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JOURNAL OF INVESTMENT MANAGEMENT, Vol. 1, No. 1, (2003), pp. 208–209

CASE STUDIES

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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.

AN EXTRAORDINARILY CHEAP TRADE

Surely there was something to learn from the experience. The stock had collapsed dramatically right after his purchase for Buckingham Fund. Had he, Zoltan Kulak, the managing partner of Buckingham Advisors, expected too much from Dynamax?

Buckingham prided itself on its imagination, its special insights, its ability to see the future before investors who lacked its boldness could act. When Buckingham's pharmaceuticals analyst learned that the company's dynamic CEO, Felton Spackling, was presenting an ambitious plan for nationwide promotion of a product that had previously been a cult favorite of health clubs and fitness emporiums, he tried to gather as much information as he could. The promotions would feature Spackling, a former NFL linebacker who, with his booming voice and erect posture, was the living embodiment of the benefits of Dynamax.

No one knew exactly why the proprietary drug product was so effective. But Buckingham's analyst had satisfied himself that it contained no amphetamines. Spackling was no Dr Feelgood. Nor was Dynamax another Hadacol; in fact, it contained no alcohol whatever.

Kulak knew that the prospect of a nationwide promotion would be exciting to investors. His trader had advised him that the stock was trading at 5-1/2 bid, 6-1/2 ask. Because speed was important, he was prepared to pay more than the asking price in order to acquire 500 000 shares. But Kulak instructed his trader to begin with a limit order, bidding 5-1/2 for 100 000 shares.

When, contrary to their expectations, the order executed quickly. Kulak suggested another order for 200 000 at 5-1/2. When the elated trader reported that this order had also executed quickly. Kulak hesitated.

His hesitation had been wise, Kulak reflected. With the stock currently trading at 1-1/4 bid, 2-1/4 ask, his shrewd hesitation had saved Buckingham's shareholders a lot of money.

His pharmaceuticals analyst had ultimately pieced together the real story. After Spackling's voice failed him during the presentation, he had stumbled badly coming down from the podium. Several directors had excused themselves from the boardroom.

Now, several months later, Spackling's obituary in the *New York Times* reminded Kulak of the Dynamax investment. Luck was a big part of investing, as he often cautioned his shareholders. It did not pay to dwell on the bad luck. And, Kulak told himself, let us face it: Dynamax was an extraordinarily cheap trade.

Questions

Is it possible for a trade to be too easy?

Bad research cannot be worse than random. But some funds underperform their passive benchmark consistently. Why?

For such funds, what is the cost of failing to trade?

Some investment insights are more persuasive, more compelling, than others. Should such differences affect the trading decision?

Was Dynamax an unlucky investment or an expensive trade?

If you could change just one thing about the way Zoltan Kulak manages money, what would it be?