

# Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive KEN FISHER says that a lot of investors are unaware of the advantages of investing in the money management industry where they could see significant long-term appreciation

## There's money to be made in money management

**D**o you want a great stock? *Bloomberg Money* readers will either be invested in – or even part of – the money management industry yet most of you don't appreciate the industry as being among the world's greatest businesses and stocks. Why? It's a natural growth business.

If a money management firm can create long-term appreciation at rate X% and add net clients at rate Y%, the firm's total revenue grows at (X+Y)% because we charge based on a percentage of total assets managed. Suppose the rates are 10 and 15 – you get a 25% a year growth firm. If stocks do better the growth improves. If the reverse, it is still pretty good compared to most industries. Suppose you're a bond firm and bonds do 5% and you can grow clients net of terminations at 5% – you still have 10% real growth.

Take times like now. The stockmarket has been lousy for three years. But if a firm has a good long-term record and good marketing and client services, it doesn't shrink all that much and may even be able to grow versus weaker competitors. If you're in product categories that have been hot, like value stocks or bonds, you can grow nicely right now.

Many firms in the industry don't think like firms. This business is like any other potential growth field yet most firms treat it like it is all about returns. But, just as with IBM or GlaxoSmithKline, it is about research, production (the returns part), sales, service and marketing. If a firm does only part it isn't a great firm. To be great it must do them all. Ironically most firms largely pay lip service at most. The great thing is how easy that makes the

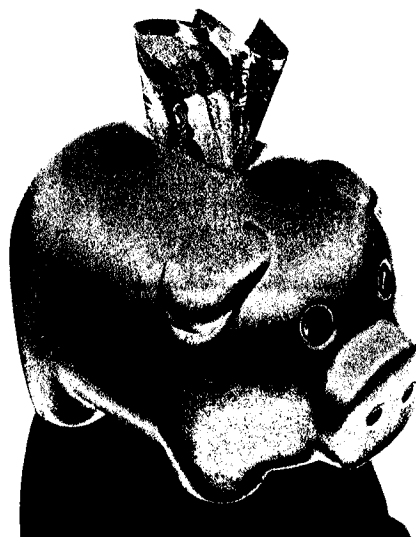
relative competition for any firm that truly embraces running its business like a business.

Other advantages? Low capital intensity. Huge and diverse customer base. Extreme fragmentation (nobody dominates). And, again, mostly unbusiness-like competition. I know because I've been growing my own firm forever this way at very nice rates, and I'm not all that great a businessman. But, suppose you wanted to buy into my firm – you could not because it isn't publicly traded.

But a good public UK firm you know is Amvescap. With more than \$200bn in managed assets spanning customers in 100 countries, it is among the world's major players. You may know it better as Invesco or AIM or Atlantic Trust. It has a great and experienced CEO. It's AIM website is broadly recognised as one of the top overall financial websites, demonstrating part of its marketing skills.

Good sales capability too. Overall, the product line is broadly diverse, including growth and value equities, fixed income and real estate spanning institutional, mutual fund and unit trusts and high net worth clients. It has consistently grown at much higher rates than most in the industry and in the long-term future will continue to, despite having periods where it may not.

Yet it sells at discount valuations to the broad market – like 1.1 times book value, 1.6 times revenue and a 3.5% dividend yield. Like many money management firms its stock has been severely hit in this bear market – falling more than 50% as much as the world stockmarket since the bull rolled over. Whenever this next bull market finally rolls, Amvescap will get another round



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of above-average real growth and the stock will move in sympathy.

With money management stocks you can pick ones reflecting your preferred features. For example, suppose you think value stocks will do well. You can buy a value equity firm run by nearly-legendary Mario Gabelli via the US's Gabelli Asset Management. Value plus personality. Mario's firm is a natural growth firm buying value stocks. It isn't as beaten down as many of these stocks are because value stocks aren't as beaten down as the market. But if value plus personality is your choice, Gabelli is a great way to go.

On the other hand, suppose you want a leader among badly beaten-up growth stock managers because you expect growth to rebound. Janus Capital fits fantastically. Others I like now include Alliance Capital Management, Eaton Vance and Neuberger Berman.

ken@fisherinvestments.co.uk