

## Turkeys, Cheerleaders and Buzz Lightyear's Butt

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**For me, Thanksgiving has always elicited a mixed bag of feelings.**

**On the plus side**, there's the getting together with family by blood and family by choice; the turkeys cooked on a wood fire, all crispy and brown; and the enjoyment of a holiday not marred by rampant gift-giving.

**On the minus side**, there's the anniversary of my father's death, the whole gluttony thing, uptight pilgrims and the decimation of a populace. There's also the dreaded creamed onions; those I could live without.

So, when **the Macy's Thanksgiving Day Parade was rerouted last year to pass directly beneath our office's gigantic, 9th floor balcony**, I was largely indifferent. Besides, I'm short, which means that for me, parades typically involve elbows in the face and claustrophobia.

"Too bad," said my fellow Darumaites, "Get over it." Apparently, **last year's parade viewed from our office balcony was so amazing**, that not only did they insist I attend, they decided to invite our clients and throw a party.

**And what a memorable day it was!**

The balloons poked their noses around the corner at 42nd Street and headed down Sixth Avenue to Herald Square, a raucous magic carpet of colors unfurling at our feet. The view up and down the Avenue from our balcony was spectacular. **At a glance, you could:**

...judge **which marching band was the most precise;**

...follow the **neon patterns of the cheerleader battalions**, whose pompoms you could hear rustling all the way up on the 9th floor;

...**take in a whole eight blocks'** worth of parade in one swoop;

...**compare and contrast the intriguing backsides** of Buzz Lightyear, Hello Kitty and



SpongeBob SquarePants. (It's not often you get to contemplate the butts of cartoon characters.)

**Down on the second floor**, however (our secondary viewing area, thanks to kind neighbors), **it was a completely different parade.**

Here you could see how much "work" Joan Rivers (portraying the Ice Queen) had had done (a lot), and how happy her daughter Melissa was to be riding shotgun on a horse (not very). You could read the banner that announced Mannheim Steamroller as the band on North Dakota's float (what, you were expecting The Clash?). You could see the faces of the balloon handlers as they walked down the street.

**All of this got me thinking of our investment process.**

### **9th floor view**

On the one hand, there's **the investment equivalent of seeing the big picture from the 9th floor**; the place where macroeconomic factors and investor psychology mingle. **Consider this example: What's your reaction when I say "residential real estate?"**

I'm guessing it's something along the lines of, "Ewwwwwww!" Or, more specifically, "Why would anyone want to invest there? Delinquent loans the size of South Dakota ... paperwork gone septic ... banks gone toes up ... jingle mail." You get the picture.

**A little 9th floor perspective though, lets you see that while we may not have hit precisely rock bottom, we're pretty close.** There's already a lot of wreckage. Expectations are nil. The disaster rates of change are decelerating, and if you have a long-term point of view, you can see that patterns are shifting, albeit ever so slowly. **This makes for an interesting place to nose around for ideas.**

Typically we find that companies in a bombed-out sector have made a lot of changes to their businesses in order to survive. Investors don't care though, as they're stuck on the macro (when it's raining cats and dogs, investors don't differentiate a Dachshund from a Great Dane). **But when times get better, financial results after the school of hard knocks makeover usually blow investors' doors off the hinges.**

But you can't be in the weeds if you hope to see the big, long-term view.

### **Down on the street**

**On the flip side - and the part of the process that we enjoy most - is getting up close and personal with our companies.**

While our on-site due diligence visits do have a "blind men and the elephant" quality to



them, **there's a lot that can be learned by visiting manufacturing sites and stores,** and spending time with management below the C-suite on their home turf.

Here's an example. **Years ago, we held a position in apparel retailer Chico's.** It's a long story, but the company had had a few leadership stumbles, leading to a merchandising miss. Results were atrocious. A large shareholder was dumping stock. The biggest cheerleader on the sell-side was silent, now that he'd joined the buy-side.

**But it was an on-site visit that gave us this key insight:**

In the CFO's office, on the side of his desk, was **a large stack of hate mail from customers.** That was telling. It takes a lot of work to write hate mail, much less invest in a stamp, and most people just vote with their feet and shop elsewhere.

**Chico's customers believed the store's fashion pendulum had swung too far** - from too many dowdy prints to too-tight, midriff-baring clothes. Their more "mature" customer base wanted comfortable, easy, fun clothes and they had nowhere else to go.

**All Chico's had to do was give them what they wanted - clearly no competitor was.** And while I am no clotheshorse, I could tell that their complaints had been addressed when looking at the new inventory flowing into the stores ... not a miniskirt or cropped top in sight.

We bought more stock. **Though it would take a while for it to arrive at the reviewing stand in front of Macy's, we could see how the parade of fundamentals could unfold,** and how investors would pump up the stock price as a result. That's exactly what happened.

**Like viewing a parade, investing takes both a high and low vantage point to truly appreciate everything that's going on and to uncover the best ideas.** Without a long-term, big picture perspective, the portfolio ends up looking like a gerbil on an exercise wheel. Without a close-up view that homes in on the details, you won't have the stomach to invest against the crowd or hold on during volatile markets.

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