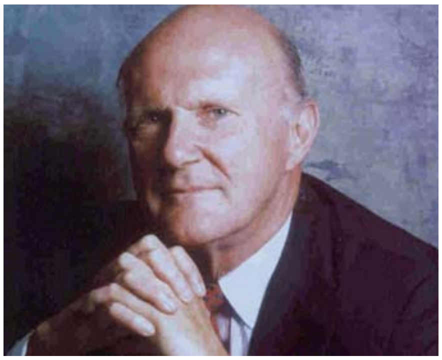
"My concept of value has changed"

Legendary investor Julian Robertson reflects on his storied career, building a great team, "retirement"and what he makes of today's market.



Julian Robertson
Tiger Management

On retiring: "I always said if a guy was long the best 50 companies he knew and short the 50 worst, if that didn't work you were in the wrong business."

Editors' Note: *Tiger Management's Julian Robertson called it quits in 2000, explaining that "There is no point in subjecting our investors to risk in a market which I frankly do not understand." It was an unhappy end to one of the most successful careers on Wall Street: At its peak, Tiger managed $23 billion, and even after big losses in 1999 and 2000, Robertson earned 25% annualized returns over 20 years for his investors. Charming as ever at 74, Robertson recently spoke with Co-Editors Whitney Tilson and John Heins at his Park Avenue office.*

Has your definition of what constitutes value in stocks changed over the years?

Julian Robertson: When I started in the business and for a long time, my concept of value was absolute value in terms of a price-earnings ratio. But I would say my concept of value has changed to a more relative sense of valuation, based on the expected growth rate applied against the price of the stock. Something at 30x earnings growing at 25% per year – where I have confidence it will grow at that rate for some time – can be much cheaper than something at 7x earnings growing at 3%. Some people call that GARP (growth at a reasonable price), I'd call it value. I think that's just semantics.

We've always had excellent analysts, and a good analyst is more adept at making judgments on growth. That's their job – based on the business and the company's position in it, how fast is the company going to grow? It's pretty hard to lose if you're right on the growth rates when the growth rates are high. In that 30x-earnings company growing 25% per year, you'll be bailed out pretty quickly because in about 2 1/2 years the earnings will double and the multiple on that is only 15x.

You were a pioneer in hedge funds before they became trendy. Is it a good thing that hedge funds have become so popular?

JR: I think it's an inevitable thing. It's the best way to pay a good manager, for one thing, so it does attract the best managers. From the point of view of the investor, he gets a partner in the manager who, in most cases, has all of his money in the same fund. That's a huge advantage. Think about that as opposed to the trust department guy who calls you up reading from a script. You want the guy working for you to have the most to lose – and the most to win – from the selections he makes. He's not going to go overboard wild, because he has the most to lose.

The fact that so many new people go into this business does makes it tougher on those already in it. For example, you used to get a rebate on credit balances when you were short – now borrowing stocks costs you money overall. That alone makes a big difference in the profitability of shorting.

How activist were you as an investor?

JR: We were never very active in the way people are today. I do remember taking a strong stance with Cleveland-Cliffs, the iron-ore company. In that instance we were doing it as much for all the shareholders as we were for ourselves. It had a board of directors that I think not only all came from the same town, Cleveland, but as I recall were also all from the same country club. We brought in a few outside directors, including an investment banker, a consultant from Booz Allen and a female professor from Yale. We thought our actions would be appreciated, but the press attacked us as brash young upstarts fighting against a long-term management. They made us the bad guys and management the good guys – just the opposite of what was intended.

Tiger was well known for the quality of its analysts, many of whom now run some of the most successful hedge funds in the business. What was the secret to your finding and developing investing superstars?

JR: : I really think that we benefited from starting with good young people, who begat more good young people. We eventually devised testing that all applicants had to take. We still give that test, which takes about three or four hours. It is part aptitude, but also psychological. It sort of emanated from our having a few people over time who just didn't have the firepower to do the job – it's tragic when that happens, because it's not their fault. So we designed these tests to better avoid that.

The test was also designed to show what kind of team player the person was and their competitiveness. I've found that most good managers are great competitors. I think that all helped us pick good people. Whether it helped as much as having great young people recommending more great young people, I don't know.

How did you organize the work to get the best out of people?

JR: I was the trigger-puller and they were the analysts. It probably wouldn't have