



As “a very open” contrarian, Dean LeBaron, CFA, has ruffled a few feathers over the years, but all in the name of “adventure capitalism.” Recipient of AIMR’s 2001 Award for Professional Excellence and current chairman of both virtualquest.com and Wordworks Inc., Mr. LeBaron devotes many hours to making the world a more connected place through his personal Web site (www.deanlebaron.com) and as publisher of Complexity Digest (www.comdig.org).

In 1969, Mr. LeBaron founded Battery March Financial Management in Boston, MA, USA. He is recognized as one of the first foreign entrants in the nascent securities markets of Brazil, India, Russia, and China. He holds a BA from Harvard University and an MBA from Harvard Business School, where he was a Baker Scholar. Mr. LeBaron earned his CFA charter, and became an AIMR member, in 1967.

Associate Editor Christina M. Grotheer spoke with Mr. LeBaron on a July afternoon. Summer storms prevented our scheduled videoconference, but let up in time for a brief virtual bello.

Member Interview

Some That Worked, Others That Didn’t: Dean LeBaron Shares a Multitude of Outlandish Ideas

AIMR Exchange: You have been called a modern investment mogul, a visionary entrepreneur, and the guru of institutional money management. Do these titles make you squirm or smile?

Mr. LeBaron: I’ve been called lots of worse things. I don’t mind these at all. My general view is that in the investment management field, in fact, in many fields, you have an opportunity to be either first or best, and it’s easier to be first.

AIMR Exchange: What’s it like being an “adventure capitalist”?

Mr. LeBaron: It’s fun. Essentially, you like to find frontiers — places where other people haven’t been or, at least, not very many of them. And frontiers are not necessarily just geographic. They may be technological, intellectual, cultural, or academic. But that is where I like to be.

AIMR Exchange: What first got you interested in using computers to do investment management?

Mr. LeBaron: In the early to mid 1970s, it looked like we were going to have a fair amount of assets come to us. We were doing both active management and indexing, and it was clear that we had to hire lots of people or use machines. It struck me that for productivity purposes, for consistency, and for accuracy, machines would be better. So we started using machines in lieu of hiring people. That meant that Battery March at the time had a very high ratio of assets to people. It was a lot easier to manage a

company with machines than it was to manage a company with a lot of people.

AIMR Exchange: How did you get involved in international and emerging markets?

Mr. LeBaron: I like dirty data. The international markets did not lend themselves then to being very precise; the financial presentations were not so sophisticated, and they did not come to you — you had to go to them. You had to struggle to get financial statements, but you could get them because companies in the international markets were not jaded by having lots of investment people come to see them. You had many of the characteristics — cheap, unfollowed, good companies. The management whom you would talk to in many of the international companies were equal or superior to those that you would find in American companies because they were facing problems almost every day that were huge. I thought they were extremely good, and I still do.

AIMR Exchange: What is the most outlandish thing that you’ve ever tried in the investing world that worked?

Mr. LeBaron: I can only think of four; I can’t think of just one. One was investing in a package of 160 companies that were likely to go bankrupt and telling clients. This caused the loss of about 10 percent of Battery March business, but it was the most successful investment strategy we ever had. Ten

of the companies went bankrupt, but the other 150 didn't. All they had to do was survive, and it was a profitable investment strategy. It was destructive in terms of our business but very productive in terms of investment performance.

Second was to invest in Latin America early. We had the first investment fund in Brazil, and that was a very successful strategy. The third outlandish thing very early on was listening to not-very-wealthy academics about how they would invest money.

The fourth was to stop making company and brokerage visits. The last thing you want to do is to consciously expose yourself to extremely good, one-sided sales pitches. So very early on, Batterymarch would not make company visits and did not pay for Wall Street research.

AIMR Exchange: Can you name something outlandish that didn't work?

Mr. LeBaron: These are more interesting because you really learn things. Number one, I thought that farmland would be an asset category. I was wrong. It didn't lose money, but it didn't make very much, and it has remained something that goes up and down largely on the basis of government subsidies.

Second was a suggestion on my part that proxies be rented. Since institutions typically didn't care how they voted proxies, I thought it was very simple: have institutions rent the proxies, and create a separate market for proxies. It didn't work. Nobody did it.

The third one that didn't work was the practice at Batterymarch of voting against the reelection of directors for companies that installed shark repellents. When it was announced in a shareholders report that directors were voting

unanimously to adopt shark repellents of various sorts, we voted against those directors. That did *not* win friends and influence people.

And the fourth one, I guess you'd have to say, our major push in Russia is something that didn't work. We had a mandate from the Gorbachev government to privatize the Soviet Union's military industrial complex. We had raised money for a fund, but I did not take down the money because I found that it would not be possible to follow it. The devices for hiding the money in the Soviet Union were far more clever than our devices for detecting it.

AIMR Exchange: What do you think of exchange traded funds?

Mr. LeBaron: I don't know why, but I like them. I also like things such as FOLIO*fn*, where you use computers to provide an individual account that has many advantages over a typical mutual fund. I think a mutual fund as an investment structure for individuals is severely threatened because now we can do things much better without passing on the tax liability. So there are some innovations that are coming in financial products. Exchange traded funds are one of them, but probably not the most important one. I think folio portfolios, if that's what the word is, are probably better.

AIMR Exchange: You have a reputation as a contrarian. Is it fun to ruffle peoples' feathers and see what happens?

Mr. LeBaron: When you see a consensus or a unanimously held view, the contrarian questions that and at least doesn't take it as an article of faith. I think most people tend to think of contrary thinking as a guide to tell you to

do the reverse of what the consensus is, and that's not true. Usually the reverse is five or six things, and you can do any one of them.

AIMR Exchange: What is back testing and why are you firmly against it?

Mr. LeBaron: Back testing usually occurs when we go back and we look at the data, and, not surprisingly, find that the data support our contentions. It's very circular. I like the expression that if you torture the data long enough, it will confess to anything. And that's true. I have never failed in my life to support with data any contention that I wished to make.

AIMR Exchange: Tell me about some of your current projects.

Mr. LeBaron: The first one is to convince people everywhere to Webcast meetings. Webcasting is really a terrific thing, and it costs nothing. I put Webcasts on my own site. I attend meetings that are Webcasted. I hardly ever attend anything face-to-face.

Number two is anything that promotes networking — that's what I'm doing with my own personal Web site. I created it as a conscious test to see whether you could stay involved in a constructive, productive relationship with people wherever you might be. And the answer is you can. In the course of a week, 20,000 people come to my site, and no one does it because they have to.

The next is I've got three books coming out in December with Wiley. And the fourth project is the one that I am the worst at, which is to play more. I'm trying to play more, but I'm failing on that terribly. ●