

Hedge fund adviser David Ackerman trusts his own theories

Fashionable or not

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By DANIELE DiMARTINO / The Dallas Morning News

It's becoming increasingly difficult to be a contrarian. But David Ackerman, principal of Ackerman Capital Management, says he's up to the challenge.

Thinking outside the box is in his blood. Mr. Ackerman's father, Edward, started Dallas' first hedge fund in 1969, long before "hedge fund" was accepted vernacular within the investment community.

Fifteen years' experience working with his father helps set him apart from most of his peers, whose thinking was formed by the greatest bull market in history, and it helps him resist his generation's tendency to chase returns.

These days, David Ackerman is a certified financial planner to his firm's high net worth clientele. He's also a chartered financial analyst managing a hedge fund of his own.

Recently, David Ackerman sat down with *The Dallas Morning News* to discuss his views on the stock market and share his philosophy on investing for the long haul.

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LOUIS DeLUCA/DMN
David Ackerman: 'I've found that the key to successful investing is thinking independently.'

What was the initial attraction to the investment industry?

I got bit by the investment bug when I was a freshman in college after reading John Train's *The Money Masters*. That seminal book helped me understand for the first time what it was exactly that my father did. From that point on I was hooked.

What happened next?

I read everything I could get my hands on. ...

I do the same thing today.

Obviously it worked. You've got half an alphabet attached onto the end of your last name.

Well, I started working for my father right out of college. At 24, I ended up being one of the youngest CFAs out there because it's a three-year process. Then I got my CFP when I was 25.

Though they're certainly helpful, the designations aren't everything. The other big thing was being able to go to work for an established firm where you have opportunities to learn.

So look back for us and look ahead. What are some of the most important lessons you've learned that you can share?

I've found that the key to successful investing is thinking independently. ... That's helped me to become a contrarian.

At the peak of the market in 2000, when everyone was rushing to buy technology stocks, we had absolutely no exposure. At the time, I remember ... getting hate mail. My clients even started worrying that I was out of touch, but then we weathered what was to come better than others in the years to come.

But then, every decade has had its Internet stocks. In the 1970s, it was oil-and-gas partnerships; in the '80s it was real estate limited partnerships, and in the '90s, of course, it was tech and Internet stocks. The last one was particularly cruel because it was so tangible. Everyone was using e-mail, it really was the best next thing.

That bring us to the here and now ... do you see any red flags on the horizon?

It's not perfectly clear to me, but if I had to guess, I'd say it was residential real estate. Investors tend to chase performance, and they're doing the same thing today. The other areas that appear to be overdone are emerging markets, small-cap value, high-yield, and commodities.

You've just read off a laundry list of some of the recent best performers.

Investors who have chased performance have done OK these last few years but I think that's about to change. I like to tell investors to insulate themselves from the broad media.

How should investors be approaching the stock market today?

I'm expecting a shift away from value to growth and from non-quality to quality. At least that's what I'm playing today, though with a bit of unease. I'd like a little bit less company with my outlook.

What about your broader outlook for the major indexes?

As far as I'm concerned, we're in a cyclical bull market within a secular bear market until I'm proven otherwise, which means breaking out above March 2000 highs.

Historically, stocks return the dividend yield, which is about 2 percent today, plus the historically long-term earnings growth rate of 6 percent. That puts us at about 8 percent.

That said, I don't think we will see 8 percent over the next five years because the market has yet to react negatively to restrictive monetary policy. I'm telling my clients that one of the next few years will be a down year and that it will most probably be 2007.

Why not this year? It certainly looks like stocks are vulnerable.

There are still a ton of people out there who are just dipping their toe in the water. We have to get to a point where people are afraid to NOT be participating. With over \$1.25 trillion on the sidelines, it's possible that the market will first suck in all their money and then take it away next year.

In the end, investors tend to equate good companies with good investments.

But you can't always be looking for the next Dell, Microsoft or Wal-Mart – that one stock that's going to make up for all the ills in your portfolio.

It sounds like there is an *instead* in there somewhere.

The best thing investors *can* do is educate themselves. *Barron's* is a great place to start.

As far as books, to learn about mutual funds I would recommend any of the books by John Bogle, the founder of the Vanguard funds, because of his common sense approach to investing and his focus on fees and diversification.

I would also recommend *Contrarian Investment Strategies for the Next Generation* by David Dreman because he can help a person to think in a more contrarian manner and give one confidence to go against the crowd.

Anything else?

The biggest mistakes investors make is not saving enough and not starting to invest early enough. ...

The power of compounding ... was one of the first things my Dad taught me – that and how important it is to eat my own cooking. It helps that I can tell the firm's clients that my money is invested right alongside theirs.

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