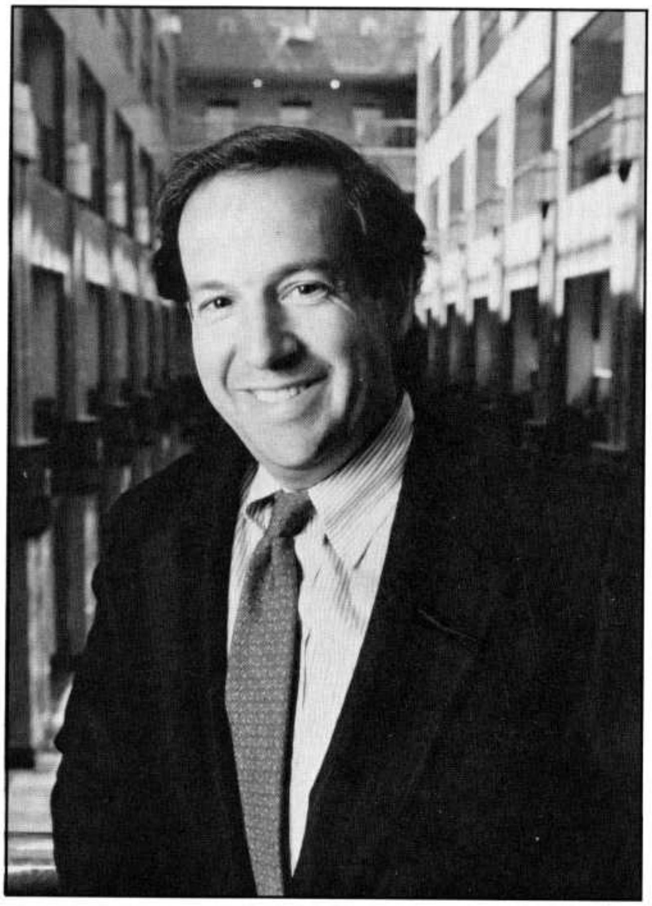
MICHAEL PRICE

WALL STREET'S VALUE SEEKER

by Carol J. Burr



Michael Price is a very lucky man. While most Americans are struggling to balance their checkbooks at the end of the month, this OU graduate is managing $4 billion of other people's money in the world's highest pressure business — and having the time of his life.

As president of Mutual Series Fund Inc., a three-fund enterprise with a remarkable 15-year record of growth, Price matches wits daily with his Wall Street counterparts on behalf of his 300,000 investors. *The Wall Street Journal* calls him one of the savviest and most highly respected fund managers in the business. His clients have no reason to disagree.

Since 1975, when Price joined the company, the value of Mutual has gone from $4 million to $4 *billion*. The average annual return has been 22.4 percent. *The Journal's* figures show that the flagship fund, Mutual Shares Inc. grew 2,000 percent from 1975 to 1988, compared to 450 percent for Standard & Poor's 500 index, assuming reinvested dividends.

Price doesn't do magic—and he doesn't bother with blue chip stocks or hot ticket companies. His investment philosophy is actually rather simple: look for troubled companies with hard asset values far exceeding the value of their stock. He finds such unique underevaluations through an exhaustive analysis of mergers, reorganizations and liquidations.

Michael Price, said a 1989 issue of *Barron's*, is a "value-seeker. He has an uncanny knack for finding winning investments in the most unlikely places —Chapter 11."

Price honed this skill under the watchful eye of a master of bankruptcy analysis, the late Max L. Heine, who hired the young Long Island native shortly after he earned his 1973 business degree from the University of Oklahoma. Heine, whom Price describes as an "old fashioned German Jewish stock broker" in the best tradition of Wall Street of the 1920s and 1930s, quickly realized that he had found his disciple.

"When Max got married," Price explains, "he got a gift of $1,000 for furniture from his father-in-law. Instead of buying furniture, he bought 10 railroad bonds that were in bankruptcy that were trading for 10 cents on the dollar—$10,000 worth of bonds for $1,000. The bonds were first mortgages on property Max thought was worth more than $1,000—and sure enough, he was right."

In 1975, six months after he had hired Price at $180 a week, Heine formed Heine Securities Corporation to buy out his partner in the management of the small but interesting

Mutual Shares Fund. As the investment adviser, Heine Securities, which Price also serves as president, remains the driving force behind the three current funds, Mutual Shares, Mutual Qualified Income and Mutual Beacon, all operating jointly under the same board of directors, with the same staff and management.

Price timed his Wall Street debut perfectly. The 1973 oil embargo had left the stock market in a state Price describes as "absolutely horrendous"—but ripe for the Heine-type value investor.

"The psychology was bad, and it set the stage for great bargains," he recalls. "In 1975 stocks were being given away. You couldn't do anything wrong. Everything you bought went up—and it sure helps when you start a job picking stocks if the market goes up."

The following year Heine made Price a vice president in a three-person office. Without ever taking out an advertisement or hiring a salesman, Mutual Shares began a phenomenal growth spiral, attracting considerable public attention with investments such as the Penn Central bankruptcy and a number of takeovers.

Price began investigating other Wall Street employment opportunities, including a few with the Ivan Boeskys of the world. "That was really dumb," he admits, "because I didn't realize then that what I had was a business rather than just a job."

But Heine was not about to lose his protégé. In 1978 they began splitting fees and by 1982 were formal partners. Within a few years Price began buying Heine out as ill health began to reduce the older man's activities. After Heine's death in a traffic accident in 1988, Price became the sole owner.

While rapidly working his way into the Wall Street wizard category, Price elected to give up the mailing address. In 1987 he abandoned the fabled lower Manhattan financial district of New York City and moved into a new brick and glass building across the river in Short Hills, New Jersey. About that same time, a number of major firms began making similar relocation decisions, including several companies headed by OU graduates, i.e. American Brands, under William J. Alley, to Connecticut; J. C. Penney, under William R. Howell, and Exxon, under Lawrence G. Rawl, to Dallas, Texas.

Price insists that relocating was "the best decision I ever made." To reach his office on Wall Street by 8 a.m., he had to be up by 5:30 a.m. and leave his house by 6:15 to commute by car-pool approximately four hours a day for nearly 12 years. Today he is 30 minutes from the office and not much farther from an uptown business lunch than he was when he officed on Wall Street.

"The cost of space is lower, taxes are lower, services are better—and our people enjoy it more," Price concludes. "Two-thirds of them lived in New Jersey to begin with."

Not one of Price's 54 employees left when the firm moved. "We don't lose anybody," Price says simply. "We pay very well, and we treat people well.

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"The last thing in the world I want to do is manage 54 people," he insists. "I just want to trade stocks, right? But it's my business, and I have to pay attention to the people problems. I can't hire someone to do it for me. I can hire someone to do the accounting and all the legal, trading and research things, but I've got to make the investment decisions, and I've got to make the people decisions."

The new offices are customed designed to facilitate both money and people management. Whenever the market is open, Price can be found at the center station on the trading desk, the over-the-counter and foreign stock traders arrayed on one side of him, the traders of listed stocks—the New York and American exchanges — on the other side. He constantly communicates with strategically placed position analysts around the room as stocks move and news becomes available.

Processing and analyzing financial information from all over the world is one of the aspects of the business that Price and his colleagues do best. Mountains of facts and figures pour in over the wire from Dow Jones, Reuters, Wall Street research, corporate press releases, news and research headlines, market information, Securities and Exchange Commission filings, etc.

Heine Securities' four senior analysts are all MBAs, but Price is not overly impressed with merely having "a piece of paper on the wall. I'd rather have a street-smart kid who is really hungry and has that drive," he insists. "But my wife says, 'Michael, you know that most people don't have the experience you had—being kind of a mediocre student until you found the finance area, then getting a job with Max Heine, who gave you the opportunity to do what you did.'

"And she is right," Price admits. "Most people have to get the credentials to get the interviews to get the jobs and work here, right? So I was very lucky."

Price also has his own staff in the field doing on-site analysis of companies that have caught his attention. A huge filing system keeps readily available constantly updated information on every public company, with even more detailed reports on the 300 companies whose stock Mutual's funds own. All this data is instantly accessible through electronic search.

The Short Hills installation is connected directly to traders on eight different parts of the floor on the New York Stock Exchange and three on the American. Twenty-to-30 other direct wires connect Price to block trading, arbitrage and bond desks.

All the wires connecting Price to the outside world—and enabling him to conduct his business in New Jersey rather than on Wall Street—run under a raised floor. Individual carpeted flooring squares can be lifted to reconfigure the wiring to redesign or expand the office space for up to 75 employees.

When his employees break for lunch, they haven't far to go. With restaurants less accessible in the suburbs, Price prefers to have lunch catered and keep his personnel on the job.

"Two sisters bring in a choice of hot trays and salads, cold cuts, soup and dessert," Price says. "It's good and fresh, and people love it. I'd rather pay $7 per person per day and have them working."

Just down the hall from the lunch room is the shareholder area where banks of Heine Securities employees, plugged into an automatic call distributor, keep in touch with the 300,000 investors. With direct links to 440 Financial Group of Worchester, Massachusetts, the custodial institution that handles the actual financial transfers for the Mutual Series Funds, the operators can call up an inquiring shareholder's complete record.

The automation also allows Price to tell at a glance who calls and why, how long callers are on hold, who answered, how long the call takes, how many calls are lost. If there is a problem—and even the best-run fund has its irate investors—Price himself returns the call.

"In reality, I work for them," Price says. "They can say anything they want, and I have to be courteous and patient and try to explain. Sometimes they just have bad information. So I get them on the phone, and they love it when I call. Max taught me that."

Price is seldom out of contact with the day-to-day operation of Mutual's funds. Occasionally he will fly to London or visit a company whose stock he is considering, but he prefers to let others travel while he mans the trading desk. "Here's where the decisions have to be made," he says flatly.

On vacation with wife Bunny, daughter Jordan, 12, and twin sons Andrew and Jonathan, 8, Price is in constant touch with his office. At home he is linked to the funds by FAX and PC and by a car phone in each of five vehicles, including two 4 X 4s and a pickup truck he loves.

"We have a nice place 30 minutes west of here," Price says. "We have horses, and I like to ride with the kids. It's 86 acres—not much in Oklahoma but in New Jersey, it's a nice spread."

Price first saw Oklahoma in the summer of 1969 when a friend recom-

Courtesy: Jonathan Levine/*Money Magazine*

Michael Price abandoned his lower Manhattan offices for more congenial quarters in Short Hills, New Jersey, just 30 minutes from the horse-country home he shares with his wife Bunny, daughter Jordan, above, and twins Jonathan and Andrew.

mended that he apply to OU. An average student in high school and a football fanatic, he wanted to get away from the East Coast, and Oklahoma seemed a good choice.

"It was hot," he recalls. "We'd spent summers in Maine and in Long Island we lived near the water, so I wasn't used to that hot wind. But the people were incredibly friendly. I had a good time and made lots of friends and still have contact with some of them. To me Norman was an oasis out there."

Price remembers fondly his freshman year in Cross Center's Smith House, with "all the crazy guys," intramurals, lunchtime pickup basketball with gridiron star Greg Pruitt in the old Field House, his good friends Bill Huffman, whose father Huston was later an OU Regent, and Joe Warren, now an associate in a small oil company Price owns in Oklahoma City.

A finance major, Price credits OU with giving him all the basic financial knowledge he has put to work in his business. "Sure, I worked summer jobs for a stock broker, and Max taught me the discipline and the philosophy," he says, "but OU taught me how to take a balance sheet, pull out all the fluff and look at the values in a company."

While learning the tools of his trade, Price also developed a lasting enthusiasm for another OU specialty, the history of science. He recalls classes under a bearded Israeli professor named Sabetai Unguru and the world-famous History of Science Collections in Bizzell Memorial Library.

"This is how you pay the rent," he says of the organization that manages the billions of dollars under his care. But the history of science, he declares, "is far and away more interesting than anything business can show you."

Displayed in his office are some of the Greek and Roman coins he collects. "They were beautiful art. Look at them and you can see how coinage evolved and the city-states evolved," he says. "And they were made with gold, silver and bronze. They had real intrinsic value.

"But look at our currencies today. Two thousand years from now, no one will ever buy the quarter for any amount of money. What have we done to currency?" he asks. "We print them up, they look lousy, they don't last, and they're not worth much because they're not backed by gold or silver anymore.

"You sit here in this conference room looking at these coins—and you're working on a leverage buyout where people are borrowing $25 billion," he muses. "And you say, 'What is going on in this world?' We're kidding ourselves in a lot of ways."

Talent, hard work and good fortune have earned Price a very good living and a lifestyle he obviously relishes. But avarice and the Wall Street stereotype do not apply. This is no Boesky or Milken. Michael Price is not a greedy man.

"Wall Street," he contends, "is an evil place run by some hungry, greedy people who will do anything for the money. They don't care what they're selling you; they just want the commission. I believe if you take a longer view and give the client a good stock or good bond, he'll come back for more—and you'll do better. If you give him a bad one, he's gone forever.

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"Wall Street is short-term oriented. And it has pushed America to be more short-term oriented because Wall Street finances America. Wall Street has real credibility problems, from insider trading to futures trading and program trading. None of that is necessary; it's only to generate commissions for brokers."

Price's guiding principle always has been to "do well for the fund, and the rest will take care of itself." Ironically, this philosophy eventually entails turning down additional investors attracted by the Mutual funds' remarkable track record.

"Your fund has to reach a certain size before you start making any money managing it," Price says. "At $4 million in 1975, the fund not only didn't make money, it lost money. But then you can get too big to perform well, and you may not know when until it's too late.

"You have to find places to put the money that comes in—at really good prices," Price continues. "You don't want to have so much money coming in that it pushes you into changing the levels at which you are willing to buy a stock."

When the stock market crashed in August 1987, Mutual's funds had assets of approximately $3.3 billion, which dipped to approximately $2.5 billion before bouncing back, the first such fund to regain its old high. With his investments based on asset value, Price is able to cushion the fall in stock prices. And with stocks selling at bargain prices, he is able to outperform other funds in a down market.

By 1989, new money was coming into the funds at $10 to $20 million a day. Price closed Mutual Shares and Mutual Qualified Income to new investors, though previous shareholders may add to their accounts. Mutual Beacon remains open, but its $50,000 minimum investment is self-limiting.

Although he has been urged to create a new fund and has investigated several possibilities, Price has rejected any expansion for now. "We're big enough," he concludes.

In 1988 Price, with other friends and relatives, established the Max L. Heine Chair in Finance at New York University, not far from the offices where Max taught Michael his own view of the financial world. Once a year the program sponsors a symposium in which Michael participates.

"I want to keep reminding myself of the way Max went about his business," Price says. "All I want is to maintain the respect of my peers and the reputation that we have. That's our most important asset."

Max Heine was undoubtedly a good stock broker, but he also must have been a good teacher. His star pupil learned his lessons very well.