The WORLDLY WISDOM of MARTY WHITMAN

The legendary investor sees golden opportunities that others overlook, but an uncanny sense of value is not his only visionary gift

By Tom Raynor
arty Whitman '49 rarely looks the part of a high-stakes investor with a reach that stretches around the globe. His dress code has been described as "extreme casual," and it says as much about him as his preference for being called "Marty." He generally arrives at his midtown Manhattan office in sweatpants and a sweatshirt that has his name embroidered on it. On occasion, he grudgingly dons a suit and tie. Tuesday, June 24, 2003, was one such special occasion.

That morning, Whitman and his wife, Lois, prepared to leave their Upper West Side apartment for Lubin House, Syracuse University’s headquarters in New York City. There, before a throng of SU officials, alumni, friends, family, colleagues, and members of the press, the University would formally announce his multimillion-dollar gift to the School of Management—one of the largest gifts in SU’s history. In his honor, the school would be named the Martin J. Whitman School of Management. "What shall I say?" he asked Lois. Jokingly, she replied, "Tell them you owe it all to your wife."

"In retrospect," Whitman says, "Lois doesn’t know how close she came to the absolute truth of the matter." But as he told the Lubin House audience that day, "Syracuse University gave me my start. It’s the sine qua non—the one absolutely essential element of my career and success. Without it, I would have remained the equivalent of a U.S. Navy enlisted man, which is where I came from in the beginning."

In the course of more than a half-century, Whitman has scaled the heights of his profession with a gutsy finesse, playing the role and deploying the talents of theorist, practitioner, innovator, and maverick as the challenge demands. He has refined the principles of classic value investing, and is widely regarded as its foremost proponent. He presides over a diverse, innovative, and highly successful financial services organization that he built from scratch. He has pioneered strategies in bankruptcy and other forms of "distress investing" that others have only begun to recognize. And more than once, he has been the lone voice of investors and consumers, standing up to unresponsive bureaucracies and vested interests.

Whitman’s career reveals not only a farsighted, intellectually adept, and socially aware investor and entrepreneur, but also a professional with a reputation for downright, old-fashioned honesty. In 2002, when Manhattan District Attorney Robert Morgenthau was asked who the next chairman of the Securities and Exchange Commission should be, he replied without hesitation: "Someone like Marty Whitman." Characteristically, Whitman acknowledged the compliment, but dismissed the possibility. And he seized the opportunity to observe that the recent wave of corporate scandals is "a natural outgrowth of the trend in which power has been ceded by stockholders to boards of directors." In his inimitable style, he asserted, "If investors depend on the business smarts of directors, I wish them lots of luck." If anything, he is bluntly truthful.

"Marty Whitman is a positive model for every would-be leader," Chancellor Kenneth A. Shaw says. "He possesses the qualities of mind and character that all schools strive to instill..."
in their graduates. His career is a benchmark of achievement and integrity not only for students in the Whitman School of Management, but for all of us. He has raised the bar of loyalty and generosity for every graduate of Syracuse University, and we are proud to claim him as one of our own."

On the Trail of Deep Value

Born and reared in the Bronx, Whitman attended DeWitt Clinton High School, where, by his own account, he was "a middling student, with no driving interest in business or finance." He graduated in June 1942, six months after the attack on Pearl Harbor, and entered the Navy in December. He was assigned first to an ammunition depot in Nebraska, and then to a transport ship in the Pacific. In February 1948, after transferring from a junior college, he enrolled at Syracuse University under the GI Bill of Rights. In 1949, he graduated magna cum laude from the College of Business Administration, as the school was then called. "I developed a love of learning and an interest in business and economics," he says. "What more could a late bloomer ask for?"

After graduation, he worked for a string of investment firms in New York City and Philadelphia, earning a master's degree in economics from The New School for Social Research (now New School University) in New York City. He founded M.J. Whitman & Company in 1974 and created the first of the Third Avenue mutual funds in the 1980s. Today he serves as co-chief investment officer of Third Avenue Management LLC, the successor firm to M.J. Whitman & Company, and as chairman of M.J. Whitman Inc., a full-service broker-dealer specializing in the research, sales, and trade of distressed securities. The Third Avenue entities manage more than $6 billion in assets.

As a value investor, Whitman views the risk-reward relationship quite differently than conventional investors do. They believe risks must be taken to realize rewards, and that the degree of risk assumed in any given situation is directly related to the anticipated reward. In Whitman's view, there is no such trade-off. "The lower the price an investor pays for a particular security," he says, "the less the risk and the greater the potential reward."

He urges investors to scout for companies that are safe and cheap. "Safe comes before cheap!" he exclaims. For the most part, he looks for companies whose stocks trade at 50 percent or less of what their value would be as the equity of a private company or in a takeover. It is a risk-averse strategy, to say the least. In fact, it gives an entirely new spin to a comic dialogue between a card shark and a patsy that originated with W.C. Fields—a classic exchange from the film Never Give a Sucker an Even Break (1941) that Whitman is fond of reciting: "Is this a game of chance?" asks the patsy. "Not the way I play it!" responds the card shark. Elegant in its simplicity, Whitman's approach to value investing has rewarded investors handsomely over the years, earning him the coveted Mutual Fund Manager of the Year accolade in 1990 from Morningstar Inc., the global investment research firm.

In his pursuit of value, Whitman has carved out a special niche for himself in the field of bankruptcy, or "distressed-debt investing," as it is also known. Years ago, when the big bond houses thought it beneath their dignity to deal with bankrupt firms, Whitman recognized deep value in the debt of certain troubled companies, especially those that possessed substantial physical assets or performed vital services. During his first foray into this field, in the early '70s, he bought $100,000 worth of mortgage bonds in the bankrupt Penn Central Railroad and quintupled his money in a year, thus launching a specialty in which he has become a leading practitioner.

Whitman's growing role and reputation in distress investing has led to his occasional involvement in public policy. In the '80s, he was a major player in the prolonged and contentious bankruptcy of Public Service Company of New Hampshire (PSNH), the first American public utility to declare bankruptcy in 50 years, and the first under Chapter 11 of the U.S. Bankruptcy Code, which protects distressed companies from creditors. Whitman reasoned that an electric utility serving millions of consumers would not be allowed to collapse. But while the company's comeback might be assumed, its restructuring involved balancing the conflicting interests of ratepayers and creditors.

With a sizeable stake in PSNH, Whitman was among those who presented a restructuring plan for the company. Impartial observers agreed that his plan would have resulted in lower energy rates for consumers. But it was rejected. (In the years that followed, New England's energy bills were among the highest in the country.) "I was Don Quixote tilting at windmills," Whitman says, "but, all the same, I learned a valuable lesson."

Global Outlook

In the late '90s, Whitman conducted what The New York Times described as a "crusade" to convince the Japanese to adopt legislation similar to Chapter 11. What triggered his action was a plan by Japan's distressed Long-Term Credit Bank (LTCB) to forgive $20 billion yen ($3.7 billion) of defaulted loans, with no consideration for the interests of investors and the bank itself. Because he was substantially invested in LTCB, Whitman sued the company for not managing its "bad loan" portfolio in the interest of the bank and its shareholders. The outcome was a
Pyrrhic victory for Whitman. “I won the suit and the Japanese government forbade LTCB from pursuing its plan,” he says. “But it didn’t make a difference because the bank went belly-up, and the investment was a wipeout.”

Even so, Whitman’s views found a sympathetic hearing among Japanese investors and within Japan’s opposition party. “If Japan fails to come up with a template for rescuing troubled companies and banks,” he warns, “the country’s financial and economic system will collapse and bring the rest of the world economy down with it.” With an instinctive sense of the future, Whitman is ahead of his time—a globalist concerned with investors’ rights in an increasingly borderless world economy. Once again, as in the PSNH bankruptcy, he finds himself siding with those who have no voice in matters that affect them profoundly.

Whitman’s broad experience in investing and his insights into related policy issues have proved to be invaluable grist for his teaching and writing. He has served for 28 years as a Distinguished Management Fellow at the Yale School of Management, and in 2001 he was an adjunct professor at the Columbia Business School. By his own admission, he is “a frustrated academic.” At the same time, he is an avid reader whose tastes range from Frank McCourt’s gritty tales of the Irish American experience to Robert Caro’s definitive biography of Lyndon B. Johnson.

Not surprisingly, Whitman singles out his own books as his proudest professional achievement. He has published The Aggressive Conservative Investor (Random House, 1979) and Value Investing—A Balanced Approach (John Wiley & Sons, 1999), as well as many articles. In his first book, he established himself as an investor in the tradition of Benjamin Graham and David L. Dodd, whose 1934 work, Security Analysis, is the value investor’s bible. In his second book, he updated Graham and Dodd’s methodology for evaluating corporations. In a third book, which he is about to undertake, he will focus on distress investing, bringing it under the “value” umbrella.

**Action and Reflection**

For Marty Whitman, reflection and action are inseparable. Last May, he and finance professor Fernando Diz (see related story, page 17) led a four-day, intensive seminar in distress investing at the School of Management. “The course was terrific,” Whitman recalls. “The students were absolutely super. Looking back, I can say I never had a better teaching experience.” He plans to join with Diz to launch the Whitman Seminars, one of the new activities to be supported by his gift to the school (see “The Promise of Opportunity”). The first seminar will focus on distress investing, and Whitman is convinced it will shed new light on the subject and encourage further research and collaboration. He also envisions a day when the school—alone and in collaboration with others—will possess the strengths required to make major contributions to finance, economics, and public policy. And the ever-present globalist within him expresses the conviction that “Syracuse researchers have a contribution to make in ameliorating global economic problems, which are becoming more threatening.”

While many other finance and investment gurus project an attitude of self-importance and crave the media spotlight, Marty Whitman remains true to the unpretentious, rolled-up sleeve mind-set and image that come naturally to him. Turning his unflinching realism on himself, he says, “After all, I’m just a poor man who happens to have a lot of money,” ignoring short-term trends and the whims of the mob, he remains true to his principles of value, calls his shots as he sees them, and concentrates on the interests of his clients. Most important, he remains focused on the future—in life, as in investing. He is fascinated by possibilities, which for a creative mind are endless. “Giving back is a very satisfying experience,” he says. “Lois and I are fortunate to be able to support the causes that mean so much to us. But what’s exciting is the knowledge that by giving back, you’re empowering others, mostly young people. You’re leaving an imprint on the future.”

“And let’s face it,” he adds, “nothing beats seeing the results!”

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**The Promise of Opportunity**

Besides making a generous gift to the campaign for the new School of Management building, Lois and Marty Whitman have created two scholarship endowments to support M.B.A. students who are members of minority groups. Fifteen students currently hold Whitman scholarships, including Stephen Harrell G’04, who is president of the M.B.A. Student Association and a member of the search committee for the school’s new dean. Harrell interned with J.P. Morgan Chase & Company in London last summer and plans to work in international finance after receiving an M.B.A. degree. “The Whitman scholarship has enabled me to stay focused on what really matters to my career,” Harrell says. “With the Whitmans’ support, I’ve been able to concentrate on my studies, as well as play an active role in the association and other school activities.”

Whitman’s recent “naming” gift to the School of Management is the capstone of the school’s Higher Ground campaign. “The gift will have a profound impact on virtually every activity in the Whitman School,” says Sandra N. Hurd, interim dean. “It will enable us to compete for the very best students and faculty; it will enhance every program and service; and it will position the school to attain the ‘higher ground’ we’ve been striving for.”

Initially, the gift will create a named professorship in finance and a clinical professorship in the Program in Entrepreneurship and Emerging Enterprises. It will support an ambitious new series of seminars intended to serve as a bridge between academics and practitioners. And it will also establish the Whitman Teaching Fellows and the Whitman Research Fellows programs, which will encourage and reward those who make outstanding contributions in the classroom and their professions.

“The Whitmans have been the school’s strongest supporters in our 80-year history,” Hurd says. “Their commitment reflects their conviction that the American Dream is the promise of opportunity. And when you translate their gifts into human terms, the magnitude of their generosity really hits home. The ultimate payoff will be reflected in our graduates’ lives, careers, and contributions to society for as far as any of us can see.”

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