MICHAEL PRICE

Here we are in Short Hills, New Jersey, value investing capital of the world. Short Hills, New Jersey? Are you nuts? Not really. You see, Short Hills, previously known primarily for a nifty upscale shopping mall with a Nordstrom and a Neiman Marcus among other high class emporiums, is the chosen home of Mutual Shares, the fund company owned by Michael Price, one of the best known and most successful practitioners of value investing. From his headquarters, which happens to be right next to the famous shopping mall, Michael Price runs Mutual Shares out of the offices of Heine Securities. That firm is named after Max Heine, who was Michael Price's mentor, and who died tragically in an automobile accident in 1988. Although Michael Price is not exactly a touchy feely kind of guy, his understated but clear devotion to the memory of his mentor is a rather endearing side of his personality.

But no more Mr. Nice Guy. Michael Price is as tough and decisive as he is single-minded. He cares a great deal about his shareholders, another Max Heine legacy, and he goes to extraordinary measures to insure that his shareholders get full value for the money they invest with him. If you have any doubts about that, just ask those nice fellows who run Chase Bank about Michael Price. We talk about that in the interview.

Mutual Shares consists of four separate funds - Mutual Shares, Mutual Qualified, Mutual Discovery, and Mutual Beacon - with combined assets of over $16 billion. Yet, despite that impressive total, most people have never heard of Mutual Shares or Michael Price. Why? Because he doesn't advertise. Frankly, he doesn't have to. I can tell you this: some of the savviest financial people on and off Wall Street invest with Michael Price. They know what they are doing.

Mutual Shares, Qualified, and Beacon state their goal as capital appreciation and are virtual clones of one another. Their separate existence arises out of different circumstances. One fund, for example, was acquired when its owners asked Michael Price to run it for them. Mutual Qualified is geared to tax-free accounts. Mutual Discovery is a more global fund than the others.

The four funds have produced total returns over ten years of more *than 15% per year with about half the volatility of the average equity fund. Mutual Shares has a 20 year history with annualized returns approaching 20%. No wonder Price's shareholders are happy. As you will see in the interview, Price is not averse to taking huge positions in a company and making things happen. "Rattling cages," he calls it. Chilling.*

Tanous:*Michael, how did you first get interested in stocks?*

Price: Well, I was always interested in stocks because the first one I bought, through my dad's broker, tripled. I bought 20 shares of Bandag and it went to 90. My dad sold it at 50 or 60; I kept it even though I didn't know anything about it. I always liked looking at the stock tables. This is, maybe, in junior high.

Then, through some of my dad's friends, I got interested in one little facet of the business which was the risk arbitrage business. I spent a summer observing a small arbitrage department - a woman and three guys sitting around two desks joined together with wires to the floor of the stock exchange and proxies on their desks. They were just trading in the stocks of companies that were about to merge, taking advantage of small discrepancies in the price spread between the two companies. I said, here are three guys, and I knew one of them was making a million dollars a year and this is the late sixties, and I said, if these guys can sit on their butts and make a lot of money by reading various things, there's something to this.

To this day, 25 years later, I have the same approach to running the fund. We have a bunch of people sitting around a trading desk talking to companies and trading in stocks. Some of the companies are involved in mergers, or tender offers, or buybacks and spin-offs; others are cheap based on value investing principles that Max brought to the equation.

We also have a bankruptcy business *[this involves buying securities of bankrupt companies as part of the funds' investment strategy]* which Max and his old friend Hans Jacobsen brought to the business in the thirties, and I picked up on. So we have these three disciplines that together run the same way as my very first experience on Wall Street.

Tanous:*Max Heine comes up in your background and you have credited him generously for a lot of your early training. Can you identify a few of the important principles you learned from him?*

Price: The great things about Max had nothing to do with investing.

They had to do with how you live your life as a husband, as a father, as a friend, and as a manager of other people's money. For instance, Max would always return a shareholder's phone call. If he got a letter from a shareholder, he would call him back. I do that to this day. It's great because it shows the shareholders that you're really paying attention. They can't believe you're calling them back, and they realize that you care and that you're working for them. So many managements don't really believe in that. Max had zero arrogance. As successful as he was, and as smart and intellectual as he was, he was able to talk to anyone in the office or building or on the street. He was someone who was not full of himself. He kept an extremely level head. That helps you make better investment decisions in times of crisis.

Tanous:*Do you describe yourself as somebody with zero arrogance?*

Price: Ask other people. I'm sure some people think I'm full of myself and others think I'm okay.

Tanous:*Michael, there's another thing I found, which says more about you than anything else - your loyalty to Max Heine. Your firm is still named after him and I noted that there is an endowed chair of finance at NYU. I expect you had something to do with that. Right?*

Price: Yeah. When Max passed away, a group of us got together to raise money for a chair that I had hoped would create a value investing course at NYU. That didn't happen until recently. Now they are starting to structure that.

Tanous:*There's a story out there about how you got interested in buying some metal companies, specifically Fansteel, Kawecki and then International Mining.*

Price: How did you find out about that?

Tanous:*Like you, I do my homework. I'd like you to retell that story because I think it's a good illustration of your investment process.*

Price: In 1976, when valuations were much lower than they are today, I had learned that one of the things you do is watch smart people. This is a business where, especially in our game of bankruptcy and cheap stocks, there are certain people out there who control companies with large amounts of money. These are smart people and you want to be buying what they are buying. You never want to be selling what they're buying. Right? The Pritzkers, Thomas Mellon Evans back in those days; today the Tisches are smart. A Carl Icahn type, a George Soros; you don't want to be on the other side of a trade with people like that. Back in the seventies there were a whole other group of names that I liked to watch. David Murdock, who to this day still controls Dole, and Castle & Cook was one.

One day out of the blue sky, a company called Crane Corp. *[which made plumbing products]*, run by Thomas Mellon Evans, the Pittsburgh financier, made a tender offer for a company called Fansteel. Both were on the New York Stock Exchange. Fansteel was pretty clean.

One of the things I do is look at every merger announcement. What a merger tells you is what businessmen are willing to pay for a business. I think it's the best indication of value. Compare that with what some Wall Street analyst is saying. When an analyst says some radio station is worth twelve times operating cash flow, well, that's not true until someone actually pays twelve times operating cash flow. That's when you know what it is worth. Okay? So when Thomas Mellon Evans says I want to buy all of Fansteel, the first question I ask is why? The second question is: does it make sense? These are the simple basic things you do and we continue to do when there are merger announcements.

Well, I got the S&P tear sheet - we were a lot less sophisticated then, no laser disks or electronic data. I had to go across the street to the Stock Exchange to make copies of the 10Qs and 10Ks. We didn't have a service delivering them to the office. We didn't have a library at all, so I borrowed the annual report from Goldman Sachs in order not to have to wait four days for the company to mail it.

I started reading this stuff and I saw that Fansteel makes refractory metals. I didn't know what refractory metals were so I looked it up in the dictionary. There were four: molybdenum, tantalum, tungsten, and one other, columbium. These metals add strength, conductivity to electricity, and other properties. So I did a little work on each of these metals, and, now, I noticed that one of the metals Fansteel deals in is tantalum. I couldn't find anything on tantalum. So I got out the New York Yellow Pages and sure enough there's a company in the Yellow Pages called Tantalum Corporation of America. I'm not making this up! I called them up and I got some guy on the phone called Larry and I introduce myself. I tell him I'm working at this mutual fund and I'm trying to find something out about tantalum because Crane just made an offer to buy Fansteel. At the other end of the phone I heard: "Crane just made an offer to buy Fansteel!" And I said, yeah, what's so incredible about that?

He said two things. One was, well, "That must be because of all the Thai slag in all their warehouses." Thai slag is what tantalum comes from. And, of course, in the 10K there was no disclosure about a Baltimore warehouse full of Thai slag. But it was a very valuable, off the balance sheet, hidden asset. Okay? It turns out Larry was a metals broker who dealt in tantalum. The second thing he said was, "You ought to take a look at Kawecki Berylco." So, not only did I start buying Fansteel right away because I discovered a hidden asset, and we made some money on that, but I found in Kawecki Berylco a $9 stock with a $15 book value per share and a very clean balance sheet. It was controlled by Molycorp.

And then I looked at Molycorp and found a company that controlled it, called International Mining. So I looked at International Mining and found that they owned a bunch of companies including Kawecki, Molycorp and others. So I laid it all out on a chart and started buying stock in every one of the companies, because, at that time, metals prices were taking off. There were shortages in the government stockpiles of some of these special metals. I figured out that if you bought stock in Molycorp you got all of them. Then I also bought all the others and they all got taken over. Every single one of them.

This is in 1976. I had the chart in my desk. One of the brokers in Max's firm was a friend of Mario Gabelli, whom I had never met. Mario at that time was a broker at Loeb Rhodes. One day, Mario walked over to my desk and took the chart and walked out. I said where are you going with that? He took that chart of the complex of companies. It was so funny. That's how I met Mario.

Tanous: *What was he doing in Max's brokerage firm?*

Price: Just visiting. The broker (his friend) knew I was doing some interesting work. The broker said look at this. So Mario took it. *[For Mario Gabelli's take on this meeting* *see page 85.]*

Tanous: *One purpose of this book is to explore the riddle of the "efficient market theory."* [The efficient market theory, a stronger form of the "random walk" theory, is the proposition that investment markets fully reflect all available public information almost instantly. The thesis raises doubts about any individual's ability to gain consistent trading advantages by studying publicly available information.] *In addition to active managers, I'm interviewing great academics and passive investors. Now, what you just told us shows a process that goes completely counter to the efficient market theory. You discovered* *certain facts, by being smart and digging hard, that were not at all reflected in the price of the stocks.*

Price: I think it was in Lowenstein's book on Buffett where he tells about how Buffett first went down to Washington and spent four hours with the chairman of GEICO before he bought his first share of GEICO. He then went on to buy the entire company. Now I'll tell you, you have to do your homework and kick the tires. It's not the answers that make you good in this business, it's the questions you ask. If you ask the right questions you will always find out more than the next guy.

From the '60s when Buffett first visited GEICO, and the '70s when we did the Kawecki deal, to today, a lot has changed to make the markets closer to efficient. The computers and information flows have caused this. We went from the 286 to the 386, the 486, and the Pentium. We used to get Fed filings on some weekly sheet. Now we get them electronically. First Call is a service that eliminates the wait to get hard copy of reports from brokers. Now we get it electronically. The delivery of information is so much faster. That has made the markets somewhat more efficient but markets are not perfectly efficient. The academics are all wrong. 100% wrong. It's black and white.

Tanous:*I suppose you realize that to the academics people like you are just the outliers on the distribution curve.*

Price: Throw the index funds in there. By law they're efficient. But if you take all the index funds out, take out the guys who have no clue as to what they're doing, you're left with a handful of guys who know what they're doing, have a straightforward approach to value investing, and everyone will tell you the market is not efficient. It's least efficient in places like bankruptcy investing. That's why we do it. It's least efficient in the minutes after a tender offer is announced because people don't know about it and the stocks can move above or below what the stock is going to be worth during the deal.

The market gets closer to being efficient when it involves more normal, well-followed large cap stocks. *[Large-cap is short for "large capitalization." Capitalization is the total market value of a company's stock - the stock price* x *the number of shares, plus other financing. "Large-cap" usually refers to companies with total market value of $2 to $3 billion or more.]* But just because thirty analysts follow Eastman Kodak doesn't mean it's efficiently priced. No one buys a market. There are stocks in the market. Some are fully priced. Does that mean the market is efficient because a stock is fully valued? No. It means the stock is fully valued. Say there are six thousand decent-sized companies in the country. We own stock in two or three hundred of them. We own them because they're too cheap.

Tanous:*Let's talk a bit about investment style. You are probably the quintessential value manager by most standards. You are certainly one of the most successful value managers in the country and maybe in history. You also devote a fair amount of your assets to restructuring, which implies companies with serious problems. Can we talk about why you would want to incur the risk of buying companies with serious problems?*

Price: Because there's less risk, if you do it properly. The New York Stock Exchange used to have a rule that as soon as a company filed Chapter 11 it was delisted. They've taken that rule away and there are Chapter 11 stocks trading on the exchange. But back in the days when those companies were delisted automatically, three market makers, of which we were one, traded not the stocks, but the bonds, over-the-counter. All the people who had margin accounts in these stocks would have to sell them. Any institution that had wanted the dividend or the interest from the bond would sell because these payments would stop when the company did its Chapter 11 filing.

The information flows were very bad. Penn Central *[a prominent early bankruptcy restructuring]* hadn't happened yet. So people didn't know yet, and wouldn't for many years, that you could make money investing in bankruptcies. We learned that the market was very inefficient and that there was a way to create cheap common stocks. To buy "NewCo," the new company that is reorganized around the best businesses the debtor in possession had, you design an appropriate capitalization *[financial structure]* and create the NewCo stock by buying the old claims.

Tanous:*How does that process work?*

Price: The day a company files Chapter 11, lawyers, investment bankers, and the creditors will, through the negotiation process, find parts of that business to restructure. They'll sell off everything else, negotiate and formulate a reorganization plan to pay people out, and at the end of the period, could be a year or ten years as in the case of Penn Central, you're going to have new bonds and new stock and cash distributed. If you buy the old claims cheaply enough, you're going to wind up owning that stock for nothing. In that ten year period, you can get much smarter than you can buying Eastman Kodak on the New York Stock Exchange because Eastman Kodak files quarterly and then annually. A bankrupt company files every month in the bankruptcy court. They file all sorts of things, copies of leases, and other things that a regular company would never disclose.

Tanous: *Is it safe to say that any company that files Chapter 11 gets your attention?*

Price: No. They hit our radar screen well before any filing. Most of the time, when a company files it's because of too much debt. But they also file because of lawsuits, environmental problems, and all sorts of claims against them. So, all those companies are on our radar screen all the time. We look at the securities of "OldCo," the company that is going to go, and there are senior, junior, and preferred securities. We want to buy the seniormost securities so we get protected because we're senior. As we learn more about the case, we'll go down, if the returns are there, to the more junior securities. We try to be one of the biggest investors in the company so we can control the case, but not so large that we are on the committee and prevented from trading. We try to bring the company out with the best and cleanest balance sheet it can get. *[The less debt a company has, and the more equity, the "cleaner" its balance sheet.]*

Tanous: *We're moving toward another aspect of what you do that is a bit peculiar: You not only take a large position in a company, but you become an activist. Your role as the catalyst in the Chase/Chemical merger is almost legendary. I'm curious to know why you would devote your time and energy, since you do run a mutual fund company after all, to getting so involved in a corporate decision.*

Price: The bankruptcy process has evolved today to where there is more competition and you have to get smarter about how you invest your money. Just buying the bonds isn't good enough. In the last five or ten years, we have come up with some pretty creative ways to put money in companies to create new securities.

Tanous: *Do you want to talk about them?*

Price: Yeah. Rights offerings and cash infusions are ways. We go to a company that needs money. Often it's as simple as reading a newspaper to know that if Morrison Knudson doesn't get $150 million by June 30th it has a problem. So you hop on a plane; you go out to Boise.

Tanous: *You did that?*

Price: Yeah. You say to the guys, we read in the paper you need some money. We'll put up the money. Of course, we do all our homework first. We do a lot of homework after, too. We ended up not putting up the money for Morrison Knudson because there was no deal to be done. It ended up being way overpriced in the market at that time and we knew it, but there's a way to say, we'll guarantee you your money. Offer the same right to your shareholders through a rights offering, and if none of them wants it, we'll take it all. But if they want it, you have to guarantee us a third of the deal. And we price it where we love the stock. Say the price is six. We might price it at four.

Tanous:*Okay. Let me understand this transaction. You go to the company. The stock is six. They're in trouble and they need $150 million real soon.*

Price: We say, if you get $150 million and the pressure is off, the stock is now at 6. (I'm not going to pay 6 for 6. It may have been worth 6 or 7 a year ago, based on our research. That was then. Now it's worth 2 because they did a lot of things wrong.) But we say we'll pay 4 bucks a share. So say I buy 40 million shares of stock at 4, for a total of $160 million. But first go offer that deal *[at 4.00/share]* to your shareholders. And if the shareholders don't buy it, I'll buy it. If they do buy it, you've got to guarantee me 30 or 40 million shares at 4. So I'm what's called a standby purchaser. We've done about seven or eight of those deals.

Tanous:*In fact, how could a company say no if they're in trouble?*

Price: What happens is if you get there too early, there's not enough pain so they don't want to give you a bargain. If you get there when things are changing or the bookkeeping is no good, maybe it's too uncertain to buy. This is one of the ways we have found to invest without competing in the marketplace.

Tanous:*Okay. So the shares go into your fund at 4.*

Price: Right. But the stock never trades down at 4. Maybe it trades at 4 1/2 or 5, but it goes right back to 6, because, one, the company now has the money; two, we're a large owner, people know that we're going to make sure the things are done right; three, the company now has a year or two of breathing room to go sell assets, pay down debt, and do all the right things.

Tanous:*At the same time your stock has to be perfectly tradable or it couldn't go into the mutual fund.*

Price: No. If we buy a big block like that, if it's large enough, sometimes we're restricted. Liquidity matters. *["Liquidity" refers to the ability to buy and sell readily. If a stockholder owns too much of the total stock outstanding, usually over 5%, trades by that stockholder must be disclosed to the SEC And in bankruptcy cases, there are more legal restrictions. In some circumstances, the buyer of a large block of stock may have to accept restrictions on selling all or part of the block for a period of time.]*

Tanous: *We started to talk about the Chase/Chemical deal.*

Price: You're talking about rattling cages. Our job isn't to rattle cages. Our job is to make money for our shareholders. We can't take our eye off that ball. We never file hostile 13Ds *[the form that must be filed with the SEC when a purchaser acquires 5% or more of a publicly held company]* to get in the press. We only get difficult if we're being screwed. And in the case of a Chase/Chemical and a lot of others, we're not hostile. We're not trying to get control or manage a bank. We're simply trying to get them to allocate their capital in a way that will bring the value out. We thought that structurally Chase was not set up right. The book value was $42 when we bought the stock at $35.

Tanous: *Chase's book value was $42 when you bought it at $35?*

Price: Yep. And it was earning, I don't know, 5 or 6 bucks. And there was another $30 per share of assets, like the credit card business, mortgage business, all sorts of stuff, which was not in the book value. And these guys were using their stock to make an acquisition. That was crazy! The stock is worth $65 and they're using their stock to buy something when the stock was trading at $35. So we had to put a stop to that.

Tanous: *How did you do that?*

Price: Well, we bought 6.8% of the stock. That's over 11 million shares. We came out with a 13D which said we think the stock is worth a lot more. And that started to focus people's attention on what the assets were. Our 13D started to get all the banking analysts to say, hey, let's take a harder look at Chase. Maybe something is going to change. Then what we did, which was very smart, and this was my analyst's idea, Ray Garea, was we went to the top ten holders of Chase stock and we sat down and had lunch with each one of them, and went through our analysis of what Chase was worth. We did that right away, in the month after we filed. We filed on April 6 and by

June we had seen six of the top ten holders. One wouldn't see us. We were the largest holder. We laid out our case and within a week or two, Tom Labrecque, Chase's chairman, was doing the same thing. So wherever he went, we had already been there. So what kind of impression is that going to make on him?

Now we didn't say we'd run a proxy fight. We didn't say we were going to do anything other than to say to the board you should focus on getting the shareholders $60 to $65, not on keeping the stock price down at $35.

Tanous:*So what did Chase do at that point?*

Price: They immediately took away the right of a shareholder to call a meeting, which alienated some of the holders. They hired all the top bank takeover lawyers to protect themselves because I was trying to do the same. None of the top lawyers would work for me because they were all working for him. So we hired another firm, and we started the process to get clearance to buy more stock and get seats on the board. The stock at this time was starting to move up, and analysts wrote up not only what the values were but how great it would be if Chase and another money center back would get together and profit from the overhead reductions. In August, they announced the deal with Chemical and the stock got into the low fifties. Today the stock is over $70 because, you know, Wall Street is giving these guys a lot of credit.

Tanous:*Whose idea was Chemical as a merger partner?*

Price: Shipley runs Chemical. He bought Manufacturers Hanover so they had been through a merger four years earlier. It had been successful. We owned two million shares of Chemical. So, now we're going to own 14 million shares of the combined entity. It's our first billion dollar position in one stock. When the merger closes, we'll have one billion dollars in that company.

Tanous:*Let me tell you something that people in my business get excited about. Your funds historically have relatively low standard deviations and yet your performance is, to use one word, exceptional. How do you achieve the returns with such low volatility or risk?*

Price: The goal is to make good returns with less risk. Risk is not the same as volatility. It's very hard to measure risk. It's very simple to measure return. You can't model it. You'd have to go into every company in our portfolio, which is 250, and come up with a discussion about what might happen to the stock if earnings were disappointing.

Well, in the case of Florida East Coast, nothing! Cause they're sitting on all the land, it's a debt-free railroad, and at some point it will get taken over. The stock is not going to go down.

So what we did way back when the fund was small, it was $5 million when I got here in 1975, is divide the portfolio into components. Cash is between 5% and 25% always. Well cash doesn't move with the market. Bankruptcies don't really move with the market, they move with the progress of the case. Arbitrage deals, announced tenders, mergers, buybacks, and liquidations, trade as a function of the deal's progress. So if you add up our cash, the bankruptcies and arbitrage and liquidation deals, and some other unusual securities we sometimes carry, it generally will be 40% of the fund. The other 60% will be made up of what I call POCS, Plain Old Common Stocks, and those are value stocks and most are trading if not below book, at least below intrinsic value, so they should go down less than the market. So, if 40% of your portfolio is not really related to the market, you can get a beta of .6 or a real low standard deviation.

We perform well because some of our stocks have these catalysts. You asked why do we spend our time going around to shake some cages? It's because a lot of times you can buy good values. But until there's a catalyst, the value is not going to get realized.

Tanous:*You've been quoted as saying that RJR is your favorite stock.*

Price: Reynolds is interesting now because there's a catalyst in the picture. Ben LeBow and Carl Icahn are trying to push them to do a spinoff.

Tanous:*Are you involved?*

Price: I'm not involved except as a shareholder. I think the stock's too cheap.

Tanous:*Let me tell you something interesting about an interview I did with John Ballen* [page 281]. *He runs the MFS Emerging Growth Fund. He's a growth guy with an amazing record. I asked him what made him happiest. He said this: the thing that makes me happiest is to know that Michael Price and I own the same stock. He said value and growth investors are looking for the same thing, growth at a reasonable price. If Michael owns the same stock I have, I know I've got a winner.*

Price:*[laughs]* There's probably very little overlap. What's the name of the fund?

Tanous:*MFS Emerging Growth. His turnover last year was very low. Only 20%.*

Price: Our turnover is in the mid 70s, but it is skewed by the arbitrage deals. A lot of our stocks get taken over.

Price:*[At this point Michael calls his assistant.]* Bring me a copy of MFS Emerging Growth portfolio.

Tanous:*I also noticed that one of your funds, Discovery, is essentially a global fund.*

Price: It's mostly Europe. A couple of things in the Far East. Nothing in Latin America.

Tanous:*How do you apply the Michael Price process to finding these European deals?*

Price: We started in Europe in 1984 when I noticed some of the guys buying closed end funds at big discounts. Remember I told you I followed certain smart people? I noticed some very smart guys in New York buying closed end funds at 25% to 30% discounts in London, and all those funds owned were U.S. oil and gas stocks. So we bought one, too. Then it went from closed ended to open ended and we made about 25%. I then hired a guy in London. We started to buy stocks over there, because from time to time the stocks were much cheaper than comparable companies in the U.S. After ten years, we've got three traders on our foreign desk hedging currencies and doing the trades, and four or five analysts working on foreign situations; one of them just moved to London. We've got $2.6 billion invested in Europe.

I think we're the largest foreign investor in Sweden. We are the largest non-Swedish holder of Swedish stocks. If you can buy a candy company here like Hershey's, Wrigley, those are the best, they're money machines. But they have P/E's around 25. Then we go over there and find Van Melle's - they make Mentos. We found that company and bought a big block of it at 8 or 9 times earnings and they're in the same business. When you "true up" the accounting, we're trying to buy the same kind of thing much cheaper. Because unless you're buying companies 25% to 30% cheaper, you don't want to take the money outside the United States.

Tanous:*What about the currency exchange risk?*

Price: We don't make currency bets. We hedge all the currency risks.

Tanous:*Why?*

Price: Because we're stock pickers. We don't know anything about currencies.

Tanous:*Let me tell you something I find interesting in interviewing investment Gurus. There's a guy I like a lot called Richard Driehaus* [page 53]. *He's a momentum investor. I find it very interesting that his approach is totally different from yours. His idea is buy high, sell higher. That's Richard. It's exactly the opposite of what you do, yet both of you do extraordinarily well.*

Price: Look. You're looking at this after a period of a long bull market, whether you measure it from 1990, from 87, from 81, or even 1975. I just think we're all so spoiled. I think you've got to go through a two or three year bear market to see how these guys do. We'll go down, but we'll go down a lot less than these other guys. That's my mission. My mission isn't to make money in bull markets. My mission is to preserve capital.

Tanous:*Has there been a time when you weren't successful in doing that?*

Price: The only time was in 1990 when three things came together all at once, and we were down 9% to 10% when the market was down 3%. We should have been flat. What happened was the Secretary of the Treasury, Nick Brady, and the Fed, stopped money center banks from lending for deals. In 1988, we had a huge year in mergers. 1989 started off that way. Then in the summer of '89, they stopped credit for mergers and hostile tender offers. We owned a few of those positions, since we always have 5% to 10% of the fund in deals. A lot of those stocks went down and a lot of our value stocks, which were subject to rumors of takeovers, came down. We also had a huge position in Time Life. Remember that $200 bid from Paramount that the board didn't take? The stock still hasn't gotten back to it. That stock went from $180 down to $80. 1990 was our only down year.

Tanous:*Michael, I notice you have an interesting set-up here. Can we visit your trading room and see how you are organized?*

Price: This is our only office. At one end we talk to our shareholders. At the far end we have accounting. In the middle we have the trading room, which is a trading desk surrounded by the analysts. I sit on the desk and I can talk to the traders, pick up lines and hear what's going on. The traders' job is to post the analyst with what is going on in the market, rumors they hear and all that. These posts have 800 lines capacity, so each trader has all these wires to all the other desks. If they are bond traders they have lines to bond desks and the stock traders to stock desks and the foreign traders to overseas. So I hear the analysts and traders talking; I'm talking to the analysts, pushing them; I'm talking to the traders asking what's going on; it's a discourse that everyone hears. We don't have meetings here. It's an open dialogue. By sitting here and listening all day, you get to tell people what to do and all that stuff. *[Price's assistant returns with the information on the MFS Emerging Growth Fund. Michael has a look at it and hands it back to her.]* There's very little overlap.

[We leave the conference room and proceed down the corridor to Michael Price's trading room. The large area features a long trading desk in the center of the room around which clusters of analysts and traders speak into phones and monitor information on dozens of screens all competing for attention. Behind and to the sides of the trading desk other analysts sit at desks poring over research reports and other information. A hum of activity hangs over the room and the intense concentration of the mostly young employees creates a tension that seems to permeate the place.]

Tanous: *Who are the people who work in here?*

Price: These are analysts here. Here we do domestic stocks and over there we have foreign securities analysts.

Tanous: *Where do you sit?*

Price: Here. *[Michael points to the chair at the center of the large trading desk. From this vantage point he has traders on his right and left as well as facing him across the desk. He points to one of the many screens at his desk].* These are the funds, priced in real time. As the market changes we see what's going on. *[He points to another screen.]* That's our trading system, which has all our orders in it. I can look up what we've done so far on that screen. First Call is right here. *[He points to yet another screen.]* Up here is our news edge. This is Edgar up here.

Tanous: *What's Edgar?*

Price: Edgar displays SEC filings as they come out. This is all the SEC filings as they are released by the SEC today. I have the computer programmed to take our names *[of the companies Price's funds own or are interested in]* and print them here. You see, Mutual's Edgar files? These are the companies programmed in where there's been a filing. You see this one? Revco filed a five page 14D-9 on their proposed merger with Rite-Aid. And here's the document. *[The screen* *displays the full image of the document filed with the SEC, in real time.]* In the old days we had to wait to get this in the mail.

Tanous:*In real time?*

Price: Yeah. And it's on both sides of the desk, so you can't miss it. Here's the Bloomberg *[a financial news service].*

We go over to the analysts' cluster of desks behind the trading desk.

Price: This is Tom Price.

Tanous:*Hi Tom. Any relation?***Tom Price:** No relation!

Price: These analysts have their own computer set-up. Notice the laptop attached to the computer. They go off to visit companies and take the laptop to update their spreadsheets.

Tanous:*Do ideas get generated here?*

Price: The first job of the analyst is to look at what we own. The second job is to work on developments, news, things we need to react to. The third is to come up with ideas.

[Traders are shouting news in the background from the desk.]

Price:*[Michael leads us back to the near side of the trading desk. He addresses one of the traders.]* Here's where we do the foreign securities. Today we have $2.6 billion in what, nine different currencies?

Trader: More, actually.

Price: And the foreign positions are hedged perfectly every day so currency movements don't affect our fund price. How many currencies?

Trader: We've got 15 currencies.

Price:. How could we have that many?

Trader: Some are very small. Let's see Norwegian krone, French franc, Italian lira, they're all there.

Tanous:*It costs money to do all that hedging.*

Price: No.

Tanous:*It doesn't cost money?*

Price: Less than 1% a year. So that's it. *[Michael turns to one of the traders.]* Tell her we're a buyer, you can be a buyer...

Tanous:*By most standards, you're a pretty young guy.*

Price: I'm 44.

Tanous:*Do you have any other goals or ambitions?*

Price: No.

Tanous:*This is it?*

Price: Yeah.

Tanous:*Michael, there's one last question I have to ask you. It's a* *question that's being asked a lot these days, although I think most people are asking the wrong question. We're talking, of course, about reports that you might sell your firm. My observation is, you're very successful, you obviously make a lot of money, in fact, you probably have more money than most people would ever need to do any reasonable thing anyone would want to do. Here's my question: if a very rich uncle died and left you $500 million dollars, what would you do with it?*

Price: Let me say, first of all, that no decisions have been made at all. But there are three reasons to maybe look at deals and, you know, it has nothing to do with money. It has to do with - and this is not BS - one, what complementary products and services could be offered to the Mutual Series shareholders? Are some of them people who might want to trade into bond funds? Well, we don't run a bond fund. Might some of them want a money market fund? We don't have a money market fund. How about those who want more exposure in the Far East? We have very little.

Two, do Mutual Series shareholders deserve to have, not an individual as the owner of the management company, but an institution that could weather any shocks to the financial system?

Three, the Fund Group has grown to $16 billion. It's big, and I think we're doing fine today with the group of people I have. They have evolved into an absolutely first rate team. It's not just the investment talent here, it's a cohesive group effort that is not typical Wall Street competitiveness in a cutthroat environment. We work in a teamwork way, as a team.

Tanous:*I know. I've observed that first hand.*

Price: People here, the 16 or 17 analysts, the dozen or so traders, work so well together. Our back office people work so well together. Taking it to the next level, if we grow and continue to earn our 15% return, the money will double to 30 billion in four or five years, and that's a pressure and a strain.

Tanous:*You'll need a bigger infrastructure to handle that.*

Price: I've invested in the last years a fair bit of money to upgrade all the systems in the house, the hardware, the software, the trading desk, and we've doubled the space of the office. So the infrastructure is not so much the issue. It's all the other things. So we'll see what happens. But the idea is not about money at all.

Tanous:*That's the part I couldn't understand, unless there was* *something out there that might cost a half billion or billion dollars that Michael Price had his eye on.*

Price: No.

Tanous:*So that's not it at all?*

Price: No sir.

I confess that few of the meetings I had during the course of writing this book stuck with me as long and as vividly as this one with Michael Price. Think about it. Here is a value investor who doesn't just go out and find cheap stocks. He sees an opportunity in a company that needs a lot of cash, so what does he do? Michael hops on a plane and goes out to make them an offer. I've got all the cash you want, he says. Just sell me some of your stock real cheap. My shareholders will like that. Or he sees that Chase Bank is making acquisitions with its stock when Michael thinks the stock is too cheap. What does Michael do? Just listen to him. "We had to put a stop to that." Scary, isn't it? Well, that depends on your perspective. If you had been one of his shareholders for the past 10 or 20 years, I'll venture to say that you are cheering him on. It takes guts and dedication to go to these lengths to maximize your investment returns. It's plenty of hard work.

Another point. Notice as you continue reading how often the concept of smart people comes up in the different interviews. Early on, Michael Price made it a point to identify the smartest investors and observe what they were doing? He mentions people he doesn't want to be on the other side of a trade with. Of course, that's what we're trying to do, too. We want to find those really smart people and see what they do with their investments, and how they do it. I think you'll agree that there are few better examples to follow than Michael Price.

Postscript: In late June, 1996, Franklin Resources Inc., the fifth largest mutual fund company and manager of the Franklin and Templeton funds, announced it was purchasing Heine Securities Corp. from Michael Price. Price would stay on for a minimum of 5 years. The acquisition, which involved cash and stock, included a cash payment of $550 million to Price, plus stock and incentives which could raise the ultimate purchase price to $800 million. Michael agreed to invest $150 million of his money in Mutual Series funds the first year. By joining Franklin Resources, Michael fulfilled the criteria he spoke about during our interview to broaden the products and services offered to his present shareholders.