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What 1993's top money managers are buying now

While the market barely moved last year, these investment advisers achieved eye-popping gains. They're shooting for a repeat in '94.

By A.I. Schutzer
SENIOR EDITOR



"We have clients who are experts in medical care...We invite them to share their knowledge with us so that we can invest in the companies they know have the best products in their fields."

Last year, the S&P 500 gained 7 percent. Yawn.

Yet a select band of investment advisers outran the S&P with gains of 21 to 178 percent. Did that wake you up? Do you want to know who those managers are, how they did it, and what they see in the future?

Hold on. First, let us explain how we found the investment advisers and their gains: It was through a service called Money Manager Verified Ratings. MMVR is run by Norman Zadeh, a former professor of applied mathematics at Stanford University, whose mathematician father, Lotfi Zadeh, invented fuzzy logic.

To be tracked by MMVR, an investment manager must register a portfolio worth at least \$1 million with MMVR on Jan. 1. To verify subsequent changes, the manager must turn in copies of brokerage or mutual-fund statements each quarter.

MMVR divides the managers

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into three risk categories. "Conservative growth" advisers invest only in stocks and eschew borrowing on margin. The "low risk" category includes managers who invest in stocks and bonds or who are mutual-fund timers—they trade fund shares based on their expectations for the market or for the funds'

portfolios. "Aggressive growth" advisers purchase volatile stocks and may use a wide range of investment techniques intended to maximize results: buying on margin, selling stocks short, and trading in options and futures. Some advisers use a combination of techniques, blurring distinctions

“Whichever sector has a high relative strength, that's where we move our portfolio.”

—Ralph Doudera





“We like health care, Pfizer particularly. The company’s pipeline is full of new drugs.”

—Steven Abernathy

among the risk groups.

The top-performing advisers follow various investment philosophies. Some switch among sector funds within one mutual-fund family. Others, with help from knowledgeable investor clients, specialize in high-technology stocks. Still others diversify broadly and hedge their bets by investing in assets that tend to move in opposite directions. These methods appear to work for the money managers who use them, because many of the same advisers appear at the top of the performance lists year after year.

We asked some of them to describe the ways they got their top performance. Here’s what we learned.

From Mother Teresa to the almighty dollar

Ralph Doudera, who runs the fifth-ranked conservative-growth Spectrum Sector and the second-ranked low-risk Spectrum Multi-Bond Seasonal portfolios, spent two weeks away from the market last year assisting Mother Teresa in Calcutta with the ill and indigent. But back home, he ministered to his clients, showing a 56 percent gain for the year in his Spectrum Sector portfolio, mainly by using Fidelity’s numerous sector funds. His Spectrum Multi-Bond Seasonal Portfolio gained 38 percent.

“We move Spectrum Sector into whichever sector fund has a high relative strength, and whose growth hasn’t yet been fulfilled,”

Doudera says. “That put us into real estate and Japan early in 1993, and into some of the Pacific and emerging-country markets at the end of the year. Those moves gained us 27 percent in the fourth quarter alone.”

The investment picture is different this year, Doudera says. He was out of most sector funds by April. “Except for Europe, most foreign sectors are in major downtrends right now. We try not to go against the major trends.”

Where do you go in that situation? Nowhere. “We’re almost 100 percent in cash.” With one exception: “We invested in the Rydex Ursa Fund, which shorts the S&P 500.” Ursa, Latin for “bear,” aims to move precisely opposite to the direction of the market. If the S&P goes down 1 percent, Ursa should go up 1 percent. So Doudera was betting that the market was heading for a fall. But as a mutual-fund trader, he says, he can switch quickly from defense to offense. He did precisely that in late April.

This ex-pug comes out a champ

Steven Abernathy quit his senior year as a pre-med in the late 1970s

to become a boxer. Known professionally as Steve Savage, Abernathy won eight and lost two before an unseen left ended his career.

Nowadays, Abernathy squares off with his two Composite portfo-

lios. His Aggressive Growth Composite is second-ranked in its category and his Conservative Growth Composite is third-ranked in its group. The aggressive-growth portfolio scored a 147 percent gain in 1993, while the conservative-

growth one rose 64 percent. The performance of those portfolios is especially remarkable since both keep at least half their assets in bonds or cash.

Abernathy finds stocks in technology and health care. After doing his basic research, he talks to investor clients with specialized knowledge. "We have clients who are experts in medical care, computer hardware and software, and communications. We invite them to share their knowledge with us so that we can invest in the companies they know have the best products in their fields."

In health care, Abernathy gives high marks to ALZA. The company makes delivery systems that control the rate at which drugs are administered. "When a drug patent is about to expire," Abernathy says, "ALZA reformulates the drug and its delivery system to extend the patent for another 15 years." Abernathy expects earnings of 90 cents a share in 1994, up from 77 cents.

Another smaller drug company on Abernathy's list is Matrix Pharmaceutical. "It has a delivery technology that works with either genital warts or basal cell carcinoma." Abernathy figures Matrix is worth between two and three times its present price. That price is low, he says, because the company will report a loss in 1994.

Among major drug companies, Pfizer is an Abernathy favorite. "The company will probably get between 15 and 18 percent earnings growth for the next three years," he says. "Its pipeline is full of new drugs."

In telecommunications, Aber-

What an adviser will charge you

Professional advisers charge an investor a fee based on the value of the managed portfolio, ranging from 0.75 percent to 3 percent of assets plus, in some cases, a share of the profits. The percentages drop as the size of a portfolio increases.

Stalker Advisory Services, for example, charges just under 1 percent per year for portfolios up to \$1 million. Above that amount, the fee drops to three-fourths of 1 percent. Another manager, Spectrum Sector, accepts investments as small as \$100,000 and charges between 2 and 3 percent of assets, depending on the type of investment plan. "The low-minimum managers tend to charge the highest rates," says Norman Zadeh, president of Money Manager Verified Ratings.

Watch out for the impact of a minimum fee on a small account. For instance, if an adviser charges 0.75 percent of assets but his minimum fee is \$1,500, you'll pay a premium if your portfolio is less than \$200,000.

The money manager should provide a monthly brokerage or mutual-fund statement listing trades made for your portfolio. He should also furnish a quarterly report telling you what trades were made and why, and how your portfolio performed for the period.

For a free copy of MMVR's current list of recommended investment advisers, write to Money Manager Verified Ratings, P.O. Box 7634, Beverly Hills, Calif., or call 800 606-6639. The tables on pages 34, 35, and 38 list data on the top 10 performers in each of MMVR's three risk categories: aggressive growth, low risk, and conservative growth. They may be contacted directly.

Portfolio managers pay Money Manager Verified Ratings \$700 a year to have their performance reviewed and ranked. MMVR also helps investors find advisers. If MMVR makes a referral, it receives a fee or brokerage commissions from the adviser.



**“We seek
stocks where
sudden earnings
changes will
catch investors
off balance.”**

—Victor Resnick

Abernathy's second high-tech pick is FTP Software, producer of a program that simplifies using the unfriendly Internet. The same program enables network systems to coordinate many formerly incompatible systems. Abernathy expects this fledgling company to report earnings of \$1.05 a share in 1995, up from 77 cents.

**From poker table
to Wall Street**

The second-ranked conservative-growth portfolio, Victor Resnick Investments, gained 99 percent in 1993. Resnick, a professional poker player in California in the 1980s, drifted into money management after a number of winning hands.

Resnick admits he's an active trader who moves in and out of stocks almost as often as he used to draw cards in poker. But he's rarely fully invested, and his cash cushion reduces his trader's risk. He tries to find stocks where sudden changes in earnings will catch investors off balance; their belated reaction, he figures, will fatten his portfolio. He found surprises last year in semiconductors (Micron

nathy points to LIN Broadcasting. LIN owns an interest in cellular-phone networks in New York, Los Angeles, Dallas, Philadelphia, and Houston. The company also owns seven TV stations—some or all of which it may spin off to shareholders. “LIN is the subject of a buyout agreement,” says Abernathy. “McCaw Cellular must either buy the 48 percent of LIN that it doesn't own by next Jan. 1, or sell its interest in the company. LIN is worth \$140 per share and is selling for \$115. That's a fast profit of \$25 a share in five months if the deal goes through.” Abernathy expects

LIN to cut its 1993 loss in half this year. Footnote: McCaw itself may be bought by AT&T in a \$12.6 billion deal.

Abernathy cites two high-tech companies as potential winners. One is Metricom, which specializes in wireless data-communications networks. “I think Metricom will be selling at four or five times its present price inside of two years,” says Abernathy. “Metricom's data transmission is three times as fast as competing systems and costs less.” The company is still developing, and Abernathy expects a deficit of about \$1 a share in 1994.

What the top advisers are investing in now

Stock	Exchange	Principal business	Price-earnings ratio	52-week price range	Recent price (6/27/94)
ALZA	NYSE	Drug-delivery systems	52	19-31	24
Centerbank	OTC	Residential mortgages	11	8-14	13
Deere & Co.	NYSE	Farm machinery	12	63-91	70
EquiCredit	OTC	Consumer finance	8	16-24	18
FTP Software	OTC	Internetworking software	23	13-31	16
General Instrument	NYSE	CATV, communication Instrument equipment	26	37-63	56
LIN Broadcasting	OTC	TV broadcasting; cellular telephones	D	99-122	115
Matrix Pharmaceutical	OTC	Drug-delivery systems	D	7-14	11
Metricom	OTC	Data communications networks	D	8-34	16
Micron Technology	NYSE	Semiconductors; computer components	11	14-40	34
Pfizer	NYSE	Pharmaceuticals	28	53-70	62
SFFed Corp.	OTC	Savings and loan	D	14-23	22

Fund	Type	52-week price range	Recent price (6/27/94)
Chile	Closed-end	30-57	43
European Warrant	Closed-end	8-18	11
India Growth	Closed-end	15-31	21
Mexico	Closed-end	21-40	28
Portugal	Closed-end	10-16	12
Rydex Ursa	Open-end	D	10

D: Deficit. Sources: Standard & Poor's, Lipper Analytical Services, Morningstar, Dow Jones

Technology, KLA Instruments), telecommunications (Tellabs), and health-care providers (Mid Atlantic Medical, U.S. Healthcare).

This year, Resnick is betting on Deere, General Instrument, and—

again—Micron Technology. Deere is the world's largest manufacturer of agricultural equipment. "It has a good chance of beating last year's earnings by 75 to 80 percent this year," Resnick

says. "The stock has declined because of the nervous market, but its underlying fundamentals remain strong."

General Instrument, a manufacturer of cable-TV systems and

fiberoptic and coaxial cable, is also a potential winner, says Resnick. "The stock got beaten down because a merger fell through and the government launched an antitrust investigation. But this stock constantly beats earnings projections, and it always snaps back."

Finally, Resnick admires the hand Micron Technology has drawn in the high-stakes game of computers and computer-chip manufacture. "The computer-memory market is unbelievably strong," he says, "and will continue that way into the foreseeable future. Demand and price continue strong; Micron should thrive in this environment."

After Washington, even the market makes sense

Orin Kramer, who oversaw banking in both the Carter and Clinton administrations, now manages the fourth-ranked conservative-growth portfolio, Boston Provident Partners, which gained 57 percent in 1993.

"Our fund looks at the smaller

"Our fund looks at the smaller companies that aren't widely followed, among them banks and thrifts."

—Orin Kramer

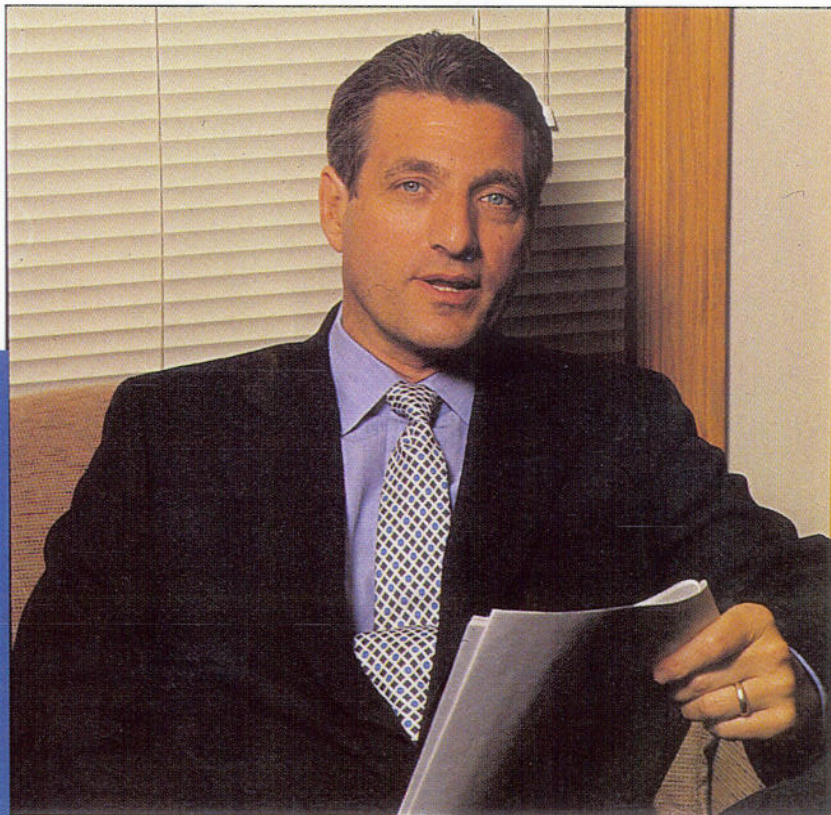
companies that are not widely followed," Kramer says. "The market tends to be less efficient there and presents the greatest opportunities." Among his targets: banks, thrifts, specialty insurance companies, and consumer-finance companies. Kramer tries to diversify both by type of institution and geographically.

Consider EquiCredit, a specialty consumer-finance company. Its 89 branch offices in 29 states make home-equity loans on owner-occupied, single-family residences. "EquiCredit sells at a shade over five times next year's [projected] earnings," Kramer says. "It's very conservative in granting credit and protects itself

against interest-rate risk by hedging." Kramer estimates earnings of \$3 to \$3.30 next year, up from \$2.80 this year.

A New England thrift also meets Kramer's specifications. "After a great deal of takeover activity in New England," Kramer says, "Centerbank in Waterbury is one of the few remaining significant franchises in Connecticut. We believe that major acquirers are interested in taking over the company and that Centerbank would be receptive." Kramer thinks the bank's stock price would nearly double in a takeover.

Kramer is also keen on SFFed, a holding company that owns the San Francisco Federal Savings &



The investment advisers with the hottest hands

	Performance		Minimum investment	Fee schedule	Minimum annual fee	Kinds of investments
	1 year (through 1993)	2 years				
Conservative growth						
Kinemarket Research 70 Standish Circle Wellesley, Mass. 02181 617 235-0273	104.7%	113.7%	N.A.	N.A.	N.A.	Mutual-fund timing
Resnick Investments 2315 Ocean Front Walk Venice, Calif. 90291 310 574-0734	99.2	N.A.	\$200,000	1% of assets 20% of profits	\$2,000	Stocks, long and short
Conservative Growth Composite Steven Abernathy Cowen & Co. Financial Square, 28th Floor New York, N.Y. 10005 800 221-5616 212 495-6000	63.8	79.5	Negotiated	Transaction fees only	None	Stocks, bonds
Boston Provident Partners, L.P. 2050 Center Ave. #300 Fort Lee, N.J. 07024 201 592-1234	56.5	122.2	\$500,000	1% of assets, 20% of profits if above Treasury rate (no incentive fee if no profit)	\$5,000	Stocks, long and short; puts
Spectrum Sector Spectrum Financial Suite 200 2940 N. Lynnhaven Road Virginia Beach, Va. 23452 804 463-7600	56.3	69.0	\$100,000	2-3%	\$2,000	Mutual-fund timing; asset allocation
Marin Capital Management International 103 E. Bliethedale Ave. Suite 103 Mill Valley, Calif. 94104 415 381-1285 800 848-1247	51.3	67.2	\$250,000	2% of first \$500,000, 1.5% of next \$500,000, 1% of assets over \$1 million	None	International equities, long and short
Bedford Falls Investors, L.P. 790 Madison Ave. #708 New York, N.Y. 10021 212 717-1702	50.3	N.A.	\$250,000	2% of assets, 20% of profits up to a 30% return, 30% of profits above a 30% return	\$5,000	Stocks, long and short; options
Marmolejo & Associates Praga #44 P.B. Colonia Juarez Mexico City, Mexico 06600 525 514-9484 525 533-6380	48.1	72.2	N.A.	N.A.	N.A.	Mexican stocks and bonds
Redwood Asset Management, L.P. 230 Park Ave. #1401 New York, N.Y. 10169 212 692-3634 212 692-3619	44.5	N.A.	\$200,000	1% of assets, 15% of profits	\$2,000	Stocks, long and short
Mark Iglehart 833 Tolman Drive Stanford, Calif. 94305 415 494-2999	43.0	N.A.	\$500,000	1% of assets, 15% of profits	\$5,000	Mutual-fund timing

	Performance		Minimum investment	Fee schedule	Minimum annual fee	Kinds of investments
	1 year (through 1993)	2 years				
Low risk						
Twenty Plus 21 Young Road Weston, Mass. 02193 617 899-3459	65.5%	100.3%		Not accepting new investments		Mutual-fund timing
Spectrum Multi-Bond Seasonal Spectrum Financial Suite 200 2940 N. Lynnhaven Road Virginia Beach, Va. 23452 804 463-7600	38.1	65.3	\$100,000	2-3%	\$2,000	Mutual-fund timing
Stalker Advisory Services 399 East 10th Ave. #204 Eugene, Ore. 97401 503 345-7023	31.5	38.7	\$500,000	0.95% of assets	\$4,750	Stocks, bonds; mutual-fund timing
Butterfield/Graue Smith Barney 418 Maine St. Quincy, Ill. 62301 800 443-0688 217 222-5800	28.1	N.A.	\$50,000	Transaction fee only	None	Mutual-fund timing
Erwin Marine, CFP 3625 East Thousand Oaks Blvd. #100H Westlake Village, Calif. 91362 805 496-6810	24.7	N.A.	\$50,000	0.75% of assets each quarter	None	Mutual-fund timing
Cooper-Linse 15255 S. 94th Ave. #304 Orland Park, Ill. 60462 800 304-3232	23.7	39.0	\$10,000	2.5% on first \$500,000; negotiable above \$500,000	\$250	Mutual-fund timing
Trendline Research & Mgmt. 1100 Boulders Parkway Suite 702 Richmond, Va. 23225 804 323-9190	22.4	45.4	\$125,000	1.95% on first \$500,000, 1.75% on next \$500,000; negotiable over \$1,000,000	\$2,437	Mutual-fund timing
Firebird Partners L.P. 142 West 57th St. 16th Floor New York, N.Y. 10019 212 262-0202	22.3	N.A.	\$250,000	1% assets, 20% of profits over the T-bill rate	\$2,500	Convertible equities
Neil Sirotkin 2121 N. Frontage Road West #197 Vail, Colo. 81657 303 476-8012	21.3	N.A.	N.A.	N.A.	N.A.	Mutual funds
Dennis Reiland, CFA Private Management Group 20 Corporate Park #285 Irvine, Calif. 92714 714 752-7500 Ext. 352	21.0	N.A.	\$100,000	0.6%-1.6% of assets	None	Stocks, bonds
Standard & Poor's 500 Stock Index	7.1%*	18.4%*				

N.A.: Not available. *Includes reinvested dividends. Sources: Money Manager Verified Ratings, Lipper Analytical Services, Standard & Poor's

	Performance		Minimum investment	Fee schedule	Minimum annual fee	Kinds of investments
	1 year (through 1993)	2 years				
Aggressive growth						
Capital Futures Management 109-111 Rue Victor Hugo 92532 Levallois France 33 1 4025-9300	178.2%	N.A.	\$2,000,000	3% of assets, 25% of profits	\$60,000	Futures trading
Aggressive Growth Composite Steven Abernathy Cowen & Co. Financial Square, 28th Floor New York, N.Y. 10005 800 221-5616	147.2	265.6	Negotiated	Transaction fees only	None	Stocks, bonds
David Dewind Strome Susskind 1250 4th St. #420 Santa Monica, Calif. 90401 310 917-6600	136.0	N.A.	\$350,000	N.A.	N.A.	Stocks, long and short; futures
Fortuna Investment Partners, L.P. 1250 Fourth St. 5th Floor Santa Monica, Calif. 90401 310 393-1900	91.2	N.A.	\$250,000	½ of 1%, 20% of profits in excess of a 7% return	\$1,250	Stocks, bonds, turn-arounds
Lawrence Fund, L.P. Lawrence Advisors 519 Chauncy Lane Lawrence, N.Y. 11516 516 374-4001	81.6	N.A.	\$100,000	20% of profits up to a 30% return 30% of profits over a 30% return 30%, fee is 30%	None	Small-cap stocks, long and short; short-term trading
Manhattan Equity Partners 14 Walworth Ave. Scarsdale, N.Y. 10583 212 682-2300	76.0	N.A.	\$100,000	1% of assets, 15% of profits	\$1,000	Closed-end country funds, long and short
Marmolejo & Associates Praga #44 P.B. Colonia Juarez Mexico City, Mexico 06600 525 514-9484 525 533-6380	65.0	84.8	N.A.	N.A.	N.A.	Mexican stocks and bonds
Hanseatic Corporation 4665 Indian School Road NE Albuquerque, N.M. 87110 505 262-1981	64.6	N.A.	\$500,000	2% of assets, 20% of profits	\$10,000	S&P 500 futures
Decameron Partners 245 Park Ave. 38th Floor New York, N.Y. 10167 212 272-1710 212 288-5874	56.1	N.A.	\$250,000	20% of profits	None	Stocks, long and short
Shoreline Funds, L.P. 1 Bush St. #1150 San Francisco, Calif. 94104 415 576-3673 415 576-3427 415 576-3488	55.5	\$1 million		2% of assets, 20% of profits above a 10% return	\$20,000	Stocks, long and short
Standard & Poor's 500 Stock Index	7.1%*	18.4%*				

N.A.: Not available. *Includes reinvested dividends. Sources: Money Manager Verified Ratings, Lipper Analytical Services, Standard & Poor's

Loan Association, a multibillion-dollar thrift. "The company sells at slightly under 80 percent of its book value," Kramer says. "and acquirers are interested in this institution. When it's bought up, the purchase price will be at a premium to book value." Kramer estimates earnings will roughly double next year, to \$1.70 to \$2.30, up from \$1 this year.

For less stress, go to Oregon and stay in cash

When Michael Stalker fled the stressful life in Orange County, Calif., a few years ago, he took with him to Eugene, Ore., the investment responsibilities of two doctors who wanted \$2 million apiece for retirement. Stalker isn't sure he escaped stress, but he did achieve the doctors' goals and is now locking in their millions. In 1993, the third-ranked low-risk fund, Stalker Advisory Services, gained 32 percent.

Stalker's portfolio is invested in mutual funds, stocks, and bonds, and a bumpy ride often goes along with them. "If the price of an above-average return is volatility, so be it," Stalker says. "But we look to reduce risk in the portfolio by selecting assets that tend to head in opposite directions; one zigs when the other is zagging."

One example of such low-correlation assets: bonds and oil stocks. "When oil prices go up, oil and oil-service stocks do well, but rising energy prices are considered inflationary, and that's bad for bonds. So when oil goes down, bonds go up."

Last year, Stalker put emerging-market funds and domestic funds

We reduce risk
with investments
that tend
to head in
opposite directions
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the other zags."

—Michael Stalker



But Stalker hasn't abandoned Europe or South America. "We're invested in Europe through European Warrant Fund, Harbor International Fund, and Portugal Fund, and in South America, through Chile Fund."

"Regardless of how attractive these funds remain," he says, "we're lightening up for clients who are approaching retirement. We're starting to lock in income by investing in bonds that will give clients the cash flow they'll need." That and a gingerly feeling about today's market account for his 30 percent cash position.

These top performers balance on the high wire in the financial circus. But most have experience in daring endeavors, whether in the boxing ring or the Washington jungle. They've carried those experiences over to the investment world, and so far they and their clients have thrived.

into opposition. "They have different interest-rate structures, and the economies were in different phases," he says. Recently he cut his holdings in domestic funds and began getting his diversification from international funds.

One of the funds he's invested in now is Mexico Fund. "There's a lot of concern about the political situation down there," Stalker says, "but in two or three years, current prices will look like an opportunity."

A lot of foreign funds have corrected substantially since the end of the year, especially Asian funds, and Stalker finds opportunity there. He cites the closed-end India Growth Fund: "At the end of last year, it sold at more than a 50 percent premium to its net asset value," he says. "Today, it's selling at a discount. It's gone down by about one-third."

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