

# Investment Management

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## INVESTMENT MANAGER PROFILE

# Vogel Sees Silver Lining in Market Mess

By Dave Lindorff

Here's a word to the wise for any managers of companies who may be about to be visited by **Roger Vogel**: Don't roll out the red carpet and offer him a slick, well-rehearsed tour of a spotless and smoothly humming facility.

"One thing we worry about are managers who are very promotional," said Vogel. "We can understand it if a manager is a poor presenter. It doesn't mean they are bad managers. But we do get concerned when people get flamboyant or aggressive in their presentation."

Vogel, portfolio manager at the New York-based **Silvercrest Asset Management**, oversees a 90-employee management firm with four strategies that operate on a generally bottom-up value basis, and that has performed rather impressively during the recent crisis. Silvercrest's Small Cap Performance strategy, up 5.91% annually since inception in 2002, more than doubling the Russell 2000 benchmark's 2.69%, is, for example, down for 2008 by 14.7%, compared to the Russell 2000's precipitous drop of 28.9%.

The firm's Large Cap Composite strategy, up an annualized 1.6% since inception versus .21% for the Russell 1000 Value Index benchmark, is down 34% for 2008, against a benchmark drop of 37%. The Equity Income



**Roger Vogel**

Composite strategy, up an annualized 6.7% since inception compared to the Russell 3000 Value benchmark's .43%, was down 21.2% for 2008 versus a drop of 36.3% for the benchmark. Finally, the firm's Focused Value Composite strategy, up an annualized 0.89% since inception compared to the S&P 500 benchmark's annualized fall of 2.62%, last year fell by "just" 31.43%, versus the S&P's 37% plunge.

"I think what has given us an advantage in the current crisis over our benchmarks and over our competitors has been that we don't like to see a lot of leverage," said Vogel, a **New York University** graduate who came to Silvercrest after co-managing small-cap and large-cap portfolios at **Credit Suisse Asset Management** and earlier stints at **Chemical Bank** and **Manufacturers Hanover Trust**.

"It's not that we don't like debt, but we have always wanted to see sufficient cash flow for a company to be able to handle the debt. We want to know that it is serviceable."

Silvercrest, with \$6.1 billion in assets under management, is not a quant shop by any means, but Vogel said he does start out using some quantitative screens to narrow the investment options for all four of its strategies. Initial screens in each case look for conservatively leveraged companies with high and stable or improving returns on invested capital, and with strong free cash flow. At that point, the process becomes qualitative, with researchers looking at target company documents, third-party research, financial forecasts and talking to management to further narrow the field. The last step, Vogel said, is establishing a discounted current value for each prospective investment—the firm uses a four-year projection of such things as cash flow, earnings, etc., discounted against a 10-year Treasury yardstick—and looking forward to gauge a company's prospects and to assess potential downside risk.

Meetings with management are crucial parts of the stock selection process, Vogel said.

"Over the years, my team and I have met and interviewed thousands of managers," he recalled. "On any given day, we have someone

off somewhere kicking the tires....we want to know about the operations, and the financials, but what we're mostly interested in is their goals and objectives, how they plan to get there, and how they plan to use their excess cash flow."

One of the things that he looks for includes significant stock ownership by management, and insider buying.

"We really do like to see insider buying," he said. "We have our antennae up for that. It can be a sign that a company's stock has declined enough for it to be attractive to a company's managers."

In the end, though, Vogel said a lot of what he does when it comes to evaluating management involves "a gut feeling."

While many investors are tearing out their hair these days, Vogel feels that this is

a fascinating time to be an investor.

"The stats are horrendous, and the outlook is muddy, but as value investors, we're used to

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looking across the valley to the other side."

He finds encouragement in the fact that many companies whose earnings were ham-

pered of late are starting to get a second look.

"Investors are beginning to be inured to bad news, and this could provide us with a lot of buying opportunities. The trick is deciding whether a company's cyclical duress is terminal, or whether there is another side to its valley."

Toward that end, he said Silvercrest, after stocking up 75% of each portfolio with companies that promise "fairly steady gains," reserves a 25% allocation to what he called "toads to princes" candidates.

"We have asked our team to spend more time looking at companies that have more hair on them," he laughed, "Companies that we think might have something going on—a management change or a new product cycle, or something that could alter their performance." ■