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Phil Fisher is widely credited with being the father of growth stock investing. He started an investment partnership in 1931 and ran it for 60 years. He wrote the book *Common Stocks and Uncommon Profits* and advocated running a very concentrated portfolio of no more than five stocks.

Phil's son Ken started his investment management company, Fisher Investments, in 1979. Ken began by following in his father's footsteps. He managed a concentrated portfolio of individual stocks and wrote a widely read book on stock valuation, *Superstocks*, in which he proposed using the price to sales ratio (PSR, measured as market capitalization divided by annual revenue) as a key analytical tool.

Fast forward forty years and we find Fisher Investments to be one of the top investment management firms in the industry. Assets under management today top \$100 billion. While it might be feasible to run a concentrated portfolio of \$100 billion, this would necessitate focusing only on very large capitalization stocks. After all, if the average holding is \$20 billion, and you want to keep your ownership position in any individual company below 10%, your entire universe of potential stocks is the seventy-five stocks with market cap greater than \$200 billion.

Ken has deviated significantly from a concentrated portfolio. According to an SEC filing, in 2018 the total number of stocks held by Fisher Investment accounts was 922! This is almost one-third of all the stocks in the Russell 3000, one of the broadest indexes of the U.S. equity market. Given this breadth of ownership, it is likely that Fisher Investment portfolio returns are very close to market averages. Assuming the Ken has extraordinary ability to identify stocks that are likely to do well, is he diluting that skill by running such a giant portfolio?

I think the answer surely is yes. Why would he do this? From the point of view of maximizing his own personal wealth, this does not seem like the best strategy.

Suppose the overall market returns 10% a year on average. Suppose that a concentrated portfolio run by Ken would earn double that, 20% a year on average. Suppose further that Ken feels obligated to invest his own portfolio (currently about \$2 billion) exactly as he manages client accounts. In terms of wealth accumulation, would Ken be better off earning 20% on his own portfolio and foregoing outside accounts, or earning the fees from running \$100 billion while earning just 10% on his (and his clients') portfolios? Due to the magic of compounding, the answer surely is that Ken would eventually be far richer by foregoing outside clients and focusing on his own, concentrated, portfolio.

In recent interviews, Ken has revealed an outline of his philosophy. He has characterized Fisher Investments as a "taxable non-profit" that is seeking to provide investment management services to the broadest client base. By "taxable non-profit" Fisher appears to mean that he plows back all earnings into the company, hiring more advisors and marketing people, and paying them more. Aggressive

advertising and reasonable realized returns have produced steady growth in the total number of clients and total assets under management (AUM).

Ken does not believe that his company has become too big. In fact, in one interview, Ken explained that his “market share” of the investable universe is very small, only about 0.08% (suggesting the relevant universe is \$125 trillion). This provides him lots of room to grow. He is a great believer in the contribution of the role played by saving and investing in the capital market in financing new ventures and promoting innovation and economic growth. He seems to feel that his mission is to assist in the magic of the “capital market pricing mechanism” by expanding his own AUM and maintaining a substantial allocation in equities. Ken even feels bad about making charitable contributions because it entails extracting funds from the capital market process.

It has always seemed to me that the natural course for a successful portfolio manager with the ability to generate extraordinary returns would be to eventually stop taking outside money and focus on investing his/her own portfolio along with portfolios of close friends and family members. Ken Fisher is a major counter-example. Even as his wealth has skyrocketed, Ken continues to invest heavily in expanding his clientele and asset base. While Ken may well be able generate a higher average rate of return on a smaller asset base (like Warren Buffett, who has stated that he could 50% a year today if he was only managing \$1 million), it appears he believes his economic contribution is larger with greater AUM.