

BY SANDY SERVA



Madison is home to Wisconsin's state capital, the University of Wisconsin, five area lakes and more than 200 parks. The mix of culture, scenic beauty and small town charm keeps many residents content — including successful money managers. For the team of Holt-Smith & Yates Advisors, being removed from the frantic pace of Wall Street has its rewards.

Founded in 1987 by Marilyn Holt-Smith and Kristin Yates, the firm has been ranked No.1 among the “World’s Best Money Managers in the U.S.” by Nelson Information (now Thomson Financial) for 10-year performance in large-cap growth. The company is 100% employee-owned with total assets under management of \$1.5 billion. The firm is known for its concentrated investment style, that includes very low turnover, averaging 18%.

Holt-Smith and Yates have spent their whole careers managing money — some 47 years combined. They decided to start their own firm because they wanted the independence to manage money their way and believed they had an approach that was unique to the

## Far From the Madding Crowd

### Thoughtful Investing Produces Stellar Results for Wisconsin Firm

investment marketplace. Holt-Smith believes that owning a business helps the eight-person investment team in their approach to analysis. “Although it’s on a much smaller scale, we have to go through the same kind of thought processes about our business as the companies that we are analyzing to invest in do,” Holt-Smith says. “As a result, we are patient investors, because we generally hold onto stocks an average of five or six years. Some stocks we’ve held over 10 years.”

This long-haul view is the antithesis of typical Wall Street thinking that tends to chase performance and dump companies the minute the numbers fall. Holt-Smith & Yates believes that one or two off quarters does not make a bad investment. “Our perspective is focused much more on the long-term story, the reasons that we bought the company in the first place and why they are growing at an above-average rate. If those characteristics

are still there, we’re not going to get overly excited about two quarters of poor earnings because businesses do go through different cycles.” Steering clear of the herd mentality keeps the team on track — although she admits their investing style is not for everyone.

“We tell our clients, ‘If you’re looking for a lot of action, and want us to jump around into different things — we’re not the ones you want to hire.’ I think that’s one secret to our success — our ability to be able to say ‘No’ to

investors. We don’t have to be everything to everybody — we just want to do what we do well and if it fits with the investor’s portfolio, that’s great.”

#### Twice is Nice

The firm offers two products: a mid- and a large-cap growth concentrated portfolio. “The investment process and analytical work is the same for both because we are very bottom up and our focus is on investing in the kinds of companies

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that we think will be able to grow their earnings at an above-average rate over the next three to five years,” Holt-Smith says. “If we can find a company that has this above-average earning potential, as the earnings come in, the stock price will go up. It may not go up all at once but it will follow the fundamentals of the company.”

Another important element to the analysis is price-to-earnings growth (PEG) because the team doesn’t want to pay too much for the stock. “If you don’t

overpay for the growth, you find out that as those earnings are coming in, not only does the stock price go up because the fundamentals are improving, but you'll also get a P/E expansion in terms of the multiple. Something that is trading at 15 times earnings is now going to trade at 18 times earnings because the growth is coming through and it looks very good. And as an end result, we end up with twice the opportunity to outperform the margins."

Keeping turnover low is important. "Because we're running a concentrated portfolio, the large-cap product has a max of 25 stocks. Again, because we're holding onto these stocks for a fair period of time, we don't do a lot of buying and selling as we go along," Holt-Smith says.

### Making the Cut

In finding good investment opportunities, the team makes sure that a company meets its criteria. They use a decision-making model to determine whether a business has the right fundamentals to garner further investigation. "There's not a lot of companies out there that we think fit," she says. "That's one of the reasons we run a concentrated portfolio. We don't want to buy a company just to have money invested. We're not going to spend any time following something that just doesn't fit."

Since the approach is so specific, it gives them the freedom to find good companies with good fundamentals; the team doesn't have to worry about investing in particular sectors. However, Holt-Smith says this means that the firm's clients have to have a clear understanding of what this approach means. "Clients have to realize that we're not here to mimic the S&P" she says. "So, if we're up a lot, many times people will say, 'Why is that?' or 'What did you do right?'" Of course, when the stocks go down the question turns into: What did you do wrong? However, Holt-Smith thinks these are the wrong questions to

ask, because the team is not confined by a quarter-by-quarter, do-or-die mentality. "We don't expect to be measured that way, although we do expect to outperform for a period of years — and that's what we've been able to do."

### In Good Companies

In thinking about some stock ideas she likes, Holt-Smith points to a trio of tech names: Best Buy Co. (BBY), Dell (DELL) and SanDisk Corp. (SNDK). Their common thread is they are all part of the consumer electronics arena, a sector that is growing strong. "There are all kinds of new electronic devices coming out for consumers to buy," she says. "Many of these are in the early adoption mode, so people are just starting to look at them." This includes items such as high-definition digital TVs and better-than-ever digital cameras. "The growth rate for digital cameras alone is going to be well over 30% per year growth for the next three or four years as they become more available."

Of the firm's interest in this burgeoning sector, Holt-Smith points out that it's the growth potential, not the sector itself that matters. "We didn't say, 'Well, we want to be in the consumer electronics industry so let's buy these,'" she says. "We went through our decision-making model and our process, and these companies popped up. They all have good growth potential and are selling at reasonable prices."

Best Buy is the leader in consumer electronics retailing, Dell is the world's No. 1 direct-sale computer vendor, and SanDisk makes storage products based on flash memory, including memory cards used in PDAs, digital cameras and other electronics. "We're looking for Dell to grow 15% a year," Holt-Smith says. "Best Buy will probably grow 15%

to 20% each year and SanDisk is probably going to have at least 20% growth each year." SanDisk also found a great niche as flash memory becomes more ubiquitous — even turning up in the new digital TVs. "Now, you can actually take photos with your camera, take out the memory stick, and stick it right into your TV to see a slideshow," Holt-Smith says.

### Booming Boutique

Building a successful business has meant taking the time to do it right. Marketing is another hat that Holt-Smith wears. In the past, the company had a third-party marketer. Since her retirement, the firm makes sure it maintains all those important contacts, keeping the communications channels open. "When we see

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something going on where a particular plan is doing a search in large-cap or mid-cap growth, we'll contact them and tell them about what we do and if they're interested, we will pursue it." She also depends on another in-house marketing person to continue making the firm's presence known. However, even in this effort, she remains pragmatic about the firm's long-term strategy. "We're not trying to swamp the market," she says. "We're just trying to grow at a steady pace, and even in the down years, we've managed to do just that. We plan to keep growing, keep our ear to the ground, and just make sure we do a good job for our clients." **B**