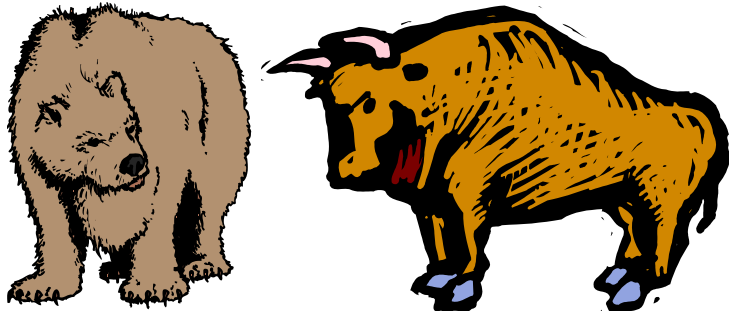


OPINIONS



PROFILES IN INVESTING

It's All Within Your Grasp

By Eli Rabinowich

Welcome to "Profiles in Investing", brought to you by *The Bottom Line* and **The Heilbrunn Center for Graham & Dodd Investing**. Every week we will profile a leading investor, give you their story and get an inside look into their investment philosophies.

Up first, Paul Sonkin.

Vital Statistics

- Managing Member and Portfolio Manager Hummingbird Management, LLC – 1999 – present
- Portfolio Manager, First Manhattan – 1999
- Portfolio Manager Royce & Associates – 1995-1998
- Graduated Columbia Business School – 1995
- Co-author *Value Investing*
- Adjunct Professor, Columbia Business School

The Story

Let's face it, most of us aren't going to be the next Warren Buffet or Mario Gabelli. But in the next few years you can become Paul Sonkin.

Just a few short years ago, Paul Sonkin was one of us, sitting in Uris Hall and finding his investment style. Now he manages The Hummingbird Value Fund and The Hummingbird Microcap Value Fund. The Hummingbird funds are value investing funds which focus on small and microcap companies. In fact, according to Sonkin, "the term large cap value investing is an oxymoron." Combined, the funds have returned 20% in 2000, 28% in 2001, and 2.5% in 2002, easily beating out any major index.

Sonkin got his break as a value investor while at Columbia Business School. As part of Bruce Greenwald's Value Investing class, he wrote a paper on Park Lexington,

a small Pink Sheet company with under 150 investors. While researching the company, he telephoned one of the company's major investors



Prof. Paul Sonkin

to ask him detailed questions about the company's operations. The investor did not answer any of Paul's questions - not because of disclosure issues but because he simply did not know the answers.

The investor introduced Sonkin to Park Lexington's management. In analyzing the company, Sonkin deemed Park Lexington to be severely undervalued. Sonkin's paper was subsequently presented to the company's board of directors and six months later the company was taken private. Sonkin was still a student, but already he was having a major impact on the investing world.

A few years after graduating from Columbia Business School, Professor Greenwald introduced Sonkin to Mario Gabelli. Gabelli suggested that Sonkin start a value fund and offered to be his first investor. During the post-meeting discussion Professor Greenwald, Michael Biema and Judd Kahn (all co-authors of *Value Investing*) expressed an interest in co-investing in the fund, and thus the Hummingbird Fund was born.

Sonkin's Top Tips

Sonkin had some interview

advice for students. Usually when students make stock recommendations they all make the same mistake - they pick cheap stocks that are always at the same price and have no clear catalyst to shake them. When pitching a stock in an interview Sonkin advises students to focus on five key points.

1. Identify the stock's potential upside - how much it can appreciate.
2. Definitively evaluate its intrinsic value by calculating the company's asset value or earning power.
3. Quantify the certainty of the outcome - i.e. how likely is it that the stock will appreciate.
4. Articulate the time horizon.
5. Delineate the downside risk.

Doing these well separates the "Well, that's interesting" from "Charles, buy me 5000 shares."

According to Sonkin, "Being a value investor requires a tremendous amount of conviction and discipline." Because the market can take a long time to recognize its error, a value investor needs to maintain a long-term horizon. Typically, Sonkin views a drop in stock price as an opportunity to buy more shares. He advises students to "Close your eyes and back up the truck."

One stock Sonkin particularly likes is Colorado Medical (CMED). CMED is a classic good business / bad business company. The 'bad business' is a contract manufacturing business that carries a \$17 million liability. The 'good business' is the growing medical disposable division, which carries little debt and throws off \$3

Enough Already!

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were replacing any one of my classmates with someone who could not contribute insightful thoughts in class as well but was "more diverse," that anyone would quickly find my boot up their ass. I wish that everyone who believed in this "collective good" argument had the pleasure of sitting down with and explaining to those more qualified yet unaccepted candidates how their sacrifice is necessary for the "collective good."

There is one last question that I would like to propose before resting on this issue. We all trumpet diversity from the rooftops. But what *traits* make diversity so great? Is it the color of someone's skin? Or is it the combination of their upbringing, lifestyle, customs, religions, preferences, tastes, and views? The current argument that diversity is shown and measured by the color of one's skin relies on the assumption that different skin colors come with different traits, values, lifestyles, etc. This is what is known as stereotyping. If it is the wide range of different qualities that we seek to embrace through diversity, should we not specifically seek out these qualities instead of relying on stereotypes to do it for us? Would not a classroom comprised of Caucasians who practice Christianity, Judaism, Buddhism, Islam and others be more diverse than a class-

room of all Christians with different skin color, all else being equal? Without stereotyping, the only argument that supports race-based diversity is the "racial tolerance" one, where students should learn in school to get along with other races. The only problem with this idea is that it spits in the face of two other important influences on a child's development: 1) being a member of society, and 2) parents.

Although I am sure that this will not be the end of the Affirmative Action arguments, I sure hope it is. I leave it up to the reader to decide which school they wish to belong to: equal results or equal opportunities. I hope that I have been clear enough to prevent further correspondence with my opponents on this issue. Instead of continuing to write about how wrong I am and how great affirmative action is, I challenge those who want to respond to instead focus on the root problem, which is the poor quality of the public school system, especially in the inner cities. This society has plenty of people who enjoy pointing out problems, but much fewer people who pose solutions. I challenge everyone who desires to respond to take the path less traveled and discuss how to fix the problems...and sorry, but saying "it works great the way it is" adds no value.

Have a great Spring Break everyone and be safe.

Grade Disclosure

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grams." However, since Career Services views both groups equally, a new grade non-disclosure policy would affect both groups of students. With this in mind, the GBA agreed to include the approximately 600 students in the EMBA

program as part of the eligible voting population.

After passing the resolution, the GBA set up an Education and Encouragement Committee that will help students learn about the grade disclosure issue in more detail and encourage students to get out and vote.

GOT JOKES?

WRITE FOR OUR APRIL

FOOL'S DAY ISSUE

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Columbia Business School Wins Cup

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with equally impressive times. They were favored by all to unseat Tuck B, but alas, were about a ½ second short in the semis.

When Columbia first stepped up to the plate, the crowd wasn't convinced we could actually pull off an ultimate win. For round one, **John Hamilton '03** stepped up for an absent B.P. as Columbia manhandled Stern – we've haven't seen such a NYC ass-kicking since the Yankees won the last World Series. After our 22-second finish, muted murmurs of awe began spreading – apparently Columbia had, as Captain Cyrus promised, “brought it.”

Round 2: Unseating of the Titans

Tuck clearly thought they would devastate the Columbia Crew. Knowing this was just plain false, **Brandon Peele** began telling all within range, “This is what we do, We do this,” explaining that yes, New Yorkers do drink, and yes, Columbia would shortly exhibit *total domination* over Tuck, Wharton, and oh yeah, Tuck's other team too.

Columbia manhandled Tuck A in such a furious fashion that before they even knew what hit them, they were blown out of the quarterfinal by the Dream Team with a comfortable margin of 1½ cups. Tuck's referees were caught off guard, but would prove to learn from their lack of attention.

Round 3: Unquestionable Preeminence

Columbia powered through Minnesota and Wharton so convincingly that the trash talking replaced normal conversation. **Mike McKinnon** approached the team and said “You're finished,” before they

even started. The energy in the room was like a nuclear reaction gone wrong. Sides were formed – the Tuckies on one side versus all others who favored CBS's under-dog chuggers on the other. “Harlem” versus “Hill Country.” Chuggers became celebrities faster than a performer on American Idol: “Who is that guy in the vest? He inhales those beers,” according to a female fan of **Cyrus Massoumi**. “I thought you were awesome before the trip, but I'm in love with you now,” according to a male fan of one of Columbia's own gal chuggers.

There really is nothing better than being a fan of a team that dominates so indisputably, especially when that team arrives as the underdog. The unlikely force of Columbia won over the room, with chants of “Co-lum-bia” shaking the foundation of the Coolidge Hotel. The tension for the finals hung thick in the air, like a heavyweight championship boxing night, but Tuck had a plan.

Final Round: Champion Form

Cyrus began the race with his BlitzChug™, but as **Fiona Mackenzie's** perfectly timed photo would show, the referee was then holding down the drinking hands of the rest of the Columbia team. By the time Tuck finished, a mere 4 out of 6 blatant referee fouls was enough for the Tuck B team to beat us by a cup. In the past, Tuck has been rumored to put Alka Seltzer in the cups of rival school's top drinkers in mid-race.

Immediately, chaos erupted! Columbia fans stormed the drinking arena in what could only be described as a rumble

without fist fighting. Truth be told, it was not Columbia's finest hour, despite the justifiable emotion. Who storms the court at a drinking competition? It was only a few poorly chosen words from an all out brawl.

Power to the People – Redemption

Within seconds the chant of “B*LLSHIT!” began from every school but Tuck, and dwarfed, in decibel level, the earlier “co-lum-bia” chant. It was clear that the crowd knew the real champion, and the chant rolled over to “One More Time!” Tuck B conceded and a re-match was staged.

Kyle Hauptman knew what everyone else knew, that the Dream Team was unbeatable. Looking for side action, Kyle offered 2-to-1 odds to any takers at the top of his lungs. NO TAKERS.

This time, it wasn't even close. Cyrus Copperfielded his, Tania launched through hers, Wu continued to amaze the spellbound crowd who thought we'd flown in China's Yao Ming of beer chugging, Brandon added insult to his Pimpercrombie and Bitch T-Shirt riffling through 16 oz. in a gulp and a half, Strini showed pro form on this the teams 6th chug of the night, and Jamie closed the Kneissl Cup Championship Boat Race out in style, a cup and ¾ ahead of Tuck B, by flinging his empty cup into the jubilant crowd. I have never seen so much energy from just a few hundred people. You'd have sworn we'd won the Rose Bowl. One thing was for sure, this victory is monumental!

Congratulations Dream Team, you've made us all proud and set the standard for generations to come.

Prof. Michael Feiner

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ence in senior management is outdated. There was a scandal about a year ago where Sony was taken to court and fined for admitting that their Sony Movies subsidiary published fake movie reviews about one of their movies. They made up critics' names and claimed that the movie was well received. Now, the Chairman and CEO of Sony didn't do that. The VP of Marketing did it. This is an example of people practicing unethical leadership at a middle level of an organization. When I talk about a leader I am talking about someone who perhaps is managing only one or two people. High-performance leaders have a mindset of “owning outcomes,” that is, if they see something they don't like they feel that they are responsible, that they have the right, almost that it is within their destiny, to be able to fix it. They are the agents of change. That is what leadership is all about. It is very easy to say that the food stinks in the deli. If that is the case, a high-potential leader within the student body will rally

support and put pressure on the administration to get better food. It is easy to say that “my boss is a jerk, the rules are stupid, my boss' agenda isn't appropriate, and our priorities are misguided;” you hear that all the time in organizations. Leaders figure out what they need to do to fix that or bring it to the attention of the people who can fix that. At whatever level you are, exercising influence and impact to change things and to address problems is what leadership is all about.

Have you enjoyed your year off from teaching?

I have, although writing this book has been a demanding and challenging process. There is no way I could have written this book and taught simultaneously. Teaching, for me, is a very consuming kind of an activity. I put a lot effort into my class. So, I just don't think I would have had sufficient share of mind to devote to my students. But my final manuscript will be delivered by June 1—my due date—and I'm already looking forward to teaching two sections of “High-Performance Leadership” in the fall.

Profiles in Investing

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million in operating profit. The catalyst for the stock price's appreciation will be the completed sale of the contract manufacturing division and continued growth of the medical disposable division.

Sonkin's investment ideas are almost never generated by using a stock screen. In general, stock screens repeat the same names over and over again. These stocks will never appreciate because there is something fundamentally wrong with the

company. Typically, Sonkin gleans investment ideas from the new-lows list. In fact, 95% of the stocks in his portfolio come from the new-lows list.

Recently, Sonkin gave a grant to the **Heilbrunn Center** that was used to fund the Sonkin prize. The inaugural Sonkin Prize will be given this year to the best stock idea in the Value Investing class. And to think, it all started with a good Value Investing paper.

Please email comments and suggestion to ERabinowich04@gsb.columbia.edu

The Bottom Line wishes you
a fun, relaxing, and safe
Spring Break.
Bring back lots of pictures!

