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CASE STUDIES

"Case Studies" presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

Jack L. Treynor, Senior Editor

AN INVITATION TO THE READERS OF JOIM

In a high-pressure activity like investment management, some issues are just too hard to resolve quickly, with the result that they come up again and again without ever really surfacing. Are there issues in your own experience that you feel deserve explicit attention and a broader audience? Are you interested in sharing your experience with *JOIM*'s readers?

As a one-time case writer, I confess to some disappointment that Harvard's case method has not been a more popular model for other business schools. A few years ago, *Newsweek*'s economist Robert Samuelson devoted his regular column to arguing that business schools should be abolished, because they had nothing to teach. Presumably, he did not have price theory, probability, econometrics, accounting, business law, marketing strategy, etc., in mind, but rather schools that undertake to teach students to think like businessmen (the way law schools teach students to think like lawyers and medical schools teach students to think like doctors).

Harvard had a required course in "business policy" that forced students to address problems facing the general manager. Is there a place for cases that take the viewpoint of a director of research? The CEO of a mutual fund complex? The managing partner of a broker's institutional research?

Obviously, there are some issues currently in the business headlines that could be the basis for cases. In your view, should we wait until emotions have cooled before we address these issues? Or is this the ideal time for discussion?

Write us a letter (or send an e-mail to *JOIM*) and tell us about your experience. Bear in mind that a case can be useful to *JOIM*'s readers, even if it does not resolve any issues.

JOIM will protect your anonymity, even to the point of disguising any revealing specifics.

Public voting

The San Andreas Club had inserted a proposal into Mountain Lumber's proxy statement to limit its operations to forests below 3000 feet. It argued that leaves of the aspen above 3000 feet were the staple diet of the rare Hungarian Bobcat moth. The Prides Crossing Group owned Mountain Lumber's shares in several of its no-load mutual funds, amounting in the aggregate to about 4% of the company's equity.

Management knew from previous experience that the San Andreas Club would attack investment institutions that failed to support its proposals in their proxy voting, listing their names in emotional full page ads in the print media. In the past, management had avoided the hassle by selling its shares. But when other complexes did the same with an institutional favorite like Mountain Lumber, their share prices took a beating.

The management of Prides Crossing Group admired Mountain Lumber's management. But the Street was abuzz with rumors that "Chainsaw Chuck" Sylvan, CEO of the Clearcut Corporation, was interested in acquiring Mountain Lumber.

The Prides Crossing management had three choices:

(1) vote for the San Andreas proposal and inflict losses on fund shareholders if the proposal hurts Mountain Lumber's business;
(2) vote against the proposal, and lose some ecology-minded clients; or
(3) sell the shares.

Questions

What will Prides Crossing do?

What will other institutional owners of Mountain Lumber do?

How will Mountain Lumber's management be spending its time?

How much clout does the San Andreas Club have with Mountain Lumber?

Will other special-interest groups follow San Andreas Club's example?

Public voting—Discussion

Environment is an example of a corporate issue that will elicit organized, enthusiastic (vocal?) support for one side and apathy for the other. If management is obliged to make its vote public, it has to justify voting against the ostensible majority in such cases.

But why, in a country that cherishes the secret ballot, should proxy voting be public? We like the secret ballot, not because it is good for voters, but because it is good for the country. The argument for public voting of proxies has to be that the votes belong to the owner of the shares—not the manager. An obvious problem with this argument: Although the client has entrusted his money to the manager, he does not expect a public justification for every investment decision. If he is willing to entrust his money to the manager, why should he not be willing to entrust his vote?

Prides Crossing's management feared that making their proxy voting positions public would attract more media attention. With more media attention, the issues would be more numerous as well as more controversial. They were thinking of creating a unit, staffed with lawyers, devoted full time to assessing the various kinds of exposure that Prides Crossing was likely to encounter.

The alternative is selling the shares. What would it cost fund shareholders if Prides Crossing sells its positions in Mountain Lumber? Less, if it is not trying to exit the revolving door at the same time as other institutional owners. Surely, it is better to be early than late. Maybe Prides Crossing should sell now, before the issue attracts more public attention. Some of the other fund complexes have itchy trigger fingers. Maybe it is worth a small price penalty to sell quickly.

But every time Prides Crossing sells its position in an embattled portfolio company, the management is nagged by the same troubling question: at what point does selling the shares become *de facto* social investing?