T. Rowe Price Marks 75 Years of Putting Clients First

James A.C. Kennedy joined T. Rowe Price in 1978 as an equity analyst and has served as president and chief executive officer the past five years. As the firm celebrates its 75th anniversary this summer, he discusses its past and present and its continuing commitment to meeting investor needs.

Q. When Thomas Rowe Price, Jr., started the firm in 1937, America was still recovering from the Great Depression. Unemployment was 14% and the S&P 500 Stock Index declined 35% that year. What drove him to start his own firm in such a hostile environment?

A. Mr. Price worked for a brokerage firm prior to starting his own company. He was driven to perform for the clients, and he felt, properly so, that if he was paid based on investment performance rather than on commissions from buying and selling stocks, it would align him much more with the client. It certainly took a lot of fortitude. His firm did not make a profit for more than a decade. Nevertheless, he and the other original associates were very confident that if they could add value to the clients over time, their company would be successful.

Q. What were the key principles he espoused and still characterize the firm today?

A. Putting the client first; that was the most important part of Mr. Price's philosophy. He often said that the firm could not succeed if the client did not succeed. And I'd add that we can't perform for the clients without hiring outstanding people, mentoring them well, providing them intellectual growth, and properly paying them. I'm a huge believer in differentiating on compensation and paying people for value added.

Mr. Price also believed in a collaborative environment. Ironically, he wasn't a great collaborator himself. He wanted to listen to everyone else exchanging and debating ideas but typically kept his own ideas to himself. He also stressed

independent thinking, which remains fundamental to our culture. We encourage diverse points of view and ask people to speak up when they have a different opinion or when they see opportunity for improvement.

Having a strong balance sheet was critical. People at many competitive companies were worried about survival of their firms. Our people knew that we were strong financially; therefore, they had the luxury of staying focused on our clients rather than worry about their jobs.

The portfolio managers and analysts around the globe stepped up, sharing ideas more broadly than ever before and taking advantage of market opportunities. The spirit of client focus and collaboration is, frankly, why our investment and service performance during this difficult period has been strong relative to our competitors.

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The Global Financial Crisis

Q. How did the firm cope with the global financial crisis that erupted in 2008 when many feared a cataclysmic meltdown of the global financial system?

A. Those were obviously very trying times. In my first year as CEO in 2007, I moved my desk to the Fixed Income Department. I grew up on the equity floor, so I needed to learn a lot more from that side of the business. We had an experienced analyst named Sue Troll who anticipated the subprime crisis almost two years before all the damage. Listening to her and others concerned about disequilibrium in the marketplace caused us to take a more cautious stance on expenses.

But playing defense was only part of the story. We also balanced that by strategically playing offense as well. For example, we kept selectively hiring for key capabilities and needs, particularly in technology.

Q. What lessons did the firm learn from this historic upheaval?

A. It certainly reinforced the importance of having outstanding and experienced people who question and help each other. Another key lesson is what economic history has taught time and time again—that balance sheets are critical. People call us overly conservative when it comes to our financial management, but call us what you want. We will remain really conservative when it comes to our balance sheet so that we can keep our focus where it belongs—on our clients.

Q. Taking a longer view, what have been the keys to the firm's success and its ability to serve clients well over the decades?

A. Again, it gets back to having outstanding people who are driven, free to make decisions, and remain humble.

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Thomas Rowe Price, Jr.: Independent Thinker With Foresight

Forbes magazine called him the "Sage of Baltimore." *Barron's* described his career as the "triumph of a visionary." Author John Train devoted a chapter to him in his book profiling a dozen "money masters" of the 20th century.

Ironically, Thomas Rowe Price, Jr., who died in 1983, never studied economics or finance. Nor did he claim unusual insights that were unfathomable to the average investor. To identify fertile fields, he once said, required only "what my grandmother called gumption, my father called horse sense, and most people call common sense."

And, perhaps because he was a very private person, he had little interaction with Wall Street.

Thomas Rowe Price, Jr.'s successful career was molded by the foresight to anticipate fundamental changes in economic trends, the patience to pursue long-term investment strategies, and the independence and self-confidence to take stands that often put him at odds with conventional wisdom.

A True Contrarian

"He had the courage to stand by his convictions, even when everybody else disagreed with him," recalled Charles W. Shaeffer, a colleague who joined Mr. Price when the firm was founded 75 years ago.

"He was never frightened of standing alone when the crowd was going the other way," Thomas Rowe Price III, his son, said. "In fact, he loved it. He would go the other way sometimes out of sheer obstinacy."

This frequently required staunch investment fortitude as well as foresight, but Mr. Price usually remained unshakable in his beliefs. His growth stock approach to investing, developed in the 1930s, contradicted the conventional view of stocks as cyclical investments.

"He was truly an independent thinker," says David Testa, former vice chairman and chief investment officer of the firm. "His idea of looking at growth of the income statement in the middle of the Depression was unique. To have the guts to try and buy companies because they were going to grow in the mid-1930s was really quite something."

Jack Laporte, a veteran portfolio manager with the firm, adds, "A lot of people don't realize how revolutionary many of his thoughts were. In the early 1950s, investors in general thought equities were so risky that they demanded that stocks yield as much or more than bonds. Mr. Price said investors should really focus on growth in dividends and earnings and that was the foundation of his growth stock theory of investing and the Growth Stock Fund."

"Change is the investor's only certainty."

Thomas Rowe Price, Jr., around 1930

When Mr. Price extended the philosophy to smaller, emerging growth companies with the New Horizons Fund in 1960, these stocks promptly entered a period of decline and stagnation. Nevertheless, he remained committed to the concept.

"At that time, most investors shunned small-cap stocks because they were considered way too risky," Mr. Laporte says. "But Mr. Price said that smaller companies with the right managements and the right business philosophy could grow at much faster rates than larger companies and, in many cases, could double or triple their earnings in just a few years."

In the mid-1960s, he correctly forecast a "new era" of accelerating inflation that would unfold in the 1970s, spurred by rising government deficits, and he developed an investment strategy emphasizing natural resource stocks to benefit from that environment.

"In the 1960s he recognized the implications of the Vietnam War and the war on poverty happening at the same time," Mr. Testa says, "so he developed ideas to pursue that."

Focused on the Future

Throughout his career, Mr. Price found it could take years before his prognostications—based on his analysis of social, political, and economic trends—would be proven. But he considered it essential to look beyond current developments and focus on the future. He was often quoted as saying, "Change is the investor's only certainty."

Mr. Price also wrote in 1970: "The successful investor should be looking forward and trying to anticipate changing eras ahead of the crowd. This requires both foresight and patience. The timing of the change is…often difficult to identify because the change is gradual and irregular like the waves in a changing tide.…It is better to be too early than too late in recognizing the passing of one era and the waning of old investment favorites and the advent of a new era affording new opportunities for the investor."

Mr. Price's success was due as much to his total commitment to work as to his independence of thought. He often started his workday at 4 a.m., believing the uninterrupted predawn hours were the best time for original thinking.

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Thomas Rowe Price, Jr.

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He was meticulous, precise, and demanding. "He was a hell of a taskmaster," his son Tom Price recalled. "He was constantly driving himself. I think deep down he had a fear of failure, and that's one thing that drove him so hard. He was business, business, business—that's why he was sometimes a bear to work with."

> "In his career, he had maybe a half dozen really seminal ideas about investing when most people don't even have one—and even some of the most famous investors only have one."

Driven to Succeed

George Roche, former president of the firm who worked with Mr. Price in the 1970s developing the New Era Fund, recalls, "He was very hard working and driven to succeed. Happily for me at the time, Mr. Price really liked young people and used to say, 'hang around with the young people as long as they'll put up with you.'

"He would also say, 'I love to have a good investment fight.' So as long as what you presented to him was reasonable, he would listen to you. Even if he disagreed, there was a lot of respect. But if he lost confidence in you, you'd be sent to Siberia, and he would ignore your advice. But by and large, he was good to work for, especially for young people."

It was important to Mr. Price to foster a reputation—if not a mystique—of a no-nonsense, hard-driving businessman. For fear that it would in some way detract from his image, he hesitated to admit that he enjoyed such ordinary pleasures as dancing or gardening, or even getting his hands messy eating corn on the cob.

Nevertheless, such idiosyncrasies were overlooked by those who worked with him because they respected his investment originality and insight.

"He was a brilliant guy," Mr. Testa says. "He looked ahead in a very serious way. In his career, he had maybe a half dozen really seminal ideas about investing when most people don't even have one—and even some of the most famous investors only have one."

While Mr. Price was an investor with uncommon insights, his focus on client interests, which still characterizes the firm today, was key to his success.

"Profitable operations are essential," he advised his colleagues from the outset, "but profits must follow a job well done and result from the goodwill of the investing public.

"That is our most important asset, one that is so difficult to build up and so easy to lose. My experience shows me that the best way to maintain it is to make your client's interest your top priority."

Of all the tributes during Mr. Price's career, one of the nicer ones came from *Forbes*, which frequently published his commentaries and said of him in 1975:

"They come and they go—with brief torrents of publicity and a moment or two of glory…But few money managers, very few, stand the test of time. One of the handful that has is… T. Rowe Price."

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75 Years

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Intellectual honesty is critical, as is a willingness to collaborate. It all comes back to people and culture.

I would add the importance of having a long-term perspective. The turnover in our portfolios is a lot lower than most of our competitors. We work to know our companies better than our competitors. That enables us to take a longer-term point of view and take advantage of those who panic in the marketplace. We also run the company with a long-term perspective.

One example of that is managing the flow of money that comes into our portfolios. We have shut down several of our portfolios to new clients when we see that a portfolio manager may not be able to invest the cash flow as beneficially as they should. In the short term, the perception may be that we're hurting the company's stockholders by rejecting those assets. But in the long term, it helps everybody because by being able to perform well over time, everybody wins—the clients; our associates; and, ultimately, the stockholders.

Q. T. Rowe Price today is a global investment firm with clients in 35 countries, managing more than $500 billion. How do you think Mr. Price would view the firm if he were alive today?

A. I think he would be very proud of our people and our performance. If he sat in our investment meetings, he'd be inspired by the give and take and the level of expertise. He'd be very impressed with how we deal with clients honestly, not trying to pull the wool over their eyes. He'd really respect that.

I think he'd be amazed by our technology, access to data, and all the analytical tools we've created. And he would be thrilled to see the level of client focus and dedication to doing what's right. And Mr. Price was always looking for fertile fields to invest in, so he'd be fascinated by many of the new companies in our portfolios. In many respects, he'd be like a kid in a candy store.