

Columbia hosts 10th annual investment management conference

Industry professionals gather with students and alumni in Lerner

BY DAVID KESSLER '08
For the Bottom Line

On Friday, February 2, over 500 students, alumni, investment professionals and members of the press gathered for what has become an annual pilgrimage to Columbia's Morningside campus for the 10th Annual Columbia Investment Management Conference. The CIMA conference, which is co-sponsored by the Heilbrunn Center for Graham and Dodd Investing, has grown over the past 10 years from an afternoon event held on the third floor of Uris Hall into one of the most anticipated annual events for followers of the value investment philosophy. Rising to the challenge, conference co-chairs Ahmar Ahmad '07 and Andrew Ewert '07 assembled a group of panelists that one might call the "Dream Team" of value investors.

If you ask 10 investors to define the term "value investing," you will probably receive 10 different answers. Each answer however will share one common element. They will all be based on the principles originally developed by Columbia Business School professors Benjamin Graham and David Dodd in what many consider to be the most influential book on investing, "Security Analysis." Originally published in 1934, "Security Analysis" formed the foundation for an investment philosophy and marked the beginning of a rich tradition that sets Columbia Business School apart from its academic brethren. As Dean Glenn Hubbard noted in his opening remarks, Columbia is one of the few Business Schools that bridges theory and practice by teaching the investment principles and methodologies that have been proven to work in the real world.

Columbia alumnus and Board of Overseers member, Lee Cooperman '67, Chairman and CEO of Omega Advisors, Inc. opened this year's conference by sharing some

of the lessons he learned during his 40+ year career. Mr. Cooperman began by explaining his positive outlook for the markets in 2007 and provided insight into the research his firm performs to reach their conclusions. "Bull markets don't die from old age, they die from excess – and we don't see this type of excess at this time."

Mr. Cooperman also weighed in on the topic of the hedge fund industry, as did many panelists throughout the day. Cooperman reminded us that, by definition, most investment professionals do not beat the market – so charging "2 and 20" will not be sustainable over the long term for most money managers. To underscore his point, he went into his files and pulled some figures from a 1970s article on the hedge fund industry. A majority of the largest hedge funds in December of 1968 were down well over 50% to 100% by September of 1970, and many are no longer in business. Cooperman noted that a hedge fund meltdown was possible in the current environment if competition continues to increase from the funds flow into the industry or if we were to enter a prolonged one-way bull market. Addressing current MBA students, Mr. Cooperman said believes that they will benefit from the trend on Wall Street of reducing research departments, causing a need for hedge funds to hire more talented analysts.

The first panel discussion was on the topic of "Margin of Safety," one of the underlying principles defined by Graham and Dodd. Warren Buffet once commented that the three most important words of investing are "margin of safety." Before making an investment, a value investor will demand a sufficient difference between a stock's current market price and the price that an investor believes to be its true value, or "intrinsic value." This difference provides a cushion that will minimize losses if an invest-

ment does not perform as expected and ensures that no matter how good a company looks, the stock will only be purchased when it is selling at a price lower than its true value. While this may seem like common sense, very few investors adhere to this discipline in practice. The panelists, Stephen Bepler '66 (Capital Research Company), Steven Galbraith (Maverick Capital), John Gunn (Dodge & Cox), and Alexander Ropers (Atlantic Investment Management), described their individual applications of the principles of value investing to determine whether a margin of safety exists. The panelists also discussed the keys to achieving long-term success in the industry. Among the traits mentioned were having a narrow focus, avoiding all types of idiosyncratic risk, building a team of industry specialists, avoiding "style drift," and most of all, maintaining strict discipline.

After lunch, the topic of "activist investing" was addressed. Investors have been increasingly proactive in helping, or sometimes forcing, management to maximize shareholder value. While the panelists, which included James Mitarotonda (Barrington Capital Group), Kevin Richardson II (Prides Capital Partners), Eric Rosenfeld (Crescendo Partners), and Roy Katzovics (Pershing Square Capital), represented funds that are generally considered "activist" funds, they warned not to lose sight of the fact that only a small percentage of each fund is invested in positions where an activist role is pursued. The panel was in agreement that the most important factor driving investment decisions are the principles underlying fundamental research and valuation. Activism is only used as a tool in the event that management is unwilling or unable to unlock shareholder value. Mr. Mitarotonda pointed out that the recent increase in activist investing has forced the boards of directors

of many public companies to reassess their roles. To illustrate his point, he asked the audience to imagine if the president, not the people, appointed the majority of congressional representatives. "It is the same thing in corporate America. The board of directors works for the owners of the company, not for the CEO...That is not what was happening..." and the recent wave of corporate scandals was a direct result. During the Q&A, the panel was asked how current activist investors differ from the corporate raiders of the 1980s. Eric Rosenfeld replied that the main difference is the raiders, for the most part, were only looking out for themselves, while current activist investors are creating value for all of a company's shareholders.

The final panel provided the audience with a firsthand look into the investment strategies of some of the world's most highly regarded investors, including Bruce Berkowitz (Fairholme Capital Management), David Greenspan '00 (Blue Ridge Capital), Bill Miller (Legg Mason), and David Winters (Wintergreen Advisors). Each member of the panel shared their outlook for the investment landscape, offered some specific stock ideas, and explained the reasons behind their selections. Leading the panel was Professor Bruce Greenwald, who began by asking each investor to describe their process for finding actionable investment ideas. Mr. Berkowitz immediately answered that the first thing he looks at and the "only thing you can count on at the end of the day" is cash. Mr. Greenspan described his process of searching in places where people are slow to react to current events. These are usually found by looking at industries in the midst of change. He also looks for places where hate or anger are influencing the stock price, using the example of when CNBC showed a consumer taking a chainsaw to a Dell computer. Bill Miller and his

team receive daily alerts of any company that has a large one day sell-off, or shows up on the 52-week, 5-year, or 20-year low list. He also stressed the importance of not treating every industry the same. As for Mr. Winters, many of his ideas are found by doing a tremendous amount of reading while viewing each situation from many different angles. Another important lesson that he learned from Bill Miller is not to become trapped in the "traditional" value box. A common factor mentioned by each of the panelists was the importance of only investing in companies with a strong management team. When asked about past mistakes, each investor spoke of a time when they momentarily drifted away from their discipline.

Closing the conference was another Columbia alumnus, Mark Kingdon CC '71 who is the President and Founder of Kingdon Capital Management. In a fitting change of pace, Mr. Kingdon shared with the audience his set of investment principles which focused more on managing people than on managing money. Included among these principles were the value of a strong work ethic, the importance of taking time to go to the gym, the necessity of maintaining focus within a long term context, and the priority that should be given to family. He also mentioned rules such as "You can turn a portfolio manager into mentsch, but you can't always turn a mentsch into a good portfolio manager," and "become passionately involved in a charity."

The conference attracted a record attendance (with over 60 people unable to get off the wait-list). After spending the day learning from those who are recognized as the best at what they do, everyone walked away with valuable advice and a multitude of ideas on how to become a better investor.