Conviction Can Lead to Performance

September 6, 2022

On May 20, 2005, a major financial magazine published an article Tom wrote entitled: "Conviction Can Create Performance." The following excerpts from that article reflect on the difficulties and rewards associated with conviction. Many of today's market circumstances were present back then.

In 1984, Tom joined a New York-based mutual fund company as the supervisor of equity-fund managers and other professionals who managed institutional accounts. The company was well known for growth stock investing and had a history that spanned many decades. Fortunately for Tom, this management opportunity became available because the firm's investment results were being squeezed by the Federal Reserve's tight money policy of early 1984, when the fed funds rate went from 9% to almost 12%. Fed policy got the blame for poor investment performance from June of 1983 through June of 1984 when the firm's growth stock composite fell more than 15% as compared to the S&P 500 index decline of 4.6%--putting the strategy in the sixty-fifth percentile among institutional growth stock managers. The firm's flagship growth stock mutual fund dropped 20% over that same one-year period, a truly dismal showing.

As one could imagine, firm's specializing in managing growth stocks came under intense scrutiny during this period and many institutional investors decided to move on to other investment styles. As a result of disappointing returns, portfolio managers found themselves making unanticipated client trips to discuss their investment strategy. One of Tom's such trips involved a major telecommunications company in which the firm's growth stock strategy was one of several utilized in the company's pension plan.

Tom went to Washington, D.C., the corporate headquarters of that company, and both he and the pension plan manager were ushered into a large dark room with an oval table with twenty executives waiting to hear why the growth stock strategy had underperformed. As they sat down, a gentleman from across the table wasted no time in getting to the purpose of the meeting. "You are the growth stock manager, right? Do you realize that you are, by far, the worst performing of our pension-fund managers? Are you going to sit there and tell us that you plan to continue to do what you have been doing?"

Tom's knees began knocking under King Arthur's table. He suddenly felt a sense of foreboding and imagined being ushered back out the door with one less pension plan to manage. Since his firm was committed to their growth stock investment strategy, the answer to the question was simple: "Yes, we are going to continue to manage the portion of your pension plan the same way." In response to our answer, the gentleman replied: "Well we happen to believe that you are on the right track and, since you are demonstrating your commitment to this growth strategy, we are going to double the amount of money that you manage for us." Imagine that—a pension plan sponsor with conviction who put money into an investment strategy that had substantially underperformed.

Some five years later Tom was reviewing the account and calculated the return of the growth stock portion of the company's pension plan. The results indicated that the portfolio increased 20% per year for each of those five years, putting Tom's firm in the top tier of institutional growth stock strategies.

The managers of the telecommunications company pension plan who committed to a growth stock philosophy during that volatile period is a perfect example of conviction. They were more than willing to go against prevailing trends and view a stock market sell-off, especially in growth stocks, as an opportunity to improve the funding status of their retirement plan. And they did!