KIDDER/OPPENHEIMER

I JOINED AM KIDDER in early 1960, and there I began to build up my capital. I had $1,000 to start with (the $1,000 for Bobbie's wedding ring and spending another $1,000 on my honeymoon had reduced my capital by two-thirds), and through my earnings, use of leverage and, yes, luck, I turned it into $100,000 two years later. Back then, $100,000 was big time, but I was taking risks then I would never take today.

Leverage, leverage, leverage. He who lives by the sword, dies by the sword, and I did have setbacks.

The 1960s began promisingly. The blue chips of the stock market were on a terrific run, and speculative stocks were even better. John F. Kennedy was inaugurated as president in January 1961, and although Kennedy was himself a millionaire brought up by a multimillionaire father, he did not consider Big Business men the most admirable of people. He said things that upset traditional Wall Streeters, things like, "My daddy says that all Big Business men are crooks, and he's right."

At that time, the general feeling within Big Business was reflected in the maxim "What's good for General Motors is good for the U.S.A.," a short version of what the president of G.M., Charles E. Wilson, told a Senate committee hearing in 1953. But Kennedy took a different view. In April 1962, when the steel industry announced a price increase only four days after the steelworkers union had agreed, at the

federal government's request, to limit its wage demands, Kennedy took action. In extraordinarily strong language, he publicly denounced the steel executives and, among other things, hinted at antitrust action if the price increase was not rescinded.

The industry soon yielded, but the crisis around steel coupled with Washington's general antibusiness attitude wreaked havoc on the stock market. May 28, 1962, was the blackest day on Wall Street since the 1929 crash, and subsequent declines made it clear: The boom market was over.

Before Kennedy's tough talk on steel, I was worth a little bit more than $100,000. Because of leverage, the next month I was down to $82,000, and the next month $69,000 and the next month $62,000. Then, as is traditional at the end of speculative boom, came a climactic sell-off, and I didn't know what I was worth. I was afraid to look.

I never talked about business, my net worth or any financial concerns with any of my family members. I did talk with my colleagues, but I've always believed that you shouldn't take personal business worries home — sort of like the separation of church and state. Right or wrong, that was my philosophy.

So it was a surprise when I got a call from my mother-in-law. She had some money she had inherited from her mother and had invested most of it in conservative stocks, like AT&T (though they're not so conservative today). Cheryl, the former policewoman, said she had a feeling, because of the failing market, that I was in financial difficulty; and she offered to lend me her stock certificates to bolster my margin loans

I never asked for help from anybody, not even from my father, but I accepted Cheryl's. She literally saved my ass, and I never forgot that. Cheryl never quite got the love and respect from Bobbie and our family that her ex-husband Jack Browne received, but I always held her in the highest regard. She was a bit more of a business lady than a touchy-feely grandmother. As far as I'm concerned, she was world-class.

Thanks to Cheryl, I didn't go down to zero net worth. I was able to salvage $35,000 to $40,000 of the $100,000, and that was a pretty good base on which to rebuild.

I had reached my goal of being worth $100,000 by age thirty. My

next goal was to be worth $1 million by age forty, and I achieved that early. It was really a combination of working hard, thinking smart and being lucky, good markets, and original contrarian thinking about how to invest. That last point is the key; you can't go with the crowd. "Hit where they ain't." That was always my philosophy in sports and in life, and it remained so as an investor. I invest where they ain't investing. Wee Willy Keeler would be proud.

You have to seek something different. You can't follow conventional thinking. This doesn't mean you ignore conventional thinking; you can use it as a benchmark. Nor does this mean you do something just for the sake of being different. But if you always follow conventional thinking, you will become conventional, and to be a successful investor, you cannot be a conformist.

Back then, few individuals owned stocks, and institutions did not invest in stocks. Institutions, like insurance companies and pension plans, owned bonds almost exclusively. I would say 99 percent of the major institutions did not own stocks. The institutions learned about stocks and began to buy. That is one reason we had this bull market of stocks in the late 1950s and early 1960s. Back then, the trading volume was about two million shares a day on the New York Stock Exchange. Today, it is 200 million a day. In addition, we now have an active Nasdaq and an over-the-counter market that also regularly trades about 200 million shares a day. Wall Street is a major growth industry.

One reason I was a successful investor — not only for my own account but for my clients as well — is that I did something different that worked. Over time, my techniques have been developed and have become more sophisticated and refined, but my investment philosophy has remained essentially the same: I don't invest in a conventional way. There'll be more later on how I do it.

But to return to the early 1960s, I won't say I started over with my net worth because there is a big difference between $35,000 and $1,000. The market crash did demolish some of my client base. "Every generation has to get punished on Wall Street" is a common saying. Then you wait for a new generation to invest, and the cycle resumes. And so I had to rebuild my business.

At this point in my life, I had two children, with another on the

way, and I was starting to feel the pressure. My capital was wounded. This was my first financial defeat. An investor's first bear market is horrendous. I've now gone through many bear markets, and the only ones I remember are the most recent one and the first. This was my first.

The only time it got to me emotionally was forty-eight hours before the sell-off and forty-eight hours after. I don't like to waste too much energy dwelling on things I can no longer control, so I shook it off and went on, planning what I was going to do that day and tomorrow to support my family, to enhance my self-image. I was disappointed in myself. I wondered whether I was missing something by working in Bergen County. If I was physically on Wall Street, where 95 percent of the action literally was, would I have done better in protecting my clients and my net worth?

About this time, I got a phone call from someone from my past: Rodney White. When he and I first entered civilian life, I was a trainee at Merrill Lynch and he was a trainee at another brokerage firm. Now on the phone, he told me he had a great idea to share and wanted us to get together. We met in Greenwich Village. With all the Bohemians around us, here we were, two guys with their jackets, their vests, their ties, and their hats. Businessmen back then dressed like Cary Grant.

We talked first about buying a seat on the exchange. The last financially attractive opportunity to own a seat was just after World War II. From 1941 to 1955, almost nobody new came to Wall Street. Most of the seats were owned by older financiers — a limited number of these seats (memberships) were being sold by people from the prewar days and being acquired by people who were postwar and later. It was a supply-and-demand situation. Now, a new generation was buying them up, and the supply was decreasing. The first rule of economics is supply and demand. If there's more demand than supply, prices rise. If there's more supply than demand, prices fall. Rodney and I agreed that seats would now be rising in price and would make a great investment. We had a major problem, however. Neither of us had any money. "Lots of liberty, no boats," as we used to say in the Navy.

Rodney then told me about the little firm he was with, Oppenheimer & Company. It was looking for a director of sales, and he thought I'd be terrific at the job. It was serendipity. I was already

wanting to actually go back to Wall Street, and now I was being called to a Wall Street firm in an area in which I felt comfortable and competent: running a sales department. I had created something from scratch at AM Kidder; I created myself from scratch at Merrill Lynch. Oppenheimer and I would be a natural fit.

I felt bad about leaving my little band of brothers at Kidder in 1963, but the move was understandable. Warren Bree, my comanager, also left at that time. He became director of research at a venerable firm, Francis I. Dupont & Company, while I became director of sales at the small, upstart Oppenheimer & Company. Two years later, Dupont was bankrupt — and Warren went broke (I lent him money to get him started again) — and Oppenheimer went from nothing, with the help of the Rodney Whites and Gerry Cramers (modestly) of the world, to becoming a financial powerhouse.

It was thrilling to be back on Wall Street. Working in a suburban shopping center is interesting if you want to buy a pair of socks, but there is something exciting when you are young, walking down the canyons of Wall Street and Broad Street, and everyone is looking intense.

I took a look at my inherited sales force at Oppenheimer. They didn't look, feel, or act like the people I wanted to lead. They were a motley crew, the gang that couldn't shoot straight. I asked most of them to go to a different career path, which meant I fired them. In business, you have to be tough but sensitive. I always did it with a smile, telling them they would be better off someplace else. I think they realized it too.

Oppenheimer didn't have the cache of Merrill Lynch and Kidder. People didn't walk in the door and say, "Hi, I just graduated from Harvard Business School. Do you have a job for me?" Later on, they did, but not at that time. It was difficult to find brokers. I couldn't get my former colleagues at Kidder to come over because, although they respected me, they had never heard of Oppenheimer. But one at a time, I found talented people to train from scratch. I was fortunate, and I trained some very good professionals.

One was Joe Weiner. I had to watch him carefully because he was always looking for short cuts. But if you watched him carefully, he

was okay. Another was Howard Ganick. He is now among the senior partners in Neuberger Berman.

I initiated Oppenheimer's first training program, and through it we created a sophisticated, intelligent, honest group of account executives.

One reason they were honest was an operations manager named Lou Green. One of his legs was shorter than the other, and as a result, you could hear him stomping into the office. He wasn't gentle; he was a screamer. Everybody was afraid to do anything that might be construed as improper because of the scourge of Lou Green.

Operations people, like Green, were important. They could be irritating, and they didn't bring in the business, but they kept the engines running smoothly. In my business career, I've always placed operations people in important positions. They could become partners. They were acknowledged. They weren't only in a back room somewhere.

I hired older, more seasoned people as trainees. They had the contacts. A forty-year-old knew a lot of people who could be clients. That seems obvious, but most firms usually hired people when they were twenty-six or twenty-seven, practically wet behind the ears.

I didn't care whether a guy had gone to business school. It doesn't hurt to have gone to business school. It's certainly not a disadvantage. But a person can be good on Wall Street by being a lawyer, an engineer, or an experienced businessman. That's especially true for a stockbroker, who usually just recites the research opinions of others. He usually doesn't actually do the analytical work.

I was also one of the first in the business to hire women. I looked for attractive women; after all, if you want to meet the president of the XYZ Big Corporation, it helps to be a good-looking woman. People thought it was odd that I hired women, but I just said, "You'll see. You'll see." One of my star brokers, Arlene Malumed, a former Dior model, became a close friend.

Starting from scratch, I ended up with eighty brokers at Oppenheimer. It became the most productive, professional organization catering to wealthy families in the business.

Being sales manager was one of my proudest times. I continued

to handle some clients myself because I thought it would be good to keep my fingers in the pie, principally so I could understand the problems of the other brokers. Also, having your own clients is a security blanket. I had sentimental reasons too. For example, I still worked with the Oltremeare brothers and a few other friends. It's more true that your clients become your friends than that your friends become your clients.

In 1966, I was asked to become a partner, and now I was really succeeding. Oppenheimer was a tight, very successful firm. We were making $10 million a year in profits, and I was a 6¼ percent partner. That translated to more than $600,000 a year in the late 1960s, big money even by today's standard. If I had been feeling good at $40,000, I was feeling wonderful now. After all, decent French wine that used to sell at $2 a bottle was up to $4 a bottle. Everything was working out. I had four fine children, and my career path was ascending.

I was one of the four arms of the Oppenheimer Fund logo. The logo shows four arms holding one another, and the most muscular arm was mine. The joke was that we all held one another's arms so that we couldn't go for one another's wallets.

Then tragedy struck. Rodney White, the senior research institutional portfolio manager and a key guy at Oppenheimer, died while fishing in northern Canada. His canoe tipped over, and he drowned very quickly in the cold water, probably from a spasm in his spine. Rodney wasn't a big guy, about five foot nine, and in the Navy he had been a diver. He was injured while on active duty, and he was so proud of the disability checks he got from the Navy over the years. When he was making probably $900,000 a year at Oppenheimer — he was more senior that I — he was still proud of his little Navy check.

Learning of Rodney's death was one of the saddest moments in my life. I walked around the backyard of my farmhouse crying like a baby. He was so special; I still miss him and think about him.

Rodney's dying changed the culture of Oppenheimer & Company. The senior partners had what I call a parallel partnership, and every partner was responsible for a department and was respected. The ownership differential was modest. If I was 6¼ percent somebody else might be 4 percent, someone else might be 9 percent. The differences

were not that big compared to most brokerage partnerships. The only partners who didn't have a lot were the floor partners who worked the seats on the exchange. After Rodney died, however, I saw personalities change dramatically. Our partnership went from parallel to paralyzed. The other two most senior partners were starting to get what I would call greedy. Turf wars and politics became the standard.

Because of the deterioration at Oppenheimer, many of the partners thought that I had the personality to become managing partner in contrast to the autocratic approach of Jack Nash, the existing managing partner. I thought it was a good idea for me to be the managing partner. Jack Nash didn't. In our contest over managing partner, he won. His management style was totally different from mine. I use persuasion and negotiation and motivated the professionals. Jack inflicted fear and set objectives that were almost impossible to meet. He believed in breaking the will of the person. His nickname was "Black Jack."

Once he called me into his office and told me to fire someone every day that week. I asked him why, and he replied, "If you fire one person, the other eighty will work harder." There was some logic to that, so I started firing people. I know how to take orders. You remember, I'm an old naval officer.

I tried to fire people with dignity. I remember a broker named Gerry Lazarus, whom I was going to dismiss. I asked him to have lunch with me at Delmonico's, the best restaurant on Wall Street. He was suspicious. I think we'd had a drink together when I hired him, but we had never had lunch. At lunch, he immediately asked me what was the purpose. I told him straight out, "I have to fire you." Well, that took his appetite completely away. (I learned then that it's better to fire before lunch than after; it's cheaper.)

I told Gerry Lazarus that he hadn't been productive enough and that I thought he might be better off in another industry. I was eating; he wasn't. He spent the next hour or so telling me why I shouldn't fire him. I said to him that if he had showed this type of passion, conviction, and persuasion trying to sell securities, he'd be terrific in the business. I encouraged him to get out there and service his clients and get new ones instead of sitting around wasting his time in the office

thinking he was working. I put him on probation — he became a major producer in the firm. The last I heard, he was still with Oppenheimer, more than forty years after that day I was to fire him.

The power struggle was between Black Jack and me, Smiling Gerry. Jack didn't like it that I smiled a lot. He said it didn't denote seriousness, and there's something to that. Still, I like to smile. That way the burdens of the job seem to go away, internally and externally, for the people I'm talking to, and for me.

I saw the writing on the wall. My department, the high-net-worth sales department, was going through one of the periodic bear markets. Commission business was down, and one day, Jack called me into his office and told me I was no longer a 6¼ percent partner. He put me down to 3 percent. The next year, he dropped me to a 1 percent partner.

I wondered what had happened to our parallel-partnership. What did he do with those points he summarily took from me. I knew he had taken them. He now owned some 20 percent of the firm, and the rest of us owned one, two, or three.

Almost all the partners at Oppenheimer left. Fred Stein became a senior partner at Neuburger Berman. Sandy Bernstein left to form his own firm called Bernstein & Company, which was later acquired by Alliance Capital. Mickey Shannon left. I left. Everybody in my age group left.

I had to quit. If I had stayed, I would have lost my self-esteem. Oh, I would have made a good living, and they probably would never have fired me, but I would have been humbled. I didn't want that.

I thought Oppenheimer would go out of business after I left in 1972. It didn't. (How's that for false self-importance?) It remained modestly successful. If it ever had a good long-term corporate plan, it would have been very successful. And the partners that stayed at Oppenheimer — Jack, Leon, and a few others — made a lot of money. God bless.