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## FEATURES MAIN

# In Era of Specialization, Some Generalists Thrive

By LAWRENCE C. STRAUSS

*A broader analytical view has distinct advantages over specialization.*

**INSIDE THE WALL STREET BEHEMOTHS AND SOME** of the bigger mutual-fund shops like [AllianceBernstein](#), specialized research on stocks is the name of the game. The narrower the focus, the better, their reasoning goes, because it gives analysts a leg up on the competition in understanding companies. But not all firms use this model -- notably boutique shops with too few analysts to follow every company in great detail.

Several of these firms that *Barron's* spoke with recently maintain that taking a broader analytical view has distinct advantages over specialization.



Chris Casaburi

Says Peter Shawn, Tocqueville Asset Management's research director (right): "We do get into details, but it's done by people who don't spend their lives looking at one industry."

looking at one industry," says Peter Shawn, research director at Tocqueville. He recalls that one of the firm's analysts came away from a meeting with a coal company suggesting that a potential investment might be a play on the barges that ship the coal. Tocqueville is keeping an eye on [Trinity Industries](#) (TRN), whose products include barges, although it hadn't bought the stock as of late July.

"We are not silos; we are talking to each other," says analyst Tsering Ngudu of Tocqueville Asset Management in New York, which has \$7 billion under management. Ngudu covers financials, pharmaceuticals, utilities and energy, a task that at larger firms would be carried out by perhaps dozens of analysts. Ngudu admits that he must pick his spots. In following pharmaceuticals, for example, "You've got to know a little bit about the drugs, but I'm not the guy saying that this drug will be a \$5 billion drug."

At Tocqueville, which has a dozen analysts, the system is working well. Its flagship [Tocqueville Fund](#) (ticker: TOCQX) -- a multi-cap equity fund whose investment objective is long-term capital appreciation -- ranks in the top 10% of its Morningstar peer group, based on three-, five- and 10-year returns.

"We do get into the details, but it's done by people who don't spend their lives

**KENT CROFT, CHIEF INVESTMENT** officer at Croft-Leominster, a Baltimore firm with about \$700 million under management whose four analysts are generalists, says it's crucial for an analyst to step back and connect pieces of information from disparate sources. He says that more specialized analysts can "get stuck inside a box" and spend too much time trying to get "quarterly earnings right to the penny," although he does tap some of those analysts he

respects. The [Croft Value Fund \(CLVFX\)](#) has done well against its peers, ranking in the top 10% of Morningstar's large-cap blend category based on three-, five- and 10-year returns.

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## DOW JONES REPRINTS

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Another firm that eschews specialization is Delafield Asset Management in New York. Its four analyst/managers and two analysts oversee about \$1.2 billion in assets.

A key advantage for a generalist, says chief investment officer Vincent Sellecchia, is that "you get a really good feel for the economy" and "you are looking across virtually all of the segments that might impact any one company." The [Delafield Fund \(DEFIX\)](#) has consistently ranked high among its peers over the past decade.

The [Al Frank Fund \(VALUX\)](#) has posted good long-term results, as well. "There is not a correlation between the quantity of research analysts and the quality of investment returns," says John Buckingham, who runs the fund. Frank and three analysts follow 1,300 companies. The fund holds roughly 270 stocks.

**BEING A GENERALIST HAS LIMITATIONS**, however. Take the credit crunch, which surfaced nearly a year ago in the U.S. "We knew what the problem was," says Tocqueville's Shawn, "but we didn't necessarily identify which companies were likely to be the biggest sufferers as this unwound."

In a more generalist approach, "You are really cherry-picking what you cover and working closely with the portfolio manager," says Jim Goff, director of research at [Janus Capital Group \(JNS\)](#), which has expanded its research staff in recent years to 37 equity analysts, up from 27 at the end of 2000. "That's a perfectly fine model, but it doesn't scale very well."

Lisa Shalett, who runs the growth-equities business at money manager [AllianceBernstein \(AB\)](#), argues that in mature markets, namely those in the U.S., Europe and Japan, it's hard for a generalist "to have differentiated knowledge because so much time is already spent by specialists arbing, or competing away, the obvious."

AllianceBernstein prides itself on specialized fundamental research, buttressed by a heavy quantitative component, including extensive use of financial models. Shalett's group has about 135 people devoted to research, 84 of them senior analysts.

She adds that "in a highly efficient market, specialization allows you to play on the margins for singles and doubles." Still, generalists can have some advantages, including being able to "focus on the true, single hinge issue" of a company and "not to get caught up in all the issues," says Shalett, formerly head of stock research at Sanford C. Bernstein. And a generalist, Shalett says, can correctly analyze the macro environment.

"But when it comes to understanding a company-specific event and its nuances, you are left flat-footed."

There's no right answer to the specialization versus generalist question; it's clear there are divergent paths to superior investment returns.

### The Bottom Line

Generalists, say proponents of that research model, can look across all segments of the economy and separate the wheat from the chaff.

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