executive would be ranked at least a level five.

Dalio pointed at McDowell. "What's he?"

The expert said that McDowell was roughly a six, stressing that this was a measure of cognitive judgment and temperament, one with the potential to evolve over time.

Dalio snorted and turned to McDowell. "If your stratum is so high, how come you're not a billionaire?"

McDowell swallowed hard before coming up with a response. Stratum, he told Dalio, was only one measure of a person. No single model could account for someone's age, accumulated wisdom, values, or background—to say nothing of just plain luck.

Even a high-stratum person, McDowell said, could wind up poor, and vice versa.

Shortly after, Dalio pulled McDowell aside and said that, while he liked the idea of stratum, he thought it could be improved and expanded. His idea was to rate and rank employees on different attributes that he had come up with over time. There were seventy-seven in total, such as determination and

standing up for what is right. The ratings would be listed on what would eventually be called a baseball card, much as major league players had statistics listed for their win/loss records and so forth. The baseball cards would give everyone at Bridgewater a picture of everyone else's strengths and weaknesses. Everyone would rate one another, everyone would get a vote, and everyone would be judged in the same categories. Even better, every bit of information on every baseball card would be visible to all, so there would be instant accountability and no hiding the truth.

Dalio suggested to McDowell that perhaps he would like to take a leading role in the initiative.

McDowell was thrilled. This was exactly the sort of project he'd been studying for years—and one that could make his name at the hedge fund.

The assignment quickly turned into a headache. McDowell created one working prototype after another, only for Dalio to add and subtract new categories seemingly at whim. Many seemed less than scientific; one was called “practical” while another was “practical thinking.” While it was easy to measure a professional athlete on balls or strikes, Dalio's metrics included nebulous areas such as “visualization.” What was that, and could it, or similarly subjective areas such as creativity, even be numerically ranked?

One upside to the chaos was that McDowell had constant access to the boss. Dalio would often invite McDowell into his office, where the Bridgewater founder would lean back in his chair, chewing on Scotch tape, the dispenser refilled by an assistant, and review the cards' progress. The goal of all the ratings, Dalio would say, was to sort everyone at Bridgewater on a single scale. He often brought up new ideas; in one instance, he told a Bridgewater team to imagine training everyone to be a ninja, and then cloaking everyone in different colors, rather than sashes, to denote the best fighter. At Bridgewater the most important, overarching assessment would be called believability.

At one confab with McDowell several months into the project, Dalio took out an index card and jotted the word *believability* at the top, circling it several times, and drawing squiggly lines running down from it. Believability would be an amalgamation of all the ratings in each category and be listed in bold type at the top of the baseball cards. People at Bridgewater with high believability in certain categories would have their ratings of others counted more heavily than others. Dalio called this “believability weighting.” What

sense did it make to have the custodial worker's word ranked the same as the firm founder's?

McDowell understood the appeal of overarching ratings, but he thought Dalio was missing a crucial complication. "You can't do that," McDowell told his boss. "You can't average the numbers there.... That's like taking your shoe size, adding it to your body temperature, and adding it to the time of day, and then dividing by three, and having it to the third decimal point, and thinking you have discovered something."

That analogy didn't seem to land, so McDowell tried another. "These ratings are not like a blood test that actually tells you what your white cell count is. They are approximations. They are just people's opinions of each other."

Dalio looked at McDowell, then gestured to the index card, the lines dribbling down from top to bottom. "Believability cascades. You should have done this. I just did your job for you."

Dalio walked out.

★ ★ ★

BY NOW McDowell had figured out that when Dalio said he had a solution to a problem, it was best not to argue. McDowell pledged to give believability a shot.

For months, he sketched and tested the idea. He asked top employees to rank one another on the notion of who was most trusted to make decisions in a given subject matter, starting from the top. The system began to work a bit dynamically. If a slew of Bridgewater executives gave an underling overall positive believability ratings, the subordinate's own opinion would begin to carry more weight. McDowell began to see how believability could be a way to identify talent across the hedge fund. Employees seemed to take to the idea, too, seeing it as a way to prove they were deserving of advancement. McDowell rolled out a prototype inside the firm in which staff could see one another's believability ratings on a one-to-ten scale.

Not long after that, McDowell's phone buzzed with Dalio on the line.

It was the first time the Bridgewater founder had called him one-on-one since his job offer in Canada. McDowell hoped for a compliment, but instead Dalio's voice snapped with anger:

“Why doesn’t believability cascade?”

It does, McDowell explained. The baseball card prototypes crunched tens of thousands of data points.

Dalio didn’t seem to see it that way. One of his subordinates had just flagged for him a suspicious finding: two people inside Bridgewater—one in investment research, the other a lowly information technology grunt—had higher believability scores than Dalio himself. People were beginning to whisper about it.

McDowell explained to Dalio that this was a sign the system was working, that Bridgewater was fishing out the pockets of talent in its ranks—exactly as Dalio had asked him to do.

Dalio’s voice made no secret of his irritation. Why doesn’t believability cascade *from me*?

McDowell thought back to Dalio’s index card drawing. He realized that Dalio hadn’t been sketching out the mere concept of believability on top. He had drawn himself quite literally at the head, bestowing believability to all beneath him.

The fix was obvious. McDowell assigned an underling to go into the software and program a new rule. Dalio himself would be the new baseline for believability in virtually all important categories. As the original, topmost believable person at Bridgewater, Dalio’s rating was now numerically bulletproof to negative feedback. Regardless of how everyone else in the firm rated him, the system would work to keep him on top.

It would take more than two years to perfect the rigging of the believability system. The system was then rolled out for use on iPads, so that Bridgewater employees could input scores of one another in real time and see their scores dip or rise. Dalio’s own ratings, hardwired into the system, remained sterling.

The man responsible for making Ray Dalio the paragon of believability would receive the promotion of his life. At year-end 2011, McDowell sat down with Dalio, and the Bridgewater founder handed over a sheet of paper on which he’d written McDowell’s bonus for the year.

Dalio told McDowell that he would now be let into an inner ring at Bridgewater, the relatively small group of staffers who received what was known as phantom equity, or an ownership stake in the firm itself. Every quarter, McDowell would receive a check with a portion of the fees

Bridgewater had earned from its clients.

Dalio grabbed the paper and scratched out the figure he'd handed over just a moment earlier. He replaced it with a new number \$300,000 higher. McDowell was stunned at the amount of money so casually changing hands. Dalio handed the paper to McDowell and waved his hand toward the door, signaling him to leave with the new scribbles. "Just tell them that I gave you more."

As McDowell reached the door, Dalio spoke one more time.

"This means you're part of the family."

Part I

1

ONE GODDAMN PLACE

Nine months after Paul McDowell received the phone call that would change his life, another Bridgewater employee collapsed into tears. It wasn't ordinary crying, but a full-on meltdown, complete with chest heaving, gasping for breath, and animalistic sobbing.

Thirtysomething, with shoulder-length blond hair sagging limply, Katina Stefanova wasn't used to being in this position. She was, as widely viewed inside the firm, one of Ray Dalio's favorites—and she was usually the person who made other people cry. Her colleagues called her the Ice Queen.

Stefanova briefly looked around the table; a stoic clique of men and women stared back at her impassively. The late-summer sun streamed in through the windows, illuminating sterile white walls, fading carpeting, and industrial lighting that kept the whole scene punishingly in focus. If Stefanova craned her neck, she could catch a glimpse of a murky river—more a creek, really—winding aimlessly around the parking lot of the medieval-style stone building. The Middle Ages, she would later reflect, was an apt metaphor for the goings-on here.

This was 2009 in Westport, Connecticut, an immodest waterfront town on Connecticut's so-called Gold Coast about a ninety-minute drive northeast of New York City. A few miles north of downtown lay the backcountry, a thicket of massive Tudor-style mansions and matching guardhouses. Not far from a private school that instructed elementary schoolers in Latin and ancient Greek, a driveway shot off the main thoroughfare. A just-visible sign read, with no further details, ONE GLENDINNING PLACE.

Some would later coin another nickname: One Goddamn Place.

They didn't call her the Ice Queen for nothing. Stefanova had been through a lot, and she wasn't quick to crack. Pretty and tall, with long, straight blond hair and brown eyes, she had been forced to learn, early in life, to rely on herself. Stefanova grew up in Communist Bulgaria, the eldest daughter of a mechanical engineer father and chemist mom. In 1989, when she was twelve, the Berlin Wall fell and took her dad down with it. He lost his job, his hair, and briefly his mind. He started his own metallurgy company, became a multimillionaire, and lost it all again in 1997 to hyperinflation. He started over a third time.

By then, Stefanova was gone. She had met a group of Mormon missionaries in Bulgaria, who encouraged her to apply to Brigham Young University. Without telling her parents, she applied and convinced her grandfather to cover the one-way ticket. She wound up at one of BYU's junior college annexes, a two-year school in Idaho, with \$200 in cash stuffed in her pocket and a thick accent that didn't help her make local friends. She worked every possible odd job. She helped keep the college grounds, worked in the library, and tutored. She was married not long after graduation.

A progression of rather staid corporate jobs later, she landed at Harvard Business School. There, she set her eyes on high finance. Though investment bankers and traders still ruled the roost in movies and television, in Cambridge in the spring in the mid-2000s, the most ambitious students aimed for hedge funds, a term that could mean just about anything. Some hedge funds purported to simply pick the best stocks, borrowing money to supersize their bets on or against companies they thought were due for greatness or for a crash. Other funds exploited kinks in the market, finding patterns in the ups and downs that their rivals were either too dumb or too lazy to discover. Still others hired scientists to write computer programs to decide automatically what and when to buy and sell.

One of the largest hedge funds on earth was Bridgewater Associates, and lucky for Stefanova, the fund was run by an HBS graduate, Ray Dalio. Founded more than two decades earlier, Bridgewater had stayed low profile even as it became enormous, investing more than \$100 billion worldwide. Dalio was said to have prodigious skill at spotting, and making money from, big-picture global economic or political changes, such as when a country would raise its interest rate or cut taxes. This made both a lot of sense and