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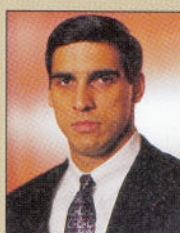
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Using your medical expertise to make the right investments

interview



Steven Holt Abernathy



Gary Leet

Nearly five years ago, **Steven Holt Abernathy**, a director of the Private Client Group at Cowen & Company and founder of The Steven Abernathy Group, developed Interactive Investing, an investing strategy that encourages medical professionals to use their medical expertise to enhance the performance of their investment portfolios. By combining his financial knowledge with the medical expertise of his clients, Abernathy has produced an unparalleled return of 1002%, over the past four-and-two-third years. A \$1,000,000 investment four-and-two-third years ago is worth over \$11,000,000 today.

When Abernathy sits down to talk to you—whether it is in his New York office or yours—you can tell that he respects your medical expertise and is interested in what you have to say. In fact, he credits the medical and technology-based expertise of his clients with helping him become the number one ranked growth money manager.

Abernathy began quietly building his group of experts five years ago when he joined forces with Cowen & Company, a 77-year-old New York investment house and leader in health care and technology research. As a director of Cowen's Private Client Group, Abernathy soon realized that his clients who were health care and technology experts were providing him with valuable hands-on information about emerging technologies and new medical develop-

Tapping the unbiased opinions of his clients, Abernathy and his partner, **Gary D. Leet**, a senior vice president of Cowen & Company, have created one of the most innovative investment strategies to hit Wall Street in a long time. Interactive Investing may change the way Americans invest more than mutual funds have changed the way Americans have invested over the past 40 years and become the dominant investment prototype of the future.

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ments. When this information was combined with his own research, he gained a powerful informational advantage over other professional investors.

In this interview with ORTHOPEDICS TODAY, Abernathy and Leet explain what Interactive Investing is and how it works for physician investors.

What is Interactive Investing?

Abernathy: It is an investment methodology in which the money manager and his clients work together as a team. Each contributes his or her expertise when it can improve the likelihood of finding a successful investment.

Leet: In order to find an investment that is successful, there are two, and only two things needed—information and analysis. Analyzing a company and its financial well-being is best left to professional investors. But the best information about a company's products comes from its users. Interactive Investing brings the two together—experience in money management and first-hand knowledge of emerging technologies. Conventional investing has the money manager acting as an expert in both areas when his expertise is usually in only one.

Abernathy: It would be extremely difficult to find a fund or money

mutual funds created value by allowing small, unsophisticated in-

When we research a company that makes a specific orthopedic device we do all the financial analysis, but we also weigh our clients' professional opinions about the devices. This gives us an informational edge in investing that other investors do not have.

vestors to pool their assets and hire a professional manager to make investment decisions. Interactive Investing goes one step further. It brings together sophisticated professionals with assets and hands-on information to create a very powerful intellectual entity. Combining assets and intelligence makes much more sense.

How do you use your clients' expertise?

Abernathy: Orthopedic surgeons, for example, have first-hand knowledge of instruments, proce-

from a financial perspective, that is where they usually stop. When we

research a company that makes a specific orthopedic device we do all the financial analysis, but we also weigh our clients' professional opinions about the devices. This gives us an informational edge in investing that other investors do not have. Our clients' professional insights enable us to make more informed investment decisions that, we feel, reduce our risks and enhance our returns.

Are you saying specialization could reduce risks?

Abernathy: Yes, our world today is a world of specialization. Nowhere in our society is specialization better understood and applied than in the field of medicine. For example, no one would ever entrust his physical well-being to anyone other than a well-trained medical professional. In fact, our health is so important that within the practice of medicine we have specialties and subspecialties.

Leet: Investing should be viewed in exactly the same way. In fact, it could be said that your financial health is as important as your physical health, because your financial position can actually determine the quality of health care you receive. Therefore, a person's finances, like his health, should be handled by a

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manager that has knowledge about medical devices as comprehensive as that of our group of surgeons.

What is unique about this investment strategy?

Leet: Interactive Investing taps the potential power of a professional's first-hand knowledge. Again, even the best analysis is worthless without good information. The value is actually created by Interactive Investing when it brings the two together. For example, 40 years ago

dures and technology used in treating patients with bone disease or bone trauma. We value their opinions. Oftentimes, mutual fund or money managers will find a company that develops medical devices and appears to be a very promising investment. The financial research indicates that the company could be a strong performer. The company's business plan appears sound and the management is competent. Since these money managers are only able to analyze the investment

well-trained professional. It is amazing that investors who have realized that it is foolhardy to "do it yourself" will in many cases simply turn over their assets to a generalist, rather than a specialist who has expertise related to their financial goals. This is similar to my visiting a general practitioner and ask-

By combining our financial knowledge with the industry-specific expertise of our clients, a powerful informational advantage is achieved.

ing him to perform a lateral meniscotomy. Out of the question! So our philosophy is to use specialized knowledge whenever and wherever possible. In fact, it is this philosophy that led directly to the creation of Interactive Investing.

Don't you think that your clients could go out and form their own groups and do just as well?

Abernathy: I suppose it is possible, but again, it's not just first-hand knowledge of a new product, for example, that ensures a promising investment. I have heard too many stories where physicians made an investment in some type of promising new medical development only to have the investment fail, not because the product was impractical, but because the management or financial structure of the company was wrong. Interactive Investing works because it is that—interactive. By combining our financial knowledge with the industry-specific expertise of our clients, a powerful informational advantage is achieved.

Is Interactive Investing for everybody?

Abernathy: No, it isn't. It is basically for high net-worth professionals who are long-term investors and who truly believe the best way to reduce investment risk is by getting the best information.

Can you tell me about your investment process?

Abernathy: First, we identify trends and themes in health care and technology that are expected to grow more than the economy as a whole over the next several years. Then we target companies within those sectors that are best positioned to capture a significant portion of that growth. Typically, these companies exhibit projected growth in earnings of over 25% an-

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nually over a three-to-five-year period. As needed, we also perform income statement, cash flow and balance sheet analyses; talk to industry analysts; and review SEC filings. After identifying the most promising health care and technology companies, we then visit with the management of these compa-

nies to find out what kind of people they are. Also, we frequently meet with their customers, suppliers and most importantly, their competitors. If we find that a competitor has an edge—either in management strength or product pipeline—we address that issue with the targeted company.

Leet: But high growth rates, solid management and cutting edge technologies are not enough. There must be an event that is likely to raise visibility or heighten investor interest in the particular company that we are researching. Such catalytic events might be the launching of a new product, changes in management or a corporate restructuring.

What kind of track record have you had with Interactive Investing?

Abernathy: Through August of this year we were up 1002% on our aggressive growth strategy compared to the S&P 500's 93%. This means \$1 million given to us in January 1991 is worth over \$11 million today. For lower risk ac-

counts, our conservative growth strategy was up 132% compared to the S&P 500's 48% for the three-and-two-third-year period ending August 31, 1995. ■

For more information about Interactive Investing, Gary Leet may be reached at (212) 495-6622.

