David Tepper had had enough. It was late 1992, and the 35-year-old had just been passed over for the coveted role of partner at Goldman Sachs for the second time. Tepper had risen through the ranks as a junk bond trader, raking in millions of dollars for the venerated financial institution, year after year. He had worked so hard, and thought to himself, damn it, it just wasn't fair. But at least this year's snub wasn't a mystery. Tepper knew the reason very well, which was why it was time to leave.

When he landed at Goldman in April 1985 after leaving his job as an analyst at Keystone Mutual Funds, he was 27 and thought he had hit the jackpot. Goldman was starting its new high yield group, and Tepper had signed on as a credit analyst for the team. From behind his gargantuan mahogany desk in his office in Short Hills, New Jersey, the now 54-year-old Tepper recalls how he soon realized he didn't want to be an analyst, but wanted to be in the hot seat, trading. "I really wanted to learn about this trading business, and the guy running the desk at the time was not really a corporate guy," says Tepper, who, at a stocky six feet tall with bright, baby blue eyes, looks more like a linebacker than a human calculator. "He wasn't good at understanding companies and was more familiar with how interest rates moved so he wasn't really right for the job." Within six months, Tepper earned the right to move up.

Gearing Up at Goldman

Tepper had worked like a dog while he was a credit analyst at Keystone, but when he made the move to Goldman Sachs he did not exactly receive an enthusiastic welcome from his colleagues. Travelers Corp. had acquired Keystone in 1979, and, he says with a chuckle, "Travelers cut Goldman off when they hired me. It was a bit hard going in there because a few of the salesmen were so pissed off at me that Travelers wouldn't do business with them. But, by the end of the year, they decided to make me a trader because they thought I knew what I was doing," he says. That wasn't the only surprise for Tepper that year. He had signed on to the job in April 1985 for a salary of $150,000, far more than he had been making at Keystone. "My boss called me off the trading floor into his office for my year-end review and told me

they were going to give me the entire $150,000. I was ecstatic," he remembers. "I thought they were just going to prorate it and had no idea how the place worked or anything about bonuses. I was just happy, you know—just stupid."

The following year, Tepper made even more money for Goldman and became the head junk bond trader. Around bonus time, Tepper was again ecstatic. "They paid me some amount which was so low for what I was doing but I had no idea—I couldn't be happier." He was anxious to get home to tell his wife Marlene the good news, but first he had to make a stop at the local 7–11 to buy sugar wafers for their celebration. The $600,000 paycheck was the largest he had ever received in his life. "I didn't know that I was still underpaid!" he roars. The next year he continued his winning streak, making more money for the firm during the stock market crash of 1987. "Going into the crash I had set up my entire portfolio as just short—I had no long positions. I made a fortune during and after the crash," he says with a chuckle. "It was very cool." Unfortunately, the rest of the firm didn't do as well. "I still got a raise but not as much as I should have."

Despite his stellar track record, Tepper wasn't the best-liked person in the department—mainly because he wasn't afraid to stand up to others who weren't 100 percent focused on the job. Eighteen-year-old chess prodigy Boaz Weinstein (who went on to develop the credit-derivatives department of Deutsche Bank and now runs $5 billion Saba Capital) was an intern on the trading floor with Tepper under David Delucia. Weinstein had a stroke of luck after stopping by Goldman one afternoon to visit his sister, Ilana. Weinstein had been trying to get an internship at the firm without success. After being told there was nothing available, he stopped in a bathroom on the way out and ran into Delucia, then the head of corporate bond trading. Delucia, who was ranked an expert by the U.S. Chess Federation, had played Weinstein, who already ranked a master, many times. He arranged for a series of interviews until Weinstein got an internship on a Goldman trading desk.

"I don't really even think he was an intern," says Tepper about Weinstein. "I think he was just there to play chess with Delucia and I didn't understand it so I just gave them both so much shit about it. I used to be like, 'What the hell's this guy doin' here? Why's he hangin' around?'" he remembers. To kill time, some days Tepper would shout

out trivia questions like, "Guys, guess how many synagogues there are in Michigan?" and it would be Weinstein's job to look it up. "This was before there was Google," he laughs. "But I would still always be right. I used to be very good at history."

Tepper remembers a few occasions when he even argued with the late Fischer Black, the prominent economist who co-authored the famous Black-Scholes option pricing formula. Occasionally, Black would go down to Tepper's office and question certain positions he was taking. Black advised Tepper that the debt was overpriced and that he should buy the equity instead. Tepper remembers responding, "Fischer, if I listen to you, I'm gonna be fired. You're probably right over the longer term. But in the next three months, I don't think you're right. If I listen to you, I'm gonna get killed."

Pulling in the Profits

Tepper's instincts were impeccable. He continued to pull in millions for the firm and was up for partner in 1988 and then again in 1990. By 1990, at the age of 33, being passed over for partner was very upsetting. "I kept making the firm so much money."

Case in point: the 1990 savings and loan crisis. Tepper bought the holding company paper of troubled financial institutions like Republic Bank and MCorp. He understood that even though the failing banks were being seized by the government and reopened under new owners, the bank holding companies were in great shape, with billions of dollars in cash and other nonbranch assets. Tepper realized that the government couldn't break into the holding companies to take those assets.

But at the same that Tepper was raking in big profits at Goldman, the P&Ls of other books across the bank were just managing to stay in the black. Also, when he joined the junk bond group, Tepper took bankruptcy investments away from the risk arbitrage desk and became caught in a turf war. But his bigger fights were with the corporate finance team over trading for an internal fund investing for Goldman. Tepper thought some of the trades they were asking him to make were inappropriate, and so he notified the legal department, a move that seriously angered the finance team. "I just didn't give a shit," he says.

"What was I going to do? Trade for them when I think they're doing something that's wrong? And then not see my kids again because I'll get blamed for the trades? So I didn't do the trades, but I didn't get made partner either."

Even Tepper's mentor Robert Rubin couldn't help him make partner. The legendary head of Goldman's international risk arbitrage desk had left the department by the late 1980s and served as co-chairman of the firm from 1990 to 1992, when he left Goldman to join President Clinton's economics team, first as the director of the National Economic Council, then as the Secretary of the Treasury. After Rubin moved on, Tepper continued to turn to him for advice, which didn't sit well with Jon Corzine, the new co-head of the fixed income department. "I think that's pretty public," says Tepper. "People say that I basically kept going to Rubin instead of Corzine but it wasn't for political reasons. It was just because Rubin knew what was going on with equities and Corzine was a Treasury guy that didn't know corporates. I wasn't disloyal to him, but I wasn't one of his boys," he says. "I was stupid because I was just working hard and wanted answers and to be as efficient as possible. I wasn't trying to screw or not screw anybody."

"A" for Appaloosa

Tepper knew by then that he was ready to strike out on his own, and so by early 1993, after eight years at Goldman Sachs, he made his move. With the assistance of mutual fund legend Michael Price, who had been a Goldman client, Tepper started trading aggressively for his own account off of a borrowed desk at Price's office, hoping to raise enough money to start a fund. Just a few months later he was ready to launch with partner Jack Walton, a former senior portfolio manager for Goldman Sachs Asset Management. They had collected $57 million in assets from fund of funds, insurers, and investors they met at Goldman.

Tepper and Walton only needed the perfect name for their new venture. Greek mythology was popular at the time and they first decided on Pegasus, the flying horse, before discovering it was already taken. So Walton went to the library and came back with a book on horses. They knew they needed a name that started with "A" to be first to

receive faxes on trades, which was how orders were processed back then. They had learned well from their stints at Goldman that two minutes could make or break you. The first name they came across was "Achaikos," but they found it too hard to pronounce. So they skipped ahead and settled on "Appaloosa." And the fund was born.

Growing up, Tepper always wanted to be a millionaire by the time he was 30. "Like many kids, growing up without much money was inspiration enough to do well," he says. Barely into his early 30s, Tepper was on the brink of building a business that would go on to earn him billions, making him one of the richest men in the world before his fiftieth birthday.