CHAPTER 1

THE FOUNDING

NOTES FOR READERS

An investment management organization—like any professional organization—is profoundly dependent on the capabilities, character, motivations, and values of its people. And the attributes of the early joiners primarily determine the kind of professionals the firm will attract in future years. Once the die is cast, upgrading an organization is very hard. For an organization to upgrade itself at a later date is almost impossible. So, the founders and early joiners matter greatly.

Hundreds of investment management firms have been launched during the past 50 years. Collectively, their behavior in recruiting professionals confirms the grim validity of David Ogilvy's caution: "Only giants will hire giants. Ordinary men will hire men who are less than they are—and then those will go on to hire men of even less stature until the whole organization is replete with *pygmies*!"[1] Creating and building and then sustaining a superior professional firm is always deliberate, continuous, and "unnatural"—unnatural in the

[1] *Confessions of an Advertising Man* by David Olgivy, NTC Publishing Group (March, 1994).

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sense that something new and different is being brought to life *and* built to last.

Jonathan Bell Lovelace[2] and his son Jon Lovelace repeatedly demonstrated leadership in reaching out to bring exceptional people to Capital. By their persistent searching for strong people—repetitively taking the initiative to exploit "lucky" opportunities—they assembled a collection of talented professionals who worked well together. Capital became increasingly recognizable as a firm of unusually capable and congenial professional people: a good group to join.

The core group of individuals illustrates one obvious lesson and one not so obvious. The obvious lesson is that attracting and keeping highly motivated and talented individuals is essential in building a superior professional firm. The familiar keys to success are (1) persistent and imaginative recruiting; (2) consistently high standards for acceptance into the group; (3) uncompromising search for meritocracy in the distribution of rewards and responsibilities according to real contribution; (4) devotion to professional excellence and superior service to clients; and (5) genuine collegiality. In sad contrast, when hiring people, many start-up firms make expedient compromises that they later learn to regret and recruit too few real leaders to ever become a truly superior firm.

The less obvious lesson—but no less critical to success—is how deeply new firms depend on pursuing very thin threads of possibility to identify and then bring aboard those individuals who will later prove to be their exceptional and indispensable people. Although the retrospective view of history, with the outcome known, may make the steps along the way seem natural or even preordained, those who have led in the development of great organizations know how uncertain and fragile the early stages always are. As key people appear in the Capital story, readers might enjoy imagining the consequences for

[2] Founder of Capital in 1931.

Capital if, among many other coincidences, Coleman Morton's father had not expanded his cement business into Alabama where he met Jonathan Bell Lovelace *or* Coleman Morton had not been sold insurance by Jim Fullerton *or* Bob Egelston had not agreed to see Jim Fullerton *or* Bob Cody had not gotten to know Jonathan Bell Lovelace in an aborted merger *or* Bill Newton hadn't noticed, in the Post library on Okinawa, how well investment managers were paid *or* Bob Kirby had not cracked his ribs racing cars *or* Howard Schow had not looked in through a window at Harvard *or* Ned Bailey had not decided to go to Virginia to follow Charlie Abbot *or* if Bill Hurt had not included Jon Lovelace in his luncheon group *or* if Bob Kirby and Dick Barker had not been flying across the United States on the same plane *or* Nilly Sikorsky had not needed a part-time job while in graduate school *or* Jim Rothenberg's classmate had not mentioned his name, and so on, and on. *And* what if individuals who were determined to find strong people had not pursued slight possibilities? As Madam Curie so shrewdly and famously observed, "Chance favors the prepared mind!"

In addition to organizing a core group of mutual fund investment managers, a set of significant decisions are made in this chapter: Jon Lovelace overcomes his thoughtful reluctance and accepts the leadership of Capital, where he then promulgates a three-way organizational mission of serving investment clients, Capital Associates, and Capital's owners—and begins a career as Capital's servant leader that will continue for four decades. Capital establishes itself as an important mutual fund manager, and the American Express and Anchor Group funds are taken over on what prove to be very favorable terms. The separately owned and managed mutual fund sales organization is brought into Capital. So is a faltering East Coast investment operation. Venture capital and international investing are initiated—the first outside the organization, and the second deeply within it—even though many at Capital would have thought international investing had no real place in a West Coast mutual fund organization struggling financially in a depressed investment market.

EVEN THE MOST thoughtful observer would not have imagined the future in store for the modest 34-year-old in the brown business suit, gazing out at the uninterrupted prairie of the Great Plains from the window of his room on the Santa Fe Super Chief. It was 1929, and he was on his way to Los Angeles with his wife and 2-year-old son, where he would soon start a small firm that, by the end of the century, would become the world's leading professional investment management organization: the Capital Group Companies.

Jonathan Bell Lovelace[3] had a rendezvous with the emerging profession of investment management. Raised in southern Alabama, where his family was active in timber, Lovelace trained to become an architect in two years' study at Alabama Polytechnic, later renamed Auburn University. One year later, showing a special aptitude for mathematics, he earned a master's degree while serving as instructor in architecture and mathematics, and as manager for a championship football team—and developed an enduring interest in team sports.

Enlisting in the U.S. Army for European duty in World War I, Lovelace encountered new concepts and new technologies. Because he knew trigonometry, he went into the artillery. A whiz at mental arithmetic, Lovelace joined a group that pioneered antiaircraft artillery, by solving the problem of hitting fast-moving targets.[4]

[3] Known as JBL to identify him separately from his son Jon Lovelace, who was baptized Jonathan Bell Lovelace Jr. and later changed to the shorter name and is known by his associates as JL. (Initials were originally used on office memoranda to save space as more and more people were to receive copies.) Today, Capital Associates are routinely identified by their respective assigned initials.

[4] Lovelace contributed to the writing of the Army's *Manual of Anti-Aircraft Artillery* and coached Edward MacCrone, who had never gone to college, but was very bright, on the use of tangents, sines, and cosines.

Lovelace provided the necessary calculations, and his was the first American artillery unit in France to shoot down a German plane.[5] He mustered out as a captain.

During his service, Lovelace met new people with interesting new ideas, including Edward MacCrone. With their last names coming in alphabetical sequence, Lovelace and MacCrone had adjoining bunks in officer training camp[6] and then on the troopship that took them to Europe. Their friendship, which began with this alphabetical accident, flourished during their service in the same combat unit.

Earlier, MacCrone had split from a firm that was a predecessor of Merrill Lynch to form E.E. MacCrone & Co., a small stockbrokerage in Detroit—then the equivalent in industrial creativity to today's Silicon Valley. He had the support of important clients like Walter Chrysler, W.C. Durant, and Stuart Mott of General Motors. Eddie MacCrone urged his thoughtful friend to get into the new and exciting field of investments as his firm's research statistician. MacCrone's proposition: "You'll pick the stocks for our customers' men to sell!" Lovelace had other plans, so he demurred. Jauntily, MacCrone assured him that such a position[7] would be open if and when Lovelace were ever interested.

Noting that only one major building was constructed in the state of Alabama during the year he graduated, Lovelace resolved to leave architecture and make his future elsewhere. After the Great War, Lovelace ventured a brief stint in California: He and his brothers, Jim and Jay, bought a date ranch near the town of Indio. But the war's end also ended the sugar shortage that had contributed—temporarily—to the higher demand and favorable price level of

[5] For many years, he kept a large chunk of wood from the fuselage of that plane in his Beverly Hills basement as a souvenir.

[6] Fortress Monroe in Virginia housed two training units before they shipped out to Europe: one from Chattanooga, Tennessee, and one from Battle Creek, Michigan.

[7] At a salary of $150 per month.

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dates. With a return to peacetime and normal pricing, the Lovelace brothers' venture in date growing soon faded.[8]

In 1919, Lovelace decided to join Eddie MacCrone[9] and moved East to Detroit. Lovelace quickly established himself as an "idea man," organized a small but effective research unit, and was one of the early pioneers in securities research. No GNP data was available; public companies disclosed very little data and only at their convenience; Moody's and Standard & Poor's did not yet publish; and the Dow Jones Average included only 20 industrials until October 1928. Finding the available data inadequate or out of date, Lovelace championed independent field research.

Lovelace and MacCrone had a series of disagreements over the amount of time Lovelace devoted to investment research. MacCrone wanted to concentrate on underwriting new issues—where the underwriting spread was a rich 15 to 20 percent and there were no bureaucratic delays—so he offered to pay for a new research organization[10] if Lovelace would concentrate on the firm's underwritings. They agreed on a compromise: Research would be done Lovelace's way, and the firm's new issue underwritings would get full research coverage. As part of the arrangement, Lovelace, who enjoyed designing financial structures that worked well for the companies involved, agreed to help solicit corporate finance business.

[8] Jay maintained the ranch for many years and ran The Desert Date Shop.

[9] E.E. MacCrone & Company was formed on February 13, 1919. The firm was suspended from the New York Stock Exchange for one year on October 27, 1926 for violating a section of the exchange's constitution by paying two branch managers—in addition to their salaries—one half of their offices' net profits without having obtained prior written approval from the Committee on Quotations and Commissions. Later, on February 24, 1930, the brokerage business and assets (including six offices around Michigan) were sold to EA Pierce & Company, which later became part of Merrill Lynch, Pierce, Fenner and Beane, known today as Merrill Lynch. E.E. MacCrone & Company continued in business until 1934, when it was succeeded by B.E. Hopper & Company, with Edward E. MacCrone and Bernard E. Hopper partners.

[10] Lovelace recruited Albert Hettinger and Donald Smith, from Harvard Business School; Alexander Standish, from AT&T; Ray Chambers, chief of statistics at the U.S. Treasury; and Ragnar Naess, of the New York Federal Reserve. He also set up a group of economic consultants that included Professor Lionel D. Edie, from the University of Chicago; Professor Irving Fisher, from Yale; Edmund Ezra Day, from Michigan; and Joseph Davis, from Stanford.

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His real enthusiasm during this period was in developing the investment trust business for individual investors of moderate means. This almost became the very first mutual fund in the United States. Lovelace had studied the Scottish investment trusts, whose sole purpose was to invest in other companies based on the concept that individual investors would fare far better by combining their investments, spreading the risk, and retaining professional investment management instead of buying individual stocks on margin through retail stockbrokers. Lovelace wanted to organize a similar investment company for American investors, and MacCrone eventually agreed. But believing that his firm deserved half the profits above a 6 percent return on investors' capital, MacCrone designed the new investment company with heavy leverage from debt and preferred stock. For each share of common stock bought by the public, E.E. MacCrone & Co. would get a perpetual warrant to buy an equal number of shares. The new investment company was named the Investment Company of America.

Before underwriting the company, Lovelace and MacCrone agreed to obtain at least some kind of approval for their new idea from a regulatory authority. The logical choice was to get the blessing of Michigan's Commissioner of Banking. But the commissioner was a conservative regulator who felt the state's banks already faced too much competition for their own good, so he turned down the investment company idea, saying: "Gentlemen, this is a very interesting idea, but if this thing is as good as you fellows think it is, it will take money out of the savings banks and we're not going to have that here, so I will not authorize it." Trying to get any official approval and resolving various design issues took several more months, so by the time Investment Company of America came to market as a Michigan trust on March 27, 1926,[11] a Boston group's entry—Massachusetts Investors' Trust—had won the race to become the United States' first

[11] JBL was one of ICA's five trustees. Investment Research Corporation was organized by the Investment Company of America trustees to provide investment research to ICA and, it hoped, to a series of regional investment companies.

mutual fund. Following MIT's approval in Massachusetts, the banking commissioner in Michigan gave his approval to ICA.

The stock market was gathering momentum in the major boom of the 1920s, and Eddie MacCrone wanted to get extra gains from financial leverage by adding debt to the new fund's capitalization. Lovelace didn't want to incur the risks of financial leverage, but he lost that battle, leaving the new fund extra vulnerable to the market crash when it finally came.

MacCrone's firm did quite well at underwriting local industrial companies and organizing and sponsoring a series of closed-end investment companies—often concentrating investments in a specific industry or one region of the country. In 1928, E.E. MacCrone & Co. was prospering as a stockbroker. Most business executives anticipated a bright new era for the United States—and particularly for the stock market.

In a strong stock market environment, Lovelace prospered. He enjoyed considerable success as an investor and became a partner in E.E. MacCrone & Co. in 1924.[12] Still in his early 30s, he was financially independent.

While others might have been carried away by the euphoria of the great bull market, Lovelace thought differently. Based on his research into market *price* versus true investment *value,* Lovelace was becoming increasingly concerned about what he considered excess enthusiasm among investors. In one calculation, he found that the stock market value of a major New York bank[13] was nearly equal to its total assets—as if they didn't have *any* deposits or liabilities! Lovelace knew that this high stock market valuation was unsustainable.

In the summer of 1929, Lovelace became bearish on the stock market and sold most of his own stocks and bonds in August. He

[12] Lovelace was listed as a partner in E.E. MacCrone & Company, along with E.E. MacCrone, C. Collins, and C. Timewell from 1924 to 1930.

[13] First National City Bank, now Citibank, a part of Citigroup. Asked, MacCrone assured Lovelace that Charlie Mitchell would make millions underwriting Ford Motor Company, but that never happened.

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tried, unsuccessfully, to persuade MacCrone to become much more conservative.[14] Unable to convince his friend, Lovelace took independent action. He withdrew from the stockbrokerage business and negotiated the sale of his 10 percent interest in E.E. MacCrone & Co. (Modestly, Lovelace would later confess he had not liquidated everything: Responding to his partner's request that he not visibly withdraw completely, he left some of his capital in the firm until year-end.) Fortunately, while the market broke sharply in September, it had recovered somewhat by year-end when Lovelace withdrew his capital. Then, over the next three years, stocks lost nearly 90 percent of their peak market value.

Having "retired" as a man of wealth at 34, Lovelace decided to move back to distant Los Angeles.[15] As usual when traveling to California, he took the Super Chief.

In 1931, to develop the information needed for his various activities, Lovelace established a small investment firm in Los Angeles—Lovelace, Dennis & Renfrew—the nucleus of what would later become Capital Group Companies.[16] Lionel D. Edie and Albert

[14] As Jim Fullerton recalls a conversation in the early 1960s, he asked, "Jon, you've always had a reputation for being a great market timer. When you got out of the stock market in 1929 just before the crash, what were the signals that you saw?" JBL replied, "Jim, I was not a market timer—not then and not now. What got me out of the market in 1929 was simply kindergarten financial research. At that time, the money center banks were in great favor in the market. Everyone wanted to own them. My kindergarten research consisted of looking at each of those banks and multiplying the number of shares it had outstanding times its market price per share. I found that each of those banks was selling in the marketplace for more than its deposits. They didn't *own* those deposits: They *owed* them. That scared me so much that I did the same simple arithmetic with a lot of other companies. I found that people were climbing all over each other to buy 100 shares or 10,000 shares of those 'hot' stocks. But no one in his right mind would buy the whole company at such a high price. That's what got me out of the market. It was a very simple lesson. Don't pay more per share for a company's stock than you'd be willing to pay if you were buying the whole company."

[15] Characteristically, Lovelace demonstrated his long-term value orientation to investing in 1930 to 1931, when he built a handsome home in Beverly Hills, employing highly skilled craftspeople who badly needed work and produced superb workmanship. He also showed his sense of humor by referring to the vacant lot he owned next door as "the tennis court."

[16] Capital Research and Management Company.

Hettinger—both had been with him in Detroit—wrote research reports for Lovelace's new firm.[17] Lovelace's business included acting as financial advisor[18] to California companies; serving as an expert witness in utility rate cases; advising on the issues that companies faced coming out of Depression-induced bankruptcy; and evaluating private holding companies as well as large blocks of stock in family-controlled businesses going through probate.

In 1931, Lovelace's new firm succeeded E.E. MacCrone & Co. as the investment advisor to two closed-end funds originally sponsored by MacCrone: American Capital Corporation and Pacific-Southern Investing Corporation.[19] Lovelace was elected president of Investment Company of America in 1932, when it was in serious trouble.[20] With all the leverage Eddie MacCrone had insisted on

[17] Later, Edie formed one of the nation's largest investment counsel firms—Lionel D. Edie & Co.—which ultimately also became part of Merrill Lynch. Hettinger joined Lazard Frères after retiring in his 60s from a distinguished academic career at Harvard Business School. Then, over 30 years, he made a personal fortune—estimated at more than $100 million—investing in "adventurous novelties" such as Japanese insurance stocks at three and four times earnings long before other investors would even consider Japan.

[18] Clients included the Gross brothers, for whom Lovelace helped raise the capital to buy control of Lockheed Aircraft; Pacific Mutual Life; Capitol Records, where he was a founding director; Muzak, where he was one of the original investors; and Walt Disney, where he served as the first outside director. He worked particularly closely with Roy Disney, who was struggling with the financing of movies and whom Lovelace introduced to a rising banker, A. P. Gianinni of Bank of America. Lovelace also helped finance the noted cartoon movie *Fantasia.* If he couldn't work on *architectural* structures, joked Lovelace, he'd work on *financial* structures. Out of the Disney connection came the Lovelace family's long-term involvement with Cal Arts (the California Institute of the Arts), the avant-garde school that aimed to do for the arts what MIT and CalTech were doing for engineering.

[19] Lovelace also set an enduring example of serving—often on investment committees—such public service organizations as Children's Hospital, the Southwest Museum, and the Huntington Library in Southern California. Today, more Capital Associates serve on *pro bono* boards in California than any other company.

[20] Lovelace had been one of the five trustees of Investment Company of America when it was organized in Detroit as a closed-end investment company or mutual fund in 1926. Lovelace was also president of American Capital Corporation, which purchased from E.E. MacCrone its controlling interest in Southern Bond & Share. Into the early 1960s, Detroit was the location for Investment Company of America's lawyers and annual meetings of shareholders.

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adding to its capital structure, the trust lost over 70 percent of its value during the stock market collapse. With $3 million in long-term debt and $4 million of equity, ICA had a coverage ratio of only 133 percent: At 125 percent, the bondholders would automatically take over. So to prevent falling below the trigger point, the assets of ICA were all invested in government bonds. In 1933, a deputation of the distinguished executives on ICA's Advisory Board[21]—who had lost all confidence in MacCrone, but trusted Lovelace's investment judgment—traveled from Michigan to California to persuade him to take over the management of what remained of this investment trust.

Recapitalized as a publicly owned, closed-end investment company, the Investment Company of America had assets of less than $5 million.[22] In 1936, ICA retired its debt, and in 1939, it converted to open-end status to get away from the problems of selling in the market at a 25 to 30 percent discount from net asset value.[23]

Over the next 10 years, Investment Company of America's investment record was exceptionally favorable for three reasons: the

[21] Members included the President of Burroughs Adding Machine; the president of Parke-Davis pharmaceuticals; Roy Chapin, the chairman of Hudson Motors; Stuart Mott; Edgar A. Pierce of EA Pierce & Company; and several others. The Advisory Board had prestige, but no power—until ICA got into trouble.

[22] Southern Bond & Share and Pacific Investing Corporation were merged to form Pacific Southern Investors, which, in turn, acquired a 40 percent interest in Investment Company of America, a Delaware corporation. Reorganizing the highly leveraged complex that MacCrone had structured involved complex negotiations and exchanges. One result was a perpetual warrant that, Lovelace stated, "caused perpetual problems." Assets fluctuated in a modest range for many years. ICA grew to $22 million in 1945; but then fell under $18 million in 1948. Lovelace would live to see the fund become one of the nation's 10 largest in 1969. As one of America's best performing mutual funds, Investment Company of America is the only fund on the list of the largest funds in 1969 that has remained continuously in that group ever since. With all dividends reinvested, $10,000 invested in ICA in 1934 would have grown to be $15.2 million by the end of the century (vs. $6.6 million for the S&P Index, or just $135,000 in a bank savings account). With assets over $50 billion, the fund is now the third largest of all equity mutual funds in the United States.

[23] Pacific Investing, another closed-end investment company, had an $800,000 investment in ICA and the market discount threatened to trigger its bondholders taking over Pacific Investing and its large percentage ownership in ICA.

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fund's leverage working favorably; the advantages of maneuverability given the fund's small size; and Lovelace's skill at capitalizing on the investment opportunities he found in the stock market. As the Dow Jones Average gained 7 percent annually over the decade, Investment Company of America did *twice* as well: 14 percent annual gains.[24]

Over its first 20 years—a very long period, even from today's distant perspective—Capital was, on average, only a break-even operation.[25] Today, senior executives look back and shake their heads at the daily economies that were considered necessary. To control expenses, office-to-office telephone calls (for which the first three minutes cost an initial $3—or about $25 in current dollars) were made in carefully planned sequence, with each person waiting in turn to conduct his part of the pending business. Most interoffice communication relied on mail service: After all, three-cent stamps easily beat long-distance toll charges.[26] The New York office was fitted out with used furniture. And New York received the leftover Standard & Poor's loose-leaf tear sheets on public companies from the main office in Los Angeles—but only after those reports had been replaced each year by a new set of tear sheets. If New York City was 3 *hours* ahead of Los Angeles, staffers joked, it was also a full *year* behind.

In addition to his cost-conscious manner and commitment to fundamental research, Lovelace believed in working with people he really liked, who shared a disciplined commitment to rationality in investing and to integrity in serving investors. Reserved in demeanor,

[24] The perpetual warrants continued to be a marketing nuisance, because competitors would ask darkly, "Do you really want to sell your customers a mutual fund with all that overhanging dilution?" (In the year 2000, clever brokers were still gathering responses to their advertisements suggesting investors look through their old papers for ICA warrants.)

[25] Investment results suffered in the late 1930s, perhaps because JBL was so deeply involved in the development of the Investment Company Act of 1940 that would govern the mutual fund industry. In 1939, Investment Company of America was converted into an "open-end" investment company or mutual fund and Investment Company Distributors began offering the shares of both Investment Company of America and Pacific Southern Investors.

[26] When Capital moved from Spring Street to the Statler office building, the research analysts came in on a Saturday to unpack boxes—and to keep reference books in the right order.

Lovelace was an unusually good and attentive listener—and effective as a group thought-leader. Analysts found the insights from his investment meetings helpful in developing their own judgments on companies and industries. Quiet during the investment meetings he chaired, Lovelace took extensive notes on a legal pad and would then summarize what had been said and what he understood had been agreed.[27]

Never outwardly warm or gregarious, Lovelace was certainly not effusive with praise, but he was also slow to criticize. Everyone in the organization during his tenure felt that they had a lot of elbowroom and ample time to perform before he would make any final judgments of their capabilities. "I don't know how he accomplished it," says Coleman Morton, "but you always had the feeling that he was well aware of what you were doing and how you were doing without any feeling that he was peeking over your shoulder." Lovelace understood that mistakes, even big ones, are an inherent part of investment management and that the way to judge an individual or a company is in a long-term framework.

Lovelace established an attitude toward individuals and organizations (see Chapter 13) that still pervades Capital and provides the essential basis for the organization's success in managing succession and engaging outstanding people of many different ages. "His main love was to serve as an investment banker to real entrepreneurs," says Howard Schow (see Chapter 2). "He was what the French call an 'accouché'—a midwife to ideas and the ventures that could bring them to life."

[27] "When we first met," recalls Nilly Sikorsky (see Chapter 8), "I was only 19 years old. JBL had accomplished a great deal; knew many substantial people; and was widely admired. Still, he listened to me with great care and respect, clearly listening to *learn.* He had an extraordinary ability always to respect others and never to seem superior. JBL was a real gentleman. If it weren't for my deep respect for JBL, I could never have accepted his invitation to luncheon at the old California Club when they didn't admit women or Jews—and I was both. JBL's consideration of others led him to invite Chuck Schimpff and his wife too—so I'd have the fun of being with another woman. But, of course, Mrs. Schimpff and I were nearly 50 years apart in age!"

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Lovelace enjoyed serving on corporate boards with people who had Midwestern social and moral values. He cared greatly about thoughtful business strategies and conservative financial strategies—and distrusted investment bankers with breezy, big-city talk and manners. (After hearing a few New York investment bankers describe how they made deals, Lovelace murmured with quiet disdain: "That's not what *I* ever did!")

To determine the long-term *worth* of a company, JBL relied on thorough, original research into investment values that others might have overlooked—followed by purchases at reasonable market prices. Combining careful research with a long-term view on valuation, Capital's portfolio turnover was and still is far below industry norms.

"Looking at a company's numbers was never enough," recalls Bob Kirby. "JBL would only invest in guys he really believed in." "The only difference between Chrysler Corporation and its failed predecessor,"[28] JBL often said, "was Walter Chrysler."

Lovelace had a strict sense of morality and was all probity. Clearly unusual in Los Angeles, he wore dark three-piece business suits with a gold watch chain across his vest and a hat that he tipped to the ladies. Lovelace seldom took off his suit jacket or vest, even in the Spring Street office, which had no air-conditioning. He spoke softly, almost quietly, with a Southern tone of voice. Only 5 feet 7 inches tall, his slim build matched his calm, gentle demeanor. Lovelace was exceptionally modest about his considerable contributions and achievements, but he attracted many capable and powerful people because he had remarkable insight and was comfortable around smart people with ambitious ideas.[29] Lovelace was both low profile and unassuming, *and* a genuine risk taker who allowed and encouraged young people with ideas to run with them.

[28] Maxwell Motor Company failed and was absorbed by Chrysler.
[29] In 1955, he supported Coleman Morton's initiative to launch an early venture into international investing: International Resources Fund.

Believing in independent thinking, Lovelace combined his own contrarian view with genuine politeness, often explaining, "It's important to be accommodating. When everyone wants to sell, you accommodate them and buy. When everyone wants to buy, you accommodate them and sell. Don't try to get the last 5 percent. Don't be greedy."

A conversation with Lovelace nearly a generation ago made a lasting impression on one of Capital's current leaders—partly in the thoughtful rigor on the substance of the discussion; partly in the collegial style or tone of the discussion. Lovelace, in his early 70s, made an appointment for luncheon with David Fisher, who was 28. As usual, Lovelace wore a three-piece, dark brown suit and a hat. Deferentially, he called David "Mr. Fisher."

"What attracted you, Mr. Fisher, to this type of work?" inquired Lovelace after they were seated at their table. Fisher ventured to explain his appreciation for the marvelous operating leverage and the accelerating profitability that could come to a well-managed investment organization with relatively fixed costs if and when the stock market rose and new assets came pouring in.

Explaining that he doubted there was any real operating leverage over the long term in the investment management business, Lovelace expressed concern that any apparent leverage was more likely an indicator that not enough was being reinvested in skilled people, systems, and customer service to enable the organization to do its work well in the future. (As Jim Rothenberg explains in Chapter 9, "If the investment assets supervised by Capital are adjusted or deflated to eliminate the impact of market appreciation, the underlying growth is about 7 percent. The increase in investment people is also about 7 percent. So, just as JBL said, 'There's no major leverage in the business.' ")

"Jonathan Bell Lovelace's concern about investing enough in the future continues to be a hallmark of the organization today," explains Fisher. "JBL always took a very long-term view and wanted to be sure Capital would do better and better—and *continue* doing better and better long after him."

With design innovations making seminal contributions, the little investment company that Lovelace started in an unlikely part of the country would grow in assets managed from $5 million in 1933, to $300 million in 1958 to over $1.1 billion by 1967—and then to well over $500 billion by the turn of the century. And the Capital organization grew comparably in staff: fewer than 20 in 1933; 30 in 1953; and 120 in 1967. Capital Group Companies now employs over 6,000 people.

Not only is Capital one of the largest investment managers in the world, it is also recognized as one of the very best at achieving sustained success for its three main constituencies—consistently superior investment results for investors; attractive long-term returns for owners; and fulfilling career opportunities for Associates. Also, important to those who devote their careers to Capital is a spiritual dimension. As Bob Kirby says, "Capital is a company with a soul."