MARKETPLACE

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ON THE RECORD | JOEL CONN, BIRMINGHAM MONEY MANAGER

'This has been a massive failure that has been years in the making that, unfortunately, will be felt for years to come.'

By **MICHAEL TOMBERLIN**
News staff writer

Money manager Joel Conn is not one to throw caution to the wind.

He thinks that approach is serving him well in the violent storm winds created by the worst financial crisis since the Great Depression.

Conn founded investment advisory firm Lakeshore Capital LLC in August 2004 with a long-term, conservative investment strategy.

"We buy companies that are safe, cheap, have high barriers to entry and are run by competent people," he said.

That strategy has worked. Year-to-date returns on his "Lakeshore Value" fund have sharply outperformed the overall market, and it recently earned a five-star rating from Morningstar.

To get into the fund, investors – such as wealthy families, foundations and corporations – put up a minimum of $100,000. The firm now has about $100 million in assets under management.

He talks about the financial storm that has engulfed Wall Street and threatens to move to Main Street. *(continued on next page)*

NEWS STAFF/JAKE DANIELS

JOEL CONN
Title: President of Lakeshore Capital LLC **Age:** 37 **Hometown**: Tallahassee, FL
Education: BA in Finance from Miami (Ohio) University.
Career: Managing Director, Montgomery Investment Management, Bethesda, MD; Account Executive, Koonce Securities; Principal, D. E. Frey & Co., Tallahassee, FL.
Family: Wife, Kim; sons, Ryan and Evan. **On his iPod:** Recorded financial books; REM and U2.
Last book read: "The Subprime Solution" by Robert Shiller.

Q. *Is the current financial crisis unlike anything we've seen before?*

A. There have been two examples in the past of where you had huge nation-wide home price decline. It happened in Sweden, and it happened in Mexico 25 or 30 years ago. Both times, it took years for the economies to get going.

The credit bust in Japan was the lost decade and while not exact, there are some similarities.

Big events like we've had have happened to me twice before where we had enormous opportunities. The tech-bubble burst in the late 1990s created enormous opportunities. To a lesser extent, we saw opportunities after 9/11.

The private market is essentially tapped out. You've seen two examples of this in the past week; Lehman Brothers filing Chapter 11, unable to raise capital; and AIG's rescue by the Federal Reserve for $85 billion. And a few weeks ago, you saw Fannie Mae and Freddie Mac bailed out by the Treasury Department.

This has been a massive failure that has been years in the making that, unfortunately, will be felt for years to come.

Q. *But the government can't bail out everybody, can it?*

A. No, and we absolutely shouldn't. It's ultimately a judgment call by the government: Would they rather pay for some of it now versus let the private market completely fail – let these companies fail – and would that ultimately cost the taxpayer more down the line.

That's the calculus that the government has to make, and from my perspective, they really don't have a choice. They have to step up and do this in a massive way, which is really unprecedented.

It calms the system and gives you time.

Q. *Is what we're talking about more like the tech bubble and Sept. 11, 2001, or is it more like the stock market crash of 1929 or what we saw in Japan in the 1990s?*

A. I think it depends entirely on what the government's response is from this point on. I think there are three things that the public markets, the U.S. government, and the taxpayer are going to have to do.

First of all, the government and central banks around the world are going to have to re-liquefy the system, and that is happening to a great extent. Essentially, the plumbing system is clogged in the financial world, and it needs to be cleared out.

The second thing is the de-leveraging needs to stop. The government can do that by directly purchasing top-quality, mortgage-backed securities.

The third and final thing they can do immediately is they can inject capital into some key financial institutions for safety and soundness reasons.

Q. *Assuming that works, how do you prevent this from happening again?*

A. Once stabilized, we need to completely redo our financial regulatory system.

From my perspective, what has happened in the credit markets is largely a failure of regulation.

Q. *Can they get there?*

A. The calendar is working against us to some extent. The government officials in charge – the Treasury secretary, the head of the FDIC and others – all turn over in January with the election. So, we're going to get a whole new set of people. I don't think that is particularly helpful. We need some continuity.

We're in such uncharted territory here in terms of how the financial models work for the underwriting of mortgages, of auto loans, of everything. There are several million people who are under water on their home. How those people react and what they do in this situation is going to be critical.

Q. *How has your company weathered this downturn?*

A. For Lakeshore Capital, for many years our largest investments have been in energy, utilities, timber and land companies, and a few financial companies that we believe will benefit substantially from the current turmoil. We have no plans to alter that strategy, and we have no concerns about the strength of our portfolio.

To explain to you how risk averse we are – we bought our first new stock in almost a year earlier this week. We wait for the market to come to us. Preservation of principle during these times is critical so that you have more money that you can put to work when you have opportunities that present themselves. We certainly believe we're starting to see that now.

Q. *What is the biggest concern for the average Joe whose only investments are retirement savings?*

A. His bank and investment deposits are going to be covered by FDIC and SPIC up to the notional amounts, so there shouldn't be any concern there. (The Securities Investor Protection Corp. protects investors when brokerage firms fail.)

What is of concern is the lack of available credit for the growth of economy. Terms will be much more difficult on loans, and, certainly, rates will be higher. You're seeing that across the economy now. The credit crunch is the real negative part of the crisis.

So far, this has been really a financial problem for Wall Street. It's likely going to become a real economic problem for the country and maybe even for the world in that there is just less availability of credit for some time.

Q. *Are we close to the end of the crisis?*

A. I don't know, and I don't think anybody knows. We don't forecast the market, and I don't run my portfolio based on where the market is at any period of time.

Q. *Will it get worse before it gets better?*

A. Probably.