

# Married to the market

*Momentum trader Richard Driehaus has become America's No. 1 equity manager through a monkish devotion to an investment discipline that relies on intuition, conviction and erudition.*

BY ALYSSA A. LAPPEN

**T**hough it was the height of the '60s bull market, Richard Driehaus wasn't known for arriving promptly for his job as an institutional analyst at A.G. Becker in Chicago. The lanky, wiry-haired Driehaus would often stroll in at 10:30 a.m., coffee in hand. This seeming insouciance infuriated colleagues, who were at their desks well before the markets opened.

"Then we found out," says Driehaus's boss at Becker, Thomas McCausland (now vice chairman of Chicago Corp.), "that while everyone else left at 5:00 p.m., Driehaus stayed late and then worked at home until 3:30 a.m. He'd leave his apartment at 1:00 a.m. to go next door to the Ambassador Hotel for the next day's *Wall Street Journal* and then read it cover to cover before going to sleep."

Comments Driehaus matter-of-factly: "There were times I maintained my battle station at the office until well after midnight. I was there to get the job done, and I still do that today when it's necessary."

That kind of dedication to, indeed love of, the markets has made Richard Driehaus the top-ranked U.S. equity manager for the past five years as well as the past ten, according to Nelson Publications' *America's Best Money Managers*. His Driehaus Capital Management is the premier performer of a trendy, controversial technique called momentum investing (see box, page 50). To many in the investment business, momentum buyers like Driehaus, ready as they are to pay outrageous multiples for stocks that have already doubled and tripled, look like crazy hang gliders running toward the edge of a cliff. But Driehaus, now 51, has been making so-called



*Driehaus  
amid his  
tools of  
the trade*

momentum decisions for 23 years, and he's always managed to sail handily past market downdrafts.

### Supergrowth

Momentum investing, by whatever name, still reduces to pursuing growth, Driehaus reckons. What he is after are sectors and stocks whose prices are rocketing up because the earnings of the relevant companies are doing the same. For Driehaus, raised on Chicago's South Side and schooled by Jesuits at St. Ignatius College Prep before going on to DePaul University, the correct execution of this brand of momentum play is almost a religion — a devotion to a rigorous growth discipline tempered by moments of intuitive grace (see box, page 53).

According to Nelson's, Driehaus Capital Management ranks as the top U.S. equity manager — no matter what the

style. The firm's audited annual average returns (net of fees) are an eye-opening 40.9 percent for the past five years, 26.9 percent for the past ten. That puts Driehaus in a class with the likes of Peter Lynch among stock pickers. He even stacks up favorably alongside such vaunted hedge fund managers as George Soros, Michael Steinhardt and Julian Robertson. Moreover, Driehaus, unlike those worthies, doesn't leverage or go short or dabble in currencies or interest rate futures.

Since Driehaus seeks out super-earnings growth in companies, with no preset goal on the upside, he concentrates on small-capitalization stocks, and in that genre he has far outstripped his rivals. His 13-year composite return is a full 2,650 percentage points ahead of the best-performing small-cap mutual fund over the same period.

Nor does Driehaus's long-term performance record rest solely on his early

years in the business, when his asset base — now two thirds of \$1 billion — was compact and maneuverable. In 1991 he was up an amazing 115 percent. And despite ending '92 with a more modest (though hardly embarrassing) 21 percent gain, he was up 32 percent through the third quarter of this year. Driehaus's '93 pace outruns the Russell 2000 by more than 17 percentage points and the Standard & Poor's 500 index by more than 25. The composite of his mid-cap individual accounts and commingled fund, launched in April 1986, is up a sizzling 53 percent this year through September.

Despite his record, Driehaus is surprisingly little known outside the circle of performance-oriented managers of private wealth. He did sit for a sketch in Jack Schwager's *The New Market Wizards*, but he shuns the media. Agreeing to extensive interviews with *Institutional Investor* was a rarity for him.

## HIGH-PERFORMANCE CHARITY

**"T**o quote Andrew Carnegie," says Richard Driehaus, "it's much easier to make money than to give it away effectively." Nonprofit organizations, the money manager points out, are "not necessarily good businesses."

Driehaus, however, is determined to be as savvy a philanthropist as he is an investor. He picks charitable causes as systematically as he does stocks, and for much the same reason. "You want to get a good return," he explains. Driehaus, in other words, looks for growth potential in his good deeds.

Each year his Richard H. Driehaus Foundation donates \$1 million, which is in addition to the money manager's personal largesse. The foundation, set up in 1985 with \$1 million worth of TCBY stock and later endowed by Driehaus with a further \$1.7 million bequest, today has an endowment of about \$30 million, thanks to his skill at investing its money.

For years Driehaus managed the foundation with his two sisters. But to increase his charitable leverage and



*Fischer: A charity picker who champions risk*

generate unconventional ideas for giving, he last year hired Sunny Fischer, a co-founder of the Chicago Foundation of Women and an ex-director of the Sophia Fund, to be the foundation's executive director. Her mandate is to find charitable "strategic investments" that will have a real impact on a community.

The community that Driehaus would most like to have an impact on is his hometown of Chicago. He regularly funds the local National Public Radio station and has recently funneled large personal challenge grants through the foundation to Old St. Patrick's, a Chicago cathedral that does a lot of social services work, and to DePaul University, his alma mater. The school is using the funds to start the Richard H. Driehaus International Center for studying international markets and business.

His foundation has also funded several efforts to implement reforms in public schools; the Chicago Arts Partnership for Education, which seeks to integrate an understanding of culture into

Certainly he doesn't need publicity. He has garnered as much in the way of small-cap assets as he wants through word of mouth and consultants (although he is still taking money in his mid-cap and international portfolios). And along with collecting money management fees, he profits from his brokerage affiliate, Driehaus Securities. (He insists that the firm handle all trades for his clients' accounts; some complain, but none have taken their money elsewhere.)

Driehaus's small-cap business, with about \$470 million under management, recently closed to new prospects. And Driehaus has warned the large investors that as future appreciation puffs up the assets, he may just ask them to take money out, à la Paul Tudor Jones. In small-cap he runs more than 40 individual accounts and two commingled pools; individually managed accounts are available only to individuals and institutions

with \$3 million or more. Driehaus says he will also limit the size of his mid-cap and international funds (now about \$100 million and \$25 million, respectively) if they grow too unwieldy for him to remain flexible.

Driehaus can sound brash. "Our primary objective," he often tells investors, "is to be your best-performing equity manager." Few managers would brave such a bald statement. Yet Driehaus is hardly blind to market hazards. In contrast to many of his investments, his perspective is decidedly long-term.

Unlike most equity managers today, he lived through the 1973-74 bear market. In the slump of '84, he was off 15.7 percent — then more than made up for it with a 43 percent surge in 1985. Although no market timer, Driehaus sensed what was coming before the October '87 collapse. Unfortunately, the illiquidity of many of his small-cap stocks was such that he was able to jettison only 13 percent of his portfolio in the week before the crash.

Remarkably, it hardly mattered. Driehaus had done so well earlier in that infamous year that he closed '87 down only 3 percent. "He got hit like everyone else," says Richard Winter, whose Chicago furniture company has invested with Driehaus since the mid-'80s. "But he came back like a rocket." Driehaus Capital Management has not suffered a down year since '87.

### Downright scarce

To be sure, Driehaus achieves his results with risk-defying methods the sheer daring of which would appall many traditional money managers — and most of their clients. Consider this hair-raiser: His current small-cap portfolio is made up of some 46 stocks whose average price-earnings multiple hovers at 38.

Few are pure story stocks: Driehaus wants real earnings and news, not fables of glories to be.

At times, though, he has been confident enough of a company's future to buy in well before sizable earnings materialize. Two such early calls were wireless-phone-system-maker Qualcomm and school manager Education Alternatives, which have done phenomenally well.

Other Driehaus small-cap picks, such as PetsMart, Starbucks, Integrated Health Services and Perspective Biosystems, either have just rolled off the new-issues presses or possess extraordinary balance-sheet leverage, or both. Happily for Driehaus, information on some of the stocks is downright scarce — the last thing he needs is a gaggle of Wall Street analysts trampling his discoveries. He generally doesn't mind height in a multiple or debt in a balance sheet, so long as sales and earnings growth look sure to accelerate.

Not every stock Driehaus buys has a stratospheric P/E. He's an opportunist, who sometimes picks up growth stocks at value prices. A handful of recent plays, such as North American Mortgage and Casino Magic, actually look quite reasonable. The former was trading in mid-October at about 13 times trailing earnings, and the latter at 16.

Driehaus has made money before on such value scenarios. Sybase and DCS Communications turned out to be packed with powerful growth momentum that other investors hadn't cottoned on to yet. "No other small-cap manager had great years in both 1988 and 1989," notes consultant William Lowery of Performance Analytics. "In 1988 to be great you had to be a value player, and in 1989 you had to be a growth player. And his style encompasses both." That's one reason Lowery's most successful manager is Driehaus Capital Management.

Yet Driehaus brings a uniquely long-term view to straight value plays. "Probably between the years 500 and 1400, it would have been a good chance to be a value investor," he says. "But with the advent of the Gutenberg press, which would have provided a lot of information to those outside the aristocratic, military and church triumvirate, economic activity really started to kick forward." In other words, growth has been king for practically six centuries now, and value plays are incidental.

Nowadays timing counts, too, though *not* market timing. "If you're fortunate to be out of the market when it's going down," Driehaus is fond of saying, "you don't get in when it's going back up." He has calculated that those who missed the market's 40 best

the local school curriculum; Chicago environmental groups, such as Friends of the Park, which combines advocacy with volunteer work; and various other cultural organizations, including Chicago's Goodman and Roadworks theater companies.

But Driehaus is now looking beyond the established do-gooders. He contends that in charity as in business, fresh ideas are crucial. "The mind's like a parachute," he often says. "It's only good when it's open."

He has gladly approved a recommendation by Fischer, an avowed feminist, that his foundation make grants to such Chicago-based groups as the Women's Self-Employment Project and the Women's Business Development Center, as well as to homeless and battered-women's shelters. "We need to help women create a strong family," says Fischer, adding that far more seasoned grant makers than Driehaus often don't understand as he does that it's important to take risks in successful giving.

Other recent Driehaus Foundation gifts have gone to Opportunity International, a Chicago organization that invests in and makes loans to small businesses in developing countries and to Loyola University in Los Angeles, which is creating a business training program on Russia's Sakhalin Island.

Driehaus, says Fischer, "is really very caring. He has never forgotten where he comes from and what it's like not to have these kinds of resources. Some of this comes out of his Catholic training. I also think he was born with an empathy gene." What makes Driehaus's giving so noteworthy, however, is that it comes from the heart and also the mind.

# MOMENTUM SCHMOMENTUM

**A** spate of articles about momentum investors would have us believe that a dangerous new breed of stock pickers has ridden into town and is riling up market sectors, from telecommunications to specialty retailing.

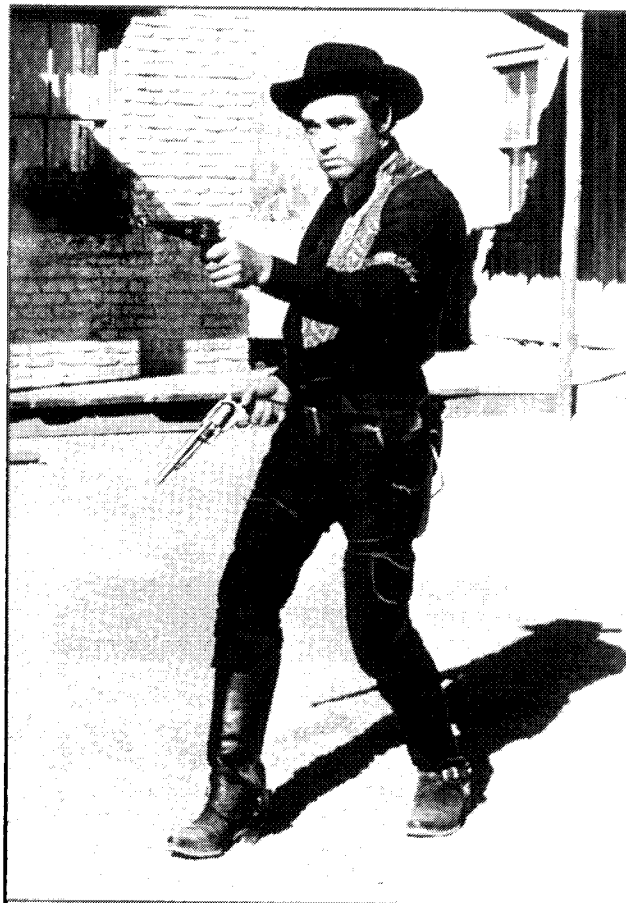
Alarmists claim that the new-fangled momentum market system has attracted footloose investors who jump on rising stocks simply because they are rising, and then jump off just as quickly when the price momentum wanes. This messes up the value system for the decent, God-fearing folk who invest on fundamentals, they moan.

Earlier this year *The Wall Street Journal*, for one, described Arthur Nicholas, of San Diego's Nicholas Applegate, as a "hair trigger" manager, "one of the top guns of the quick-draw money management style known as 'momentum investing.'" It was enough to make Nicholas reach for his pistols. He hates being called a gunslinger because his firm, though it does rely heavily on a stock's relative strength, won't buy if the underlying fundamentals aren't there as well. "Momentum investing connotes a one-dimensional approach," gripes Nicholas. "Our style does lead us to companies that are growing, but there is so much more that we do. If you take only one component of what we use, you're going to be in trouble."

It is hard to see what all the commotion is about. Technicians who buy and sell on breakout and breakdown signals from their charts, barely knowing what business companies are in, have been around practically as long as the stock market itself. So have all sorts of short-term traders. Many managers — perhaps most — who proclaim themselves to be dyed-in-the-wool fundamentalists will nevertheless steal a look at charts and relative-strength figures to get a feel for supply and demand in the marketplace before buying and selling. And what growth manager wouldn't be interested in earnings momentum? About all that has changed of late is the effort to anticipate earnings surprises.

Richard Driehaus's style, developed during the late '50s and early '60s, could hardly be defined as nouveau. If his research convinces him that earnings momentum is strong enough, Driehaus will buy even if the price seems high. But everything, as Einstein said, is relative.

Take Copley Pharmaceuticals, whose shares recently carried a lofty price-earnings ratio of 53. Driehaus doesn't mind, because the company's sales have grown



Movie Still Archives

*Gunslingers? It's the press that's shooting from the hip*

at year-to-year rates of more than 100 percent in recent months, and its earnings at rates of 150 percent. Besides, he bought the stock at 15, and it's now at 46, which fits nicely with Driehaus's precept of letting the winners run — a far cry from in-and-out trading.

So Driehaus may look like a drifter just hopping a freight train rambling by, but he remains aboard only as long as the train stays on track. And what's wrong with a sell discipline that says "Jump!" when a locomotive derails? That is what portfolio managers are supposed to do. Maybe the business press should search for another bogeyman to blame for market volatility.

days during the '80s would have underperformed the S&P index by about 13.4 percent a year. Thus Driehaus tends to be fully invested at all times.

Yet he's not a buy-and-hold investor. Driehaus has spent millions in the past decade on state-of-the-art computer systems that pool information from 12 database services, including Zacks Investment Research, Fame and First Call. Coupled with his proprietary software, the gadgetry lets him react instant-

ly to changes in individual stocks and sectors. The systems, programmed by three in-house computer scientists, bring Driehaus key earnings information that he can screen according to his own ideas, in several ways on a single, easy-to-read (for him) page.

This is one way he scopes out early growth opportunities. More important, the process helps him to spot news or, through charts, technical indicators that point up which stocks or sectors are buys

and which are beginning to "break down." Driehaus won't nab a stock whose earnings don't sport significant sustainable growth or whose price isn't rising. He prefers shares whose relative strength is improving.

Driehaus does tend to hop from sector to sector. He has made large profits in everything from computers to restaurants to specialty retailers to health care. But he is nothing if not bottom-up: He has a keen stock picker's



sense of which companies are the best in a given industry. In 1990, when most other growth investors were down, Driehaus had a modest 9 percent gain, thanks in large measure to health stocks like U.S. Surgical Corp. and Amgen. They also set him up for the phenomenal run-up of 1991.

At the moment he's hot on new communications ideas, like Newbridge Networks Corp., a purveyor of digital communications tools. But his portfolio also contains software, gaming, drug, biotechnology, restaurant, oil and gas and specialty-retailing stocks.

Driehaus makes plenty of mistakes. A drug stock called Vestar, which he bought in 1992 at an average cost of \$16.81, failed to get the expected Federal Drug Administration approval for its new cancer drug, Daunoxome. The stock had fallen all the way back to 9 by October. But never mind. Driehaus sold it at an average price of \$11.43 as soon as the bad news broke. He seems sincerely hard-pressed when trying to recall other such errors because, as he puts it, "we tend to get rid of them so fast." His turnover runs 200 percent or more a year.

Perhaps not so surprisingly for someone educated by Jesuits, Driehaus brings strict intellectual discipline to investing. While myriad investors go searching for small companies with exploding earnings and then hold on to them through thick and thin, Driehaus shows no such sentimentality. He unceremoniously dumps his mistakes the moment the fundamentals deteriorate, the price pattern breaks down — or he finds a stock he likes better.

Nonetheless, he doesn't play fickle with his favorites; he rides them all the way up. Most of his money in fact has come from huge winners, such as Home Shopping Network, Blockbuster Entertainment Corp., TCBY Enterprises and U.S. Surgical. Driehaus bought Surgical at an average cost of \$12.50 per share in 1990 and rode it up to 132. He sold it last year when its "technical indicators" began to show weakness, getting out at an average price of \$82.50. About the same time, Wall Street houses were just beginning to recommend the stock, which proceeded to embark on a long slide back down to a recent 21.

Another Driehaus knack is for finding

## THE DRIEHAUS CATECHISM

**C**ertain key concepts (not to be construed as rigid commandments) guide Richard Driehaus's eclectic momentum style:

- **Growth is good.**
- **Buy high, sell higher.**
- **Cut your losses and let the winners run.**
- **Risk and volatility are an investor's friends.**
- **Be open to new ideas.**
- **In the short run the market is inefficient.**
- **A trading strategy does not equal an investment strategy.**
- **Trends last longer than you would think.**
- **Psychology takes over at market extremes.**
- **Virtually no stock is a perpetual hold.**

fresh ideas. These don't often spring full-blown from his computer. The kind of dynamic growth stocks he looks for are either too new or too small to be in the regular data banks. Instead, Driehaus gets about a third of his ideas from his voracious reading of more than 100 magazines, journals and newsletters, another third from daily news sources like Reuters and the Dow Jones ticker and the final third from his four staff analysts. Occasionally he gets ideas over the transom from networking buddies. Seldom does Driehaus get ideas from outside analysts or brokers, and he uses Wall Street research only as a backup to his own. (His analysts routinely talk to financial and operating officers at companies whose shares Driehaus likes, though he and his staff visit companies infrequently.)

Despite his studied approach to investing, Driehaus will often buy a stock based on gut instinct. In 1984 he bought TCBY as a new issue at 7 — and shortly afterward watched it drop to 4<sup>1</sup>/<sub>4</sub>. What happened to sell discipline? Driehaus had sampled and enjoyed the company's frozen yogurt. He also liked TCBY's

strong earnings growth. His taste buds proved to be discriminating stock pickers. TCBY in time rose to 20 times its IPO price. (It was the yogurt maker's stock that Driehaus used to endow his Richard H. Driehaus Foundation in 1984; see box, page 48.)

Right now Driehaus regards Eagle Hardware & Garden as another good hunch. The stock doubled after he bought it, then tanked to less than half its original price. But he has held on to it because Eagle strikes him as an even stronger home-improvement play than Home Depot. On a visit to Eagle's West Coast building-supply stores, Driehaus gleefully zeroed in on parking lots so full that he had to park quite a distance from the entrance.

He is teaching his risk-loving style to his four young analysts by giving them some of his own money to manage. Nothing, Driehaus reasons, will focus his protégés' minds better than dabbling in the markets with the boss's dough. "We eat our own cooking," he says. By imparting his wisdom to others in the hands-on fashion of a medieval master craftsman grooming guild apprentices, Driehaus hopes to leave an investment style that will long outlive his own retirement (which isn't imminent, in any case).

So far the results of the Driehausian disciples have been promising. For instance, 34-year-old William Andersen's \$25 million in international accounts (part Driehaus's money, part clients') has reaped an average annual total return, after fees and brokerage costs, of 17.9 percent for the three years ended June 30, compared with only 1.9 percent for Morgan Stanley & Co.'s Europe, Asia and Far East index. In the first nine months of '93, Andersen's accounts rose 45 percent.

### Philosopher-Investor

It's easy to see why even Driehaus's most appreciative clients describe him as nerdy or eccentric-looking. During one interview in the cozy library of his 53rd-floor downtown Chicago office, the reedy money manager wore a nondescript sport jacket, dark slacks and transparent eyeglass frames. This unprepossessing, decidedly un-Wall Street figure can emit a disturbingly loud cack-

le, and as one consultant wryly notes, Driehaus is not afraid to laugh out loud.

Ever the absentminded professor, he routinely forgets his briefcase in clients' offices. Driehaus reads so much that after running out of shelf space for books at his home several years ago, he reputedly pulled the plug on his refrigerator and stuffed books in there. Despite his success, he is down-to-earth and open to ideas and to people he believes can enrich his knowledge. Driehaus is also blissfully oblivious to TV: At a recent auto auction in Pebble Beach, California, Driehaus, who collects antique cars, was clued in to some special vehicles by another guest. Afterward someone had to tell him the tipster was talk-show host Jay Leno. "Well, we were even," says Driehaus dryly. "Leno didn't know me either."

Reticent, almost shy, at first, Driehaus warms up quickly when the topic is stocks. Despite his enduring fascination with the markets — the subject plainly still excites him — he is remarkably well-rounded intellectually. He liberally peppers his speech with historical references and quotations from Aristotle, Edmund Burke and Friedrich Nietzsche. He is the quintessential philosopher-investor.

Driehaus is not, however, a Cartesian doubter of his own methods. "Sustained earnings growth is the fountainhead of increasing dividends, rising book values and expanding cash flows," he proclaims. But why does he fare so much better than so many others pursuing the same "fountainhead"? Rock-ribbed faith in the process. "If you just apply [momentum methods] as a technician, you'll never survive," he says. "You really have to have thought about this, and say, 'Yes, this does work,' and stay with it during uncomfortable or difficult times, when your portfolio may drop substantially, and not change your philosophy." He reacts to a market setback, even a crash, with a calm that surpasseth understanding, because of his almost religious conviction that the market *will* come back and his portfolios *will* recover.

Driehaus began developing his market catechism early. He took his first calculated financial risks at age 11. He laughs now, 40 years later, as he vividly recalls spending \$3.80 on ten rolls of Canadian uncirculated "brilliant" nickels

## **"The assets having the least short-term volatility often embody the greatest long-term risk."**

and later selling them for \$58.50 to a Minnesota dealer. Even then his instincts were good. He picked up "insider" tips from coin journal ads, selecting from among the few coins that dealers, too, wanted to buy, not the many they were trying to sell. He also learned to anticipate trends. If a fad hit the U.S. coin market, he figured it would move to Canada next. That's why he focused on Canadian nickels.

Not all that much later, he moved on to stocks. He got started as a teenager by reading the newspapers' financial pages. "I remember going through them and seeing all these price changes, and I wondered what was going on," he says. "I loved the fact that there were changes, because if there was no change, I couldn't advance from where I was. This was wonderful. I thought there were reasons why these things were moving. Also, my uncle was in the market, and he had made some money by buying growth stocks like Control Data, and he gave me a lot of general advice."

Driehaus plunged in, buying \$500 each of Sperry Rand and Union Tank Car Co. shares with money from his paper route. He figured that those investments — which had been recommended in the business columns of Sylvia Porter and Sam Shulsky, no less — were surefire winners. He got burned.

Unfazed, he sought more information about what was going on. During long Saturday afternoons at the public library, he studied newspapers and magazines like *The Wall Street Journal*, *Financial World* and *Forbes*, as well as newsletters like *Kiplinger's*. Much later he took out subscriptions to his favorite newsletters, *Spear & Staff*, a technology letter, and John S. Herold's *America's Fastest-Growing Companies*. The latter made the biggest impression on Driehaus, then 13 years old. It regularly ran charts juxtaposing companies' earnings growth with stock prices, showing

clearly how they moved in lockstep.

In the late '50s, when his friends were glued to new black-and-white TVs watching shows like "Hopalong Cassidy," Driehaus was holed up in the stacks studying Herold's recommendations of stocks like Avon Products, Baxter Labs and Abbott Labs. When certain touted shares proceeded to run up 2,000 or even 3,000 percent in the next few years, Driehaus was bedazzled.

To a company, all the big gainers taught Driehaus that rapid, sustained earnings growth would eventually be reflected in a stock's price. "It seemed a much more fundamental way to approach investments, versus just looking at, shall we say, a balance sheet," he says. Yet Driehaus took this lesson a step further. "Herold was recommending larger companies, which by the end of the '50s and into the early '60s were still hundreds-of-millions or billion-dollar companies. And I thought, if the companies that became big over this decade could do well, smaller companies would show even greater percentage changes in sales and earnings, just because they were smaller and thus able to grow faster."

What's more, smaller companies offered Driehaus a way to diversify risk. If he could buy a cross section of five solid small companies for what he'd have to pay for a top large-cap growth company, he'd be fashioning himself a safer portfolio. "There was no reason," he continues, "that the growth had to slow down. Historically high returns didn't necessarily have to diminish, as long as you kept on replacing the companies. That's the beauty of this strategy."

Driehaus further evolved his strategy in his early 20s, concluding that risk was his friend. "We think that [a big mistake] people make is not putting enough of their money into what they call a high-risk asset class," he says. "The assets having the least short-term volatility often embody the greatest long-term risk." Conversely, he adds, swinging into his professorial tone, "those that have the greatest volatility near-term often supply you with superior returns. Most people look at volatility as deviation from a mean. They don't take direction into consideration. If I had a portfolio that one day would go up 2 percent and the next day go down 1 percent, that would be much more volatile than a portfolio of, say, Treasury bills that did nothing. If

something dropped by an eighth of a percent a month, you'd have much less volatility, but negative returns. In other words, people are confusing near-term movement with a long-term objective, okay?"

Driehaus's investment philosophy was also shaped by a painful early introduction to macroeconomics: Even companies with seemingly guaranteed futures — such as Goodman Manufacturing Co., for which his father worked as an engineer — could lose ground to unforeseen competition, government regulation or changes in business conditions. Goodman had the bad luck to make coal-mining equipment at a time when King Coal was becoming a poor second cousin to oil. As the '50s unfolded, the Driehaus family found itself less well-off than its middle-class neighbors on Chicago's South Side.

The young Driehaus felt deprived because his pals had television sets in their homes years before he did. "I realized that I would want to provide just a little higher standard of living [than my parents']," he says today. "And to do that I knew I'd have to generate an income above my dad's. And to do that I'd have to get into some business where I could offer a comparative advantage. There

were a lot of things I didn't like. I wouldn't want to be a doctor or a lawyer or a writer. I didn't like politics or that stuff." That left the markets.

### Big break

After graduating from DePaul with an undergraduate business degree in 1965, Driehaus spent three years as an analyst and trader at Chicago's Rothschild & Co. (He still expresses gratitude to the firm for hiring him as an untested college kid.) Moving on to A.G. Becker, he worked a long day and then plugged away at night on his MBA at DePaul, where his master's thesis was on — what else? — growth. Hired to pick stocks for Becker's institutional clients, Driehaus came up with such nifty ideas that the firm gave him a pot of its profit-sharing fund to run.

His bosses — and co-workers, too, in this case — weren't disappointed. Driehaus latched onto such great growth names as Teledyne, Pizza Hut and Commodore. The list of more than two dozen growth stocks that Driehaus picked in 1968 and 1969 showed overall gains in less than two years of 18.5 percent; Becker's investment-grade stock choices edged

up just 5.9 percent in the same period. "Richard is married to the market," says his former Becker boss, McCausland, still a close friend of Driehaus. An alert clerk in Becker's back office, noticing how well Driehaus was doing, gave him her life savings of \$104,000 to manage. Over the next 20 years, he hatched her a \$7.9 million nest egg.

Driehaus moved on in 1973 to become director of research at Mullaney, Wells & Co., a Chicago bond house that was then moving into equities. He began trading and, with Mullaney's blessing, providing ideas to Kansas City, Missouri, mutual fund manager Twentieth Century Funds. This relationship, however, was to lead to a nasty run-in for Driehaus with the Securities and Exchange Commission.

The SEC charged him in the mid-'70s with defrauding Twentieth Century investors. On the record, the agency alleged that Driehaus had a contract to buy computer runs of Twentieth Century's growth screens — one that had not been approved by the firm's shareholders. Off the record, the SEC had concluded that Driehaus was acting as an unnamed subadviser to Twentieth Centu-

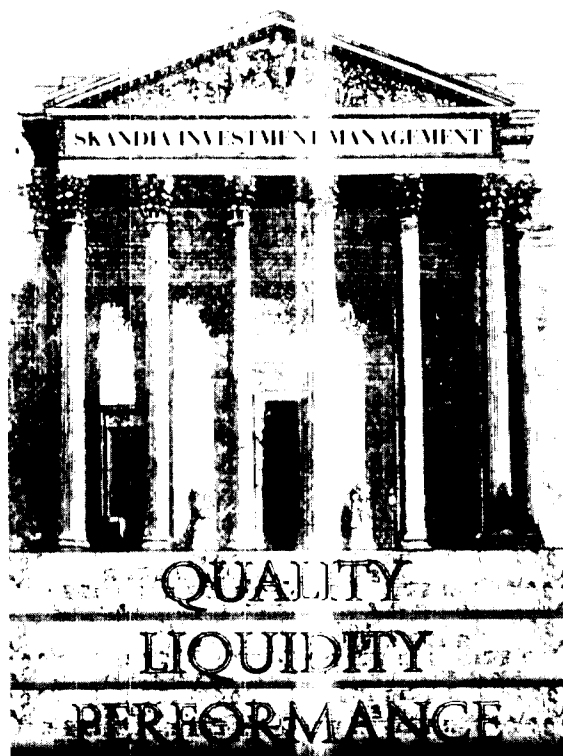
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ry, according to attorney J. William Holland, who defended Driehaus.

The agency, though it found that Driehaus had acted in good faith, initially barred him from the securities business, but subsequently reduced the charge to a censure. However, Driehaus, feeling his honor was at stake, wasn't prepared to accept even a slap on the wrist. He launched a six-year fight to clear his name that ended when Holland persuaded then-director of enforcement at the SEC Stanley Sporkin that both the stated

and unstated charges were entirely spurious. Driehaus was exonerated in 1981. "The SEC doesn't dismiss too many cases," Holland notes.

The trouble didn't prevent Jessup & Lamont from hiring Driehaus in 1976 to trade at the firm on behalf of his growing institutional clientele. (His case was on appeal at the time.) Within six years Driehaus was accounting for more than 20 percent of Jessup's bottom line — and craving independence. He decided to set up Driehaus Securities to trade on his

own, and he took his expanding band of small-cap portfolios with him to create Driehaus Capital Management.

At first Driehaus's profits came mostly from his securities firm, which continued to trade and provide research for Twentieth Century and a few others. But as Twentieth Century grew, the firm made it clear that it preferred to deal with a spectrum of traders. The fallback: money management. As word of Driehaus's investing acumen spread, funds began flowing into Driehaus Capital Management.

Now Driehaus manages money for more than 40 individuals and 30 institutions. Among the latter are Chicago's Sisters of Mercy; Earlham College, a Quaker school in Richmond, Indiana; Reid Memorial Hospital and St. Jude Medical foundations; as well as DePaul and Driehaus's high school. Pension fund clients include Illinois Tool Works, Fleming Companies, CR Industries, a couple of union plans and two public funds.

In late June Driehaus agreed to take on a new Canadian mutual fund called 20/20 Aggressive Growth, distributed by 20/20 Group Financial in Oakville, Ontario. In its first three months, the fund, which invests internationally and in U.S. small-cap and mid-cap stocks, attracted \$74 million and produced a total return of 14 percent. (It has now raised its minimum for U.S. investors to \$150,000; for Canadians, the threshold is C\$500.)

With some \$680 million now under management overall, Driehaus collects roughly \$6 million annually from clients — modest management fees of 1 percent a year for individual accounts and 85 basis points for foundations and endowments. He also rakes in brokerage commissions on all the trading done for those accounts through Driehaus Securities.

None of his clients seem to mind the tariffs. "In two years he has nearly doubled a \$5 million investment," says Darrell Beane of Reid Memorial Hospital Foundation. "We regard Driehaus as a genius." Driehaus Capital Management marketing manager Robert Buchen boasts that the firm has won 98 percent of the accounts for which it's made it into the finals. Randy Wood, a senior consultant at SEI Corp.'s Chicago office, gives this appraisal: "If Driehaus makes 75 percent of what he did over the last decade, he'll do far better than any other small-cap manager."

Driehaus would undoubtedly be devastated if in the '90s he didn't outperform his key historical benchmark — himself. ■



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