



TOM ELLIOTT

THE RISE OF THE money men – fund managers, investment bankers, financiers, accountants and hedge fund managers – has changed the face of the *BRW Rich 200* in recent years. Now it is having a profound effect on the *BRW Young Rich*. There are two more financial services players on the list this year, taking the total to 10.

These young guns are old enough to remember the 1987 stockmarket crash and young enough to have witnessed the excitement of the dotcom bubble of 2000 and the current record bull market. But what distinguishes them from older wealth managers is their acceptance of change and new ideas. They have embraced new investment techniques and are quickly carving out for themselves a lucrative patch in the funds management game that is very different to the conventional buy-and-hold or “value” investment strategies of their seasoned peers.

Tom Elliott formed MM&E Capital in Melbourne with John McIntosh, who has 35 years’ experience in the securities and investment banking industry and was a founding partner of the once-dominant firm McIntosh & Partners.

Lawrence Gozlan left superannuation giant Queensland Investment Corp in 2005 to create Scientia Capital, a global biotech investment fund which has attracted money from some of the

oldest and wealthiest families in Australia. Karl Siegling worked at global organisations Deutsche Morgan Grenfell and Goldman Sachs before striking out on his own to create Cadence Asset Management. He is a close friend of small-cap guru Geoff Wilson, who sits on the board of his listed vehicle Cadence Capital.

While these three fund managers are yet to accumulate the level of wealth that would put them on the Young Rich list, they are slowly making their move to the big league.

They could join Young Rich members including Jeremy Reid, who is valued at \$170 million on this year’s list. Reid is the managing director of Everest Babcock & Brown and has enjoyed an amazing run since launching his hedge funds business in 2000 with \$5 million of family capital. He now manages \$3.5 billion. Angus and Richard Grinham are ranked third on the Young Rich with a fortune of \$235 million. The brothers run Grinham Managed Funds, which has more than \$2.3 billion under management, the vast majority from United States investors.

What Elliott, Gozlan, Siegling, Reid and the Grinhams have realised is that the funds management market is becoming crowded. To grab the attention of retail and institutional investors, younger fund managers have created innovative strategies. Elliott believes he has

OUTSIDE

IN A CROWDED FINANCE MARKET,
THINKING UP NEW INVESTMENT
BLUEPRINTS IS PAYING HANDSOME
DIVIDENDS FOR A NEW BREED
OF YOUNG FUND MANAGERS.

THE

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SQUARE

LAWRENCE GOZLAN



developed an investment strategy that straddles the risk-reward spectrum. The work of his small team at MM&E revolves around corporate activity: mergers, acquisitions and takeovers.

Part of this style is based on that of leading New York financial strategists in the 1950s, whose theories became the basis for today's hedge funds. A more modern ingredient is some simple advice from the late Australian stockbroker Rene Rivkin, who said that when a company takeover is launched, buy the target on the probability that a second and higher bid will emerge.

Elliott, the son of 1980s entrepreneur and businessman John Elliott, has added his own ideas to broaden and strengthen MM&E's investment strategy, including a focus on small-to-medium enterprises. These companies typically have market capitalisations of less than \$500 million and often slip under the radar of large broking houses. Because of this, there is a gap in the market – a small window of opportunity where investors with a disciplined approach and some nerve can achieve robust returns in both rising and falling markets.

Elliott's investment strategy works best when an overseas company bids for an Australian company, especially when the takeover target is involved in technology, medical research or other highly specialised fields of business.

This was highlighted last year when three US companies fought an \$800 million takeover battle for Melbourne company Vision Systems. The first takeover offer was priced at \$2.13 a share, but by the time the dust had settled the final price for control was \$3.75 a share. MM&E Capital made an \$8 million profit in only two months.

Sometimes, young-gun fund managers need to develop investment strategies to cope with modern companies engaged in cutting-edge technology. How much would the cure for cancer be worth? How about Alzheimer's disease or multiple sclerosis?

These are the types of questions that investors in the life sciences and biotechnology sector ask themselves as they scour the market. Only a handful of the thousands of biotech companies on stock exchanges around the world will actually succeed and take a drug all the way from the laboratory to full commercialisation. About 90 per cent of biotech companies will ultimately fail.

Lawrence Gozlan at Scientia Capital is such an investor. He searches for companies with the right mixture of strong management, good drug technology and patent protection.

Biotechnology is a booming industry. The ageing of the baby boomer generation and the lengthening of life expectancy, especially in the western world, are creating intense demand for

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new and powerful drugs. "Globally, the over-60 population is expected to rise from about 600 million in 2006 [equal to 10 per cent of the world's population] to close to two billion by 2050 – likely more than 20 per cent of the total," Gozlan says. "In the US, the proportion of senior citizens to the entire population is expected to rise from 13 per cent to over 21 per cent by 2030. Although Americans 65 and older account for only 13 per cent of the nation's total population, they consume an estimated 33 per cent of all US pharmaceutical output."

Gozlan does not invest in new medical devices or technologies, instead concentrating on therapeutic companies that can charge high prices for their treatment without pressure to reduce those prices because no one else can replicate the drug. He likes to invest in biotech companies that are worth less than \$500 million because they are often below the radars of larger investors and funds managers. The



KARL SIEGLING

ROB HOMER

strategy seems to be working. In 2006-07, Scientia Capital had a 45 per cent return. Gozlan keeps the identity of his clients a closely guarded secret, but it is understood some appear in the Rich 200.

Siegling would like you to forget everything you have ever learned or heard about investing in the stockmarket. A falling share price is not a buying opportunity, but a clear warning from the market that something is wrong. Repeated new highs for a stock are not evidence of a missed opportunity or an overpriced company, but rather an invitation to buy more shares.

If Siegling finds a company that looks incredibly cheap on fundamental analysis (cash flows, profit and forward earnings), but the price trend is downward – perhaps the stock has been falling for a year – he will not buy a single share. He knows the company is fundamentally cheap, but refuses to buy into a falling share price. This is counter to the methods of value investors, who would take

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advantage of the weaker share price.

But Siegling will not buy into the company (following the fundamental research) until the share price has stopped falling and begins a turnaround. “I believe that there is no sense, no matter how compelling our fundamental beliefs may be, in buying into a stock as it is falling in value. I believe that the words ‘contrarian investor’ are often used out of context, and that a contrarian strategy of constantly buying and adding to a falling position and constantly selling or shorting a rising market leads an inexperienced investor into making costly mistakes.”

Siegling places great importance on the logic of crowds. If the stockmarket, which is made up of millions of investors making millions of decisions every day, is selling down a company then that is right and proper and should not be second-guessed or doubted. “The market can be irrational and sell down a stock for no real reason – no reason based on the fundamentals of the business,” he says. “But it’s not for us to say when the market will stop being irrational. [Our job] is to do the fundamental research and wait for the share-price trend to show us that the market has stopped being irrational and that our research is potentially correct.”

When Siegling is building a position in a company and buying up shares, he will not buy below the last price he has paid for a parcel of stock. “I will buy shares at, for example, \$1, then \$1.10, and then \$1.12, but if I have just paid \$1.12 for a stock I will not then pay \$1.10 if the price falls a few days later. That’s because I like buying shares that are going up. So why would I buy shares at a lower price than previously paid?” This goes against what most investors believe to be the logical, wise way to invest. Why not take advantage of a short-term retreat in a share price to average down your overall cost? But Siegling remains completely loyal to his rule and does not waver – ever.

His approach sounds illogical, even counterintuitive, but it works incredibly well. For the six months to December 31 last year, Cadence Capital posted a 1470 per cent increase in net profit after tax to \$3.184 million.

The gross performance of Cadence’s portfolio of Australian shares for the half year was an increase of 32.26 per cent, easily beating the broader stockmarket. In only 15 months since its inception, the fund recorded a gross increase of 75.98 per cent, at the same time holding an average cash position of 20 per cent across the portfolio. ●

Eli Greenblat is the author of Young Guns on the Sharemarket (John Wiley & Sons). The book has interviews with a dozen Australian fund managers, all aged under 40.