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New York Society of Security Analysts

March 2006

## Experts Speak at Wall Street Forum



Mario Gabelli at Reuters

Industry leaders representing various areas of the investment business convened at Reuters for NYSSA's sold-out "Wall Street Forum: Key Trends in the Investment Industry" on February 3. The event was underwritten by Reuters America and was offered to members at a special rate of \$25. Michael Clarfeld, CFA, of CAM North America chaired.

The all-day forum began with a look at "The Changing Landscape of the Exchange Environment." According to Rick Redding, CFA, managing director of products and services at the Chicago Mercantile Exchange (CME), unlocking shareholder value is the primary reason why exchanges are going public. "Demutualization is as important as exchanges going public," he stated, "because that actually begins to unlock the process and it also helps us to think about running exchanges as for-profit businesses rather than as membership organizations. It actually

does change the way people will trade in the U.S." Redding noted that CME, the first exchange to go public and the largest regulated marketplace for foreign exchange trading, has seen dramatic growth since it demutualized in 2000. A second trend that has increased shareholder value is the transition toward electronic trading: "We're able to push products out globally now rather than relying on people screaming at each other for a living."



**Mario Gabelli**, CFA, founder, chairman, and CEO of GAMCO Investors, addressed the question of "Long for This World? The Future of the Long-Only Asset Management Business." Long-only asset managers survive by being flexible and paying attention to secular trends, according to Gabelli. "How does a long-only manager deliver absolute returns in all markets?" he asked. "The answer is we can't, because we don't buy a stock. We don't buy commodities. We're not buying derivatives. We're buying a business. We believe that in the next 10 years there will be certain secular dynamics in place: relevance, convenience, and wellness. We want to have a philosophy of owning the entire company. Value investing isn't stale. It's basically doing fundamental research, and that's what we do."

The examination of value investing continued with a presentation on "Creating Value through Activist Investing" by Jeff Ubben, founder and managing partner of ValueAct Capital Partners (VAC). VAC maintains a "principal-to-principal relationship" with its money, doing as much work on companies as it does on its investments, and requiring that companies understand VAC's process. "It's combining a large ownership position with some simple ideas," Ubben said. "By putting our money where our mouth is and patiently working with managements and boards, our goal is to have these companies adopt these ideas as their own and then execute them." As "concentrated constructive catalysts," VAC recognizes that activism doesn't create the value, the business does: "If we're right about the quality of

the business, it's hard for even a poor management team to kill it. If you can get the management team right, the sky can be the limit." Ubben explained that activism can enhance internal rates of return by shortening value creation time horizons, and extend the run of successful investments: "When you find a management team you trust with a good business, a good core engine, you really love to get more assets in businesses related to the core into their hands."

Steve Belgrad, senior vice president and treasurer of Janus Capital Group, spoke on "Turnarounds Do Turn: The Janus Turnaround Story." He described the problems that Janus faced in the early part of the decade as related to basic performance, organizational stability, regulatory issues, distribution of brand, and overleveraging of the balance sheet. In 2005, the firm's long-term net flows were positive for the first time since 2000, and between April and December of 2005, assets under management went up by about 18% to \$148 billion. Belgrad attributed the turnaround to six factors: focused strategy, improved investment performance, broadened distribution, performance and growth of subsidiary INTECH, strengthened balance sheet and improved capital structure, and improved market for growth. "It really began to be much more focused on leveraging Janus' core strengths and focusing on what we do best, and that is growth investing as well as mathematical investing," he observed.

Brian Posner, CEO of CAM North America, LLC, provided "The Big Picture: An Outlook on the Asset Management Industry," discussing the convergence of traditional and alternative approaches. "The phenomenal success of the mutual fund industry from the mid-1980s to the mid-1990s was sowing the seeds of its own destruction," he commented. "An industry that became the leader in where people put their money in terms of creating wealth, morphed relatively quickly from a machine that was designed to manufacture performance to a machine that was designed to gather assets." Posner recounted how the move to gather assets caused rapid commoditization and deterioration of underlying performance, and a fixation with relative investing as opposed to absolute investing. Investors' frustration with mutual funds then drove the growth of ETFs and hedge funds. Over the last five years, the hedge fund industry has been taking on the characteristics of the mutual fund industry, itself becoming an asset-gathering machine with signs of the same type of commoditization. "The convergence from the hedge fund side is happening in a negative way: People are looking at ways to just grab assets very quickly, and we're having a slicing and dicing in the alternative world that's very much akin to what we saw in the traditional world.

"We have a situation before us where the ability to actually step back and do real, primary-driven fundamental analysis and look at the expected return not over one week or two weeks or even one quarter or two quarters, but one, two, or three years, is a phenomenal opportunity," Posner continued. "This is going to be the final stage of convergence, where certain asset management firms are going to step up and say that performance is not the domain of hedge funds only. It is time for my industry, the traditional asset management industry, to reclaim its role and to really step up for what is right—making money for investors." ■

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