# Where It Began

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## Introduction

Back in early 1997 I received a call from Dave Kansas, the managing editor of *TheStreet.com*. I had known Dave from his early days at the *Wall Street Journal*, where he had frequently interviewed me. At the time, *TheStreet.com* was in its formative stage, and Dave asked me to write a column. I admired Dave professionally, and I agreed to author an irregular column called "The Contrarian."

Writing has always come easy for me, and I started my gig on *TheStreet.com* as a lark. I never thought that 17 years and tens of millions of words later I would still be writing.

This chapter starts with my first column written on *TheStreet.com* and later on depicts my journey on TheStreet and in life!

3GC01 10/03/2014 13:19:19 Page 2



## The Contrarian

### *May 1997*

Today's stock market is bifurcated—it is a market of haves and have-nots. Increasingly, price action is influenced by the dominant investor of the 1990s, the mutual fund manager. With stocks in so relatively few hands, equities often move based on the strategies employed by these funds. This makes for the kind of inefficiencies and opportunities that we are seeking in this column. As Warren Buffett once put it, "Our job is to be fearful when others are greedy and greedy when others are fearful."

I have learned over the years that in the equity market, there are few truisms. Today's established doctrine often becomes tomorrow's false beliefs, as conventional wisdom does not always represent common sense.

It is important to recognize that a contrarian approach can be just as foolish as a follow-the-crowd strategy. What is required is thinking rather than polling. Bertrand Russell's following observation about life in general applies with unusual force to the financial world: "Most men would rather die than think. Many do."

The purpose of this column is to make investors think.

In future columns, we'll do this by taking a hard-hitting, iconoclastic look at individual securities and sectors of the market.

Our first column, however, will deal with a person, not a stock. It holds several important messages that apply, in this writer's opinion, to the current state of the stock market—a market that may have lost its moorings.

Four years ago this month, a dear friend of mine passed away. As the major markets register all-time highs and we move into the summer months, it seems appropriate to reflect upon my friend and to recall some of the lessons he taught me.

My friend's name was Robert Brimberg.

Bob headed Brimberg & Co., a small securities business by Wall Street standards. But by any measure, Bob was a "big man," who hailed from Scarsdale, a tony suburb north of New York. He was nicknamed Scarsdale Fats by author "Adam Smith" (George Goodman's nom de plume), who immortalized Bob in his 1967 best seller, *The Money Game*.

3GC01 10/03/2014 13:19:19 Page 3



In the 1960s, as in the 1990s, money managers with billions under management were welcomed anywhere. But mostly they gathered at Bob's spartan room on Broad Street, where corned beef sandwiches were the plat du jour. No house silver, no perfectly groomed waiters, just metal folding chairs, paper napkins, and a big bowl of pickles and sour tomatoes were the standard offering.

Why were Bob's lunches the meal to be invited to? As Erich Heinemann recalled, "The price of admission was that you had to have something to say. Bob ran the only true salon for the investment community."

Bob put it this way:

> I had to compete. What have I got? Nothing. Those hot young research analysts at Donaldson Lufkin can write hundred-page reports, Bache can field a thousand salesmen. The white-shoe firms can fly the Old St. Wasp flags. So I thought: Who has the money? The funds. Be nice. Ask them to lunch.

And that is how Bob Brimberg became the Perle Mesta of Wall Street.

Ultimately, Bob moved uptown to a corner table at Harmonie Club. It was in that setting 20 years ago that I met Scarsdale Fats when he invited me to my first lunch. I was a wet-behind-the-ears 27-year-old portfolio manager, and Bob exposed me to the best and the brightest on Wall Street.

Scarsdale Fats's pointed questions and sometimes brusque manner cut through the pretense, and the poker-game aspect stimulated even the most knowledgeable of us to prepare for the lunch. And everybody came to be with the Yalie who was as comfortable talking about Kierkegaard as Keynes.

The Dow Jones Industrial stood at about 750 back in 1977, and we have been in a bull market ever since.

I (and many other people) owe a lot to Bob. Since his death and during my visits back to Harmonie Club for lunch (now as a member), I find myself gazing back to Scarsdale's corner table. I still vividly remember those spirited lunches and how much we profited from the conversation.

You see, Bob brought the sensibilities of a world-class bridge player (which he was) to our understanding of the markets. Above all, he taught us investment humility—that if you do not know who you are, Wall Street is an expensive place to find out.

Which gets me to the subject at hand. The market. For, as Bob put it to me one day in 1987, "Dougie, genius is a rising market."

And the market today, again, gets back to "Adam Smith's" *The Money Game*, in which the author recalls a character named Billy the Kid:

> [W]ho was in Leasco Data Processing, Financial General, and Randolph Computer, and a couple of others I can't remember, except that they all had data processing and computers in the title. When asked why the computer leasing stocks were so good, he responded, "Leasing has proved the only way to sell them and computer companies themselves don't have the capital. Therefore, earnings will be a hundred percent this year, and will double next year and will double again the year after. The surface has barely been scratched. The risk has barely begun."

As this piece is written, technology is on a tear. I am awash in nostalgia: Today's investors are similarly obsessed with the future of technology, the Internet and, for that matter, the top tier of industrial equities such as General Electric.

"Adam Smith's" fictional character, the Great Winfield, continues:

> The strength of my kids is that they are too young to remember anything bad, and they are making so much money they feel invincible. Now you know and I know that one day the orchestra will stop playing and the wind will rattle through the broken window panes and the anticipation of this will freeze us. All of these kids but one will be broke, and that one will be Arthur Rock of the new generation.

Bob, some things never change—this is still a kid's market. Being over 40 years old has been a liability in the bull markets of the 1990s. But don't forget, it took over 17 years (1982) to eclipse the high in the averages established in the mid-1960s!

And despite the market's monumental rise, remember that prices have no memory, and yesterday has nothing to do with tomorrow. Every day starts out 50-50 (to paraphrase Professor Eugene Fama).

Sic transit gloria.

## A Longtime Bear Turns Bull

### *3/26/2001*

Roy Neuberger, a great trader and the patriarch of Neuberger Berman, once told me to buy cyclical stocks when the factory doors of industrials are padlocked. The economy and the stock market's doors are now padlocked.

After weeks and weeks of pounding, it has become almost unthinkable that the market might rally. For new equity and low-grade debt financings, the capital markets are closed. Investment bankers are being fired by the large underwriters.

A year ago, it was almost unimaginable that the equity market would fall. A year ago, initial public offerings (IPOs) routinely rose by 100% on their first day of trading. Mutual funds were created just to buy new issues and to participate in the aftermarket trading of those new issues. The great bull market of the 1990s did its best to obviate the need for an historical perspective. In essence, experience and knowledge of the past was a liability.

No longer—the tide has changed. Growth-oriented mutual funds have faltered badly, and investors are withdrawing their investments. Value-oriented mutual funds are performing better and are becoming more popular with individual investors.

I have been bearish throughout the past two years, but over the course of the past two months, I've grown progressively less cautious. And now, I'm of the view that the equity market is putting in an important bottom.

Investors have finally recognized that they made a mistake in thinking that the technology capital spending boom of 1998–2000 was a secular phenomenon. And that recognition is at last being reflected in today's low stock prices.

The technology spending spree was not enduring—it was nothing more than a temporary ramp-up. It was abetted by a halcyon IPO market that provided issuers with zero-cost capital and by the compliant manufacturers of tech products that offered customers financing that, based on poor business models, was undeserved. In turn, this produced an unsustainable level of demand for technology products.

The resulting demand became so heavy that it fooled even the tech companies (and investors in tech stocks, who bid the sector to ludicrous price levels) into believing in a secular expansion in demand for optical fiber, routers, servers and other tech products. In response, the largest companies dramatically expanded the capacity of what their plants could produce.

Along the way, alas, the fuel for the euphoria in the form of plentiful debt and equity financing to lower-tier participants, combined with aggressive vendor funding to unworthy creditors—all the things that encouraged the hysteria—began to disappear. That was 12 months ago, to be precise.

In addition, it began to be acknowledged throughout the past year that certain areas of technology, such as personal computers and wireless phones, had reached a level of maturity that was suggestive of cyclical, slower growth.

A year ago, with Qualcomm, Dell, Micron Technology, and Nokia at the top of the investment world, this was unthinkable.

And earnings growth hit a wall. One by one, technology companies issued profit warnings. Then, all of a sudden, valuations began to matter, and the bifurcated market of the past decade reversed, big time.

Investors, analysts, and market strategists were in denial during most of the market reversal. And why not? It had paid to buy every previous decline.

Of course, the greatest myth—that commerce had entered a Web-centric world—was squelched. The suggestion that, in order to compete, a rapid deployment of an Internet strategy was the key to future profits, was replaced with the more traditional and prosaic notion that capital spending programs needed to be justified by quick paybacks.

Unfortunately, similar to the roads to riches of prior investment bubbles (e.g., railroads, radio, and automobiles), investors learned for the

umpteenth time that the laws of valuation and of gravity have not changed. Even that forward-thinking (just kidding!) newspaper, the *New York Post*, has a new column entitled "The Dot-Com Dead of the Day," which appears in its business section every day!

That said, the speculative excesses of yesteryear have, in my estimation, been eradicated. Besides the changing investment landscape, in both sentiment and price (described above), I want to share additional reasons for my more constructive view:

1. Fear is palpable. The business media have begun to take an adversarial approach to their money manager and analyst interviewees who have performed poorly. Lame-O Awards are handed out to analysts who have recommended stocks that are down 75% or more, and Penguin Awards are given to brokerages that downgrade stocks after the companies have issued earnings warnings or traded down to less than $2 a share. While these awards might be justified, I find the manner in which they are given offensive, and it provides me with yet another contrarian indicator, as they were shameless cheerleaders just one year ago.
2. For some time, I have been of the view that layoffs at the two major television networks dedicated to market coverage (CNNfn and CNBC), as well as layoffs at the major brokerages, would presage a market bottom and indicate that the worst might be over. After all, it has been a great indicator in the past. And those layoffs are occurring now.
3. Since March 12, the broader S&P 500 and the Dow Jones Industrial Average (DJIA) have underperformed the tech-laden Nasdaq, as investors sell anything that is liquid or not down that much. This is a big and positive tell to me.
4. The redemption issue, or what I fondly call the nightmare scenario, appears to be an overblown concern. Dominant mutual fund family Janus has relatively large cash positions (in certain funds as much as 20%)—a rather large buffer in anticipation of withdrawals in relation to the concerns du jour. The tax issue, being that realized investment gains in early 2000 must result in the sales of stocks in order to meet April 15 tax payments, also seems to be an overblown concern. The market decline, beginning last spring through the year's end, in

large measure erased a lot of the gains. Regardless, tax selling will be over in a matter of weeks.

5. The dividend discount models—you remember those!—I use suggest that technology, currently making up about 17% of the S&P 500 (and down from more than 30% a year ago), represents real value. First time since 1997!
6. All now agree that the Goldilocks economy is dead. As a consequence of the broad acceptance of the new economy, all valuation benchmarks were broken by huge margins. But, similar to the children's story, the concept of an economy not too hot and not too cold was nothing but fiction. And price-to-earnings ratios fell back to Earth.
7. Most of the juicy short themes I have employed over the past two years (i.e., Internet, optical fiber, wireless phones, personal computers, semiconductors, handheld devices, etc.) are now incorporated in lower stock prices.
8. There are few signs of a turn upward in inflation. The specter of higher oil prices is no longer a threat. And no cost-push or demand-pull inflation is in sight.
9. A tax cut is on the way. With elections out of the way, we might even see the parties agree on additional ways to extricate the economy from the downturn.
10. Institutional cash positions have risen from a low of 4% a year ago to 6% today. This rise might sound trivial, but it is not. On the $4.3 trillion of fund assets, that is a rise of $86 billion in cash reserves. As well, money market funds are at an all-time record, ready to be committed to stocks once an uptrend is established.
11. A year ago, day-trading manuals populated the *New York Times* best-seller list. Today, some day traders are on the feds' most wanted list because of murderous sprees after losing all their money!
12. Two years ago, new language appeared, as *Wired* magazine introduced the phrase B2C (business to consumer) to our language. Now B2C is euphemistically referred to as "back to college."
13. I am being inundated by interest in my partnership, as investors want short representation. But where were they when the short pickings were abundant, as when Priceline.com traded at $100 or when

3GC01 10/03/2014 13:19:20 Page 9



Yahoo! traded at $125 twelve months ago? Probably invested in the Janus funds!

14. Finally, I am getting a strong positive read from my point guard, partner, and trader—the Trading God. He has been bearish all the way down, and at 3:27 P.M. on March 22, he turned major-league bullish.

A decade ago, Warren Buffett advised investors to "be fearful when others are greedy and greedy when others are fearful." It may now be time to be greedy.

Until the distribution of those e-mails reverses, I suspect that the only question is, How high is up?

## What a Long, Strange Trip It's Been

### *12/22/2004*

Holidays are for fun, family, and reflection, especially as we near the year's end. I will concentrate on the reflection part today and hopefully give a sense of the factors that have molded my investment persona.

Fifty-some-odd years ago, I embarked on a rich personal and professional life full of successes and failures. Never dull, I have tried to embrace life and the markets with gusto and anticipation.

Soon after my birth, the DJIA embarked on a new bull market rally from about 160 to over 300 by the beginning of the 1950s. In 1950, the largest monthly change in the DJIA for the full year was only 14 points!

My grandmother, Grandma Koufax, was a great stock trader and investor. She owned her own business well before it was fashionable for women to be entrepreneurs. She was well ahead of her time. By the time I was 16 years old, she had taught me to chart stocks in a small notebook that I kept with me at all times. I charted my imaginary holdings daily and spent my Christmas and Easter holidays in a Long Island brokerage office watching the tape all day—at that time, the market was only open for a few hours each day—as if I were watching a movie. My preoccupation with the markets, especially during those holidays, led some of my friends to think that I was weird. In retrospect, they were insightful!

3GC01 10/03/2014 13:19:20 Page 10



I made my first real trade while getting my MBA at Wharton. After weeks of analysis, I bought a couple of shares of Teledyne—and I really mean just a couple. Run by Dr. Henry Singleton, it was the Google of its time, a stock of the decade that went up nearly tenfold. With the proceeds of that first big trade, I purchased my first automobile, a Triumph sports car. By then, I was immersed in the stock market—you could say I was almost addicted—even before I had my first job on the Street.

At Wharton, I learned the theories behind portfolio management and securities analysis on the way to getting my MBA. While at the University of Pennsylvania, I met Ralph Nader and I coauthored *Citibank: The Ralph Nader Report* with Ralph and the Center for the Study of Responsive Law. My contribution to that book also became my master's thesis.

My first job was as a housing analyst at the venerable brokerage firm Kidder Peabody. I learned how to prepare company spreadsheets and about the integrity of independent analysis under Director of Research Johann Gouws, who had successfully led one of the first research boutiques (H. C. Wainwright) into prominence earlier. Interestingly, my office was next to Julian Robertson, soon to be of Tiger Management, who at the time was a retail broker!

After a few years, I ended up at Putnam Management, considered one of the premier money managers extant, in Boston. I worked under two individuals, Larry Lasser and Jerry Jordan (The Chief), who profoundly influenced my career by teaching me how to logically process data and to succinctly develop that data into a well-reasoned and profitable analytical conclusion. Jerry, in particular, taught me how and when to press an investment decision, a technique that is quite important in the hedge fund business today.

Glickenhaus & Co. was my next stop, where I honed my money management skills under the talented and legendary Seth Glickenhaus. It is through his influence that I became a contrarian and began to regularly take variant views against the market's prevailing bias. I had my own money management firm during most of the 1980s, and, while experiencing some periods of success, I learned the importance of a team.

In the late 1980s, I acquired a large 13-D position in a New York Stock Exchange (NYSE)-listed company, thinking that I was going to

3GC01 10/03/2014 13:19:20 Page 11



become the next takeover king. I quickly learned to stick to my knitting, analyzing and investing, not taking over companies.

But I should digress. During the mid-1980s I took up driving harness horses as a hobby. I broke a world record, and one of my horses, Kassa Branca (a play on words from the movie *Casablanca* and named for me and Brooklyn Dodger pitching great Ralph Branca), won a million-dollar race! Unfortunately in 1990, I was almost killed in a harness racing accident while driving in a race in Pennsylvania. I was in a body cast and wheelchair for nearly two years, and I still feel the physical pain daily.

The supine position gives one a lot of time to contemplate one's future.

By 1992, I was able to work again (though I still could not walk unaided) and while running the research and institutional department at First Albany, I met Alan Abelson of *Barron's*. That relationship led to a cover story that I wrote for *Barron's* on Marvel Entertainment (a negative assessment of Marvel's prospects, and the company ultimately filed bankruptcy). That start was followed by approximately 30 interviews and articles over the years in Abelson's column or in other areas of *Barron's*.

I believe my relationships with Ralph Nader and Alan Abelson as well as my period of time reflecting on life after my accident importantly framed the manner in which I have viewed markets and companies—a glass half-empty, if you will.

A stint with the remarkable Leon Cooperman at Omega Advisors taught me the tough hedge fund game and independence of analysis, after which I started my own partnerships, which I have had for nearly seven years.

I sit here grateful and satisfied, though looking forward to the continued challenges presented by the markets with enthusiasm and excitement.

It seems as if I have never had a dull moment in the investment business over the past three decades. What moves me is that it seems that there are new and different variables to consider every day, and with over 6,000 publicly traded securities, projects are rarely duplicated.

What a long, strange trip it has been.