

# **BOSTON INVESTMENT ADVISERS, INC.**

## **Remarks at the 10<sup>th</sup> Anniversary Celebration**

**New York, New York**

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### **Jerry Anderson:**

I'm Jerry Anderson, founder and head of Boston Investment Advisers. Let me first welcome all of you and thank you for joining us to celebrate BIA's 10<sup>th</sup> anniversary. For any small business to survive and prosper for 10 years is an accomplishment, but it so happens that the period from 1996 to 2006 also arguably represents a full market cycle—and a memorable one at that. The old Chinese curse says, "May you live in interesting times," and these were certainly an interesting 10 years in the capital markets. So in a few minutes I will see what lessons may be drawn as to how BIA was able to serve its clients over those challenging 10 years.

Now, I think everyone in this room understands that BIA is an investment adviser, a money manager. We manage accounts for individuals, retirement plans and small institutions—and that's all we do. Before introducing my colleague, Brad Williams, let me tell you a little about my professional history. I was educated at Stanford and came east to practice law now more than 36 years ago. I started my career downtown at Sullivan & Cromwell doing corporate and securities law. Then in 1973 I was recruited by The Ford Foundation as house counsel for its endowment. Over the next eight years—four as house counsel and four as the assistant to the chief investment officer—I was fortunate to participate in some very innovative initiatives in investment management. It was sort of an on-the-job MBA.

It may seem counterintuitive that a charity would be doing cutting-edge things in investment management, but so we were—things that didn't really become the norm at other endowments, much less large pension funds, for a long time. I should say that this effort proceeded from a new body of learning that emerged from the academy in the '60s and '70s now known as Portfolio Theory. It emphasized a top-down asset allocation approach and therefore wide diversification. As a result, The Ford Foundation was among the very first institutions to invest in such revolutionary fields as foreign equities, venture capital and commercial real estate. For our peers, by contrast, diversification was more likely to mean simply owning stocks from every principal sector or industry in the U.S. economy, leaving the debate simply a matter of choosing between Coke and Pepsi, GM and Ford, as we used to say.

After a further decade at another big institutional investment firm, Citicorp, in New York and London, I decided in 1991 to hang out my own shingle in New York to serve individuals and, more importantly, to use the same strategic approach that by then had become more commonplace at large institutions. My new firm employed the same top-down approach emphasizing asset allocation and cost control. Yet instead of hiring specialized investment advisers to manage separate accounts in each relevant asset class

and sector, which for small accounts wouldn't have been practicable, we used those dowdy old investment vehicles, mutual funds. In a moment Brad will tell you a little bit more about that.

In managing money for people like you, our goal was not to blow the lights out in terms of performance but do as well or better than the markets over, say, a market cycle yet with much less risk or variability of returns, otherwise known as volatility. In this business, risk in a way is more important than return in the sense that you never want to lose big because it's just so hard to regain lost ground. We're the tortoise, not the hare.

Then personal history intervened when a decade ago my new wife Priscilla announced that we were going to move back to her ancestral Yankee seat, "Bahstin". Knowing that the secret to a successful marriage consists of two words, "Yes, dear," I agreed, and so it was that Boston Investment Advisers was organized in late 1996. And I should pause and thank the several clients in this room who loyally stayed with me during this transition.

Now, as I mentioned at the outset, 1996 was a significant year in the stock market. Do you remember when Chairman Greenspan uttered the memorable phrase "irrational exuberance," in characterizing what he saw as the disturbing tone of the market? Just how irrational it took the next four years to show us. Indeed, it so happened that the day Professor Shiller of Yale published his best-selling dissection of the biggest stock market bubble since the Great Depression was March 11, 2000, precisely the day the S&P500 stock index peaked—and the bubble burst, just as I a few other spoilsports and diehards had promised it would. Oh, the title of that book? Irrational Exuberance!

Well, here we are, and the S&P500 has yet to regain its peak, though the Dow did late last year. Though there have been a few good years in the market, you could say that the hare is still lying next to the road, panting, while the tortoise slowly proceeds in the distance. And speaking of tortoises, how has BIA done? Quite well, thank you very much. A typical all-equity account has slightly outperformed the market over the decade, but with drastically less volatility. Never have we heard a client ask, "How could I have lost 25% last year?" And yes, no one has ever said, "Gee, thanks for making 25% last year." That is because we never would use the kind of techniques that might produce a blow-out year like 25%--or risk a blow-up loss of 25%. Again, we seek market-like returns for less than market risk, and then we let time and the power of compounding do the heavy lifting. That is how wealth is built and preserved, despite what your friendly neighborhood hedge fund dealer may have told you.

Now, I would like to introduce Brad and ask him to tell you a bit about our mutual fund selection process. Remember, though, that this important effort comes after we allocate every account among the relevant assets classes and sectors. Mutual fund selection is a crucial part of the process but not, as I think some people assume, the most important one.

**Brad Williams:**

Someone asked me earlier in the evening if I was originally a Bostonian. I answered that I will introduce them to a new word, Buffalonian. I grew up at the Western end of New York in a small suburban town, south of Buffalo. I graduated from Middlebury College in Vermont with a joint degree in Economics and Environmental Studies. After earning my M.B.A. at Northeastern University in Boston, I set about turning my avocation, investing and the capital markets, into my vocation.

I joined an investment management firm, west of Boston, in the summer of 2000. You will note that this was at the beginning of the unwinding of one of the great stock market bubbles of all time. I still have some of the scars and battle wounds to prove it! There I was Director of Investment Research and Portfolio Management. Half of my time was spent researching opportunities in the capital markets and conducting mutual fund manager due diligence. I had two analysts who worked with me designing and maintaining three model portfolios for use in client accounts. The other half of my time was spent working with clients and developing my own client base.

Now at BIA the process works the same way as at my former firm. Starting with a top-down view of the capital markets and the spectrum of investment opportunities, we decide on what asset classes and sectors to be invested in. We then build a portfolio of no-load mutual funds for our clients by selecting outstanding managers in each asset class and sector to be invested in. By the way, sometimes we are asked why we use mutual funds. The reason is that they provide an easy, safe, efficient and low-cost way to access the capital markets.

One of the many things that brought Jerry and me together was that the fact that we had 70-80% overlap in the managers we were using for client accounts. For both of us, the best mutual funds for any given category exhibit most of these characteristics: 1) their managers have solid long-term records within different investment environments, 2) they view their shareholders' interests as their main priority – this often leads us to managers who are equity owners in their fund management company, 3) these managers also often have considerable sums of their own money invested in their mutual funds and 4) lastly, but certainly not least, they are funds that have low expenses and low portfolio turnover (itself a kind of cost) and have shown a willingness to lower expenses as their assets under management increase.

A point often overlooked is that many of the best mutual funds are simply not available to most investors. The funds may have chosen to work only with financial advisors or they only make their lowest expense shares, institutional shares, available through large custodians. By using a large custodian and our buying power as a firm, we simply have access to many of the best managers at the lowest expense that otherwise cannot be accessed by most investors.

**Jerry Anderson:**

Now, let me say one final thing. Investment advisers tend to compare their five-year track records. As mentioned earlier, the last five years have been essentially a bear market in which all those irrationally exuberant folks have had to pay for their sins.

Since we didn't "sin" during the bubble years, our clients have had no penance to perform as returns significantly exceeded our benchmarks. What we're even prouder of is that behind these superior returns were much lower levels of volatility. This time the tortoise has lapped the hare—several times!