

## PEOPLE

# Holding True

Richard Weiss works at convincing investors that City National can do a better job managing their money than the big investment houses

By KATE BERRY

Staff Reporter

**R**ICHARD Weiss is determined not to be just another boring market analyst. As executive vice president and chief investment officer of City National Asset Management, a unit of Beverly Hills-based City National Corp., Weiss spends nearly half his time preparing for and speaking in front of large groups. It's part of his job to get wealthy investors to consider parking their money at City National instead of the big investment houses. Weiss spends most of his free time reading academic journals. He says he doesn't read a daily newspaper and rarely watches television.

**Question: Why are we seeing strong earnings growth but lackluster gains in the stock market?**

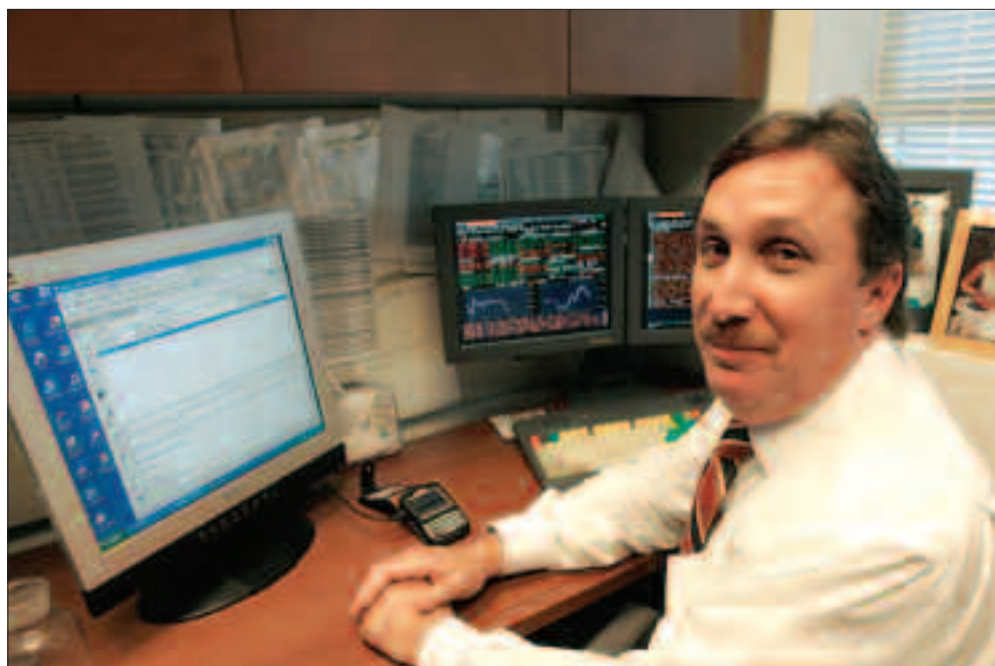
**Answer:** The economy overall is decelerating. We're clearly still growing in real terms, but we're slowing down. The analogy you can use is you're in a car going 60 miles an hour, you let up on the gas pedal so you're going 30 or 40. You're slowing down but you're not going backwards, we're not in danger of going into a recession. You see that translate directly into corporate profit growth. Year-over-year, we had double-digit growth in 2002 and 2003. In 2004 the average company was up 25 percent. This year it looks like 10 to 15 percent. We're looking for stocks to finish in positive territory this year, up 6 to 8 percent.

**Q: Are you blaming oil?**

**A:** Part of the reason the stock market has been held back is oil prices, a big negative. With oil prices more than doubling, it acts as a major tax on the economy. It slows things down and probably takes 1 percent off the GDP. The correlation between oil price movements and stock prices is so solid at this point that if somebody told you where oil is going today, you could pretty much predict where stock prices are going.

**Q: Everyone wants to know what's going to happen with oil.**

**A:** Oil is a geopolitical issue, not a macro-economic one. It's not about supply and demand. It has much more to do with politics. So in that sense, we don't dare forecast oil. So how do you manage people's long-term investment portfolios? We actually measure and calculate ways to immunize investors from oil prices. If you carefully manage



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**Weiss: 'Fundamentals of investing, the disciplines, asset allocation, diversification ... these last through time.'**

### RICHARD WEISS

**Title:** Executive Vice President and Chief Investment Officer

**Company:** City National Asset Management

**Born:** 1960, Brooklyn, N.Y.

**Education:** B.S. in finance, University of Pennsylvania Wharton School; MBA, University of Chicago

**Career Turning Point:** Joining City National Asset Management in 1999

**Most Admired Person:** Grandmother Fannie Wishney, who left Austria at age 12 and sailed alone to Ellis Island on the S.S. Rotterdam

**Personal:** Married with three daughters, 9, 5 and 4

**Hobbies:** Playing golf, watching Ultimate Fighting, boxing and pool on TV

your energy stock exposure against your trucking, airline and other oil-user exposure, you can neutralize the effect of oil and add value based on what you do know.

**Q: Why not just invest in energy stocks?**

**A:** We don't want to make a bet on oil with our clients' monies because we don't pretend to know whether oil is going up or down. There may be managers out there that want to take that exposure but why would we risk somebody's long-term investment returns based on our bet?

**Q: Can you hedge against natural disasters such as Hurricane Katrina?**

**A:** If you look at any one of the last two or three dozen major terrorist attacks around the world, and you do the same for major natural disasters, you'll find this pattern. Gold goes up, stocks and bonds go down. That's the one-day immediate effect. After 30 days, it's back to what it was. The short moral to the story is that part of the reason people hire professional money managers is to resist doing silly things that your stomach tells you do to.

**Q: Do you find that people make knee-jerk decisions after some sort of disaster?**

**A:** No doubt. I know first-hand because my father is the bellwether for that kind of investing. He gets his investment advice from Reader's Digest or People magazine. Remember that old commercial about E.F. Hutton? Who hears it first? He hears it last. We actually use him as an anti-timing device.

**Q: You told investors to lighten their exposure to tech stocks in 1999.**

**A:** And it was a very unpopular thing to do. I had just joined the bank. It was our first big Beverly Hills conference. We recommended buying stocks and underweighting technology stocks, and probably half the audience walked out of the room. It worked out very well for our clients, but nobody wanted to hear that at the time.

**Q: Don't professional money managers do stupid things too?**

**A:** I would never presume to go into a doctor's office and tell him I think I have a brain tumor. But that's what people do with their investment portfolios. They think they have a little time, they can read a book, they have it all figured out. More often than not, people lose money because they sell too fast. They jump out at the wrong times. They're too scared to invest when the scientific or disciplined investors would tell you that's precisely the time when you should invest, when the crowd is getting out.

**Q: Where does real estate fit in?**

**A:** That's been a tough one. We have a lot of clients who have made their money in real estate or are in the real estate business, and several of them are taking profits off the table. Most of them will naturally go to what they think is the safest, most diversifying asset class with the extra money they have – and that's muni bonds. That's known as a barbell strategy. The problem is that the biggest risk to real estate investors is the Southern California economy and rising interest rates. And what are the two biggest risks to muni bonds? The same. If you want to put it into bonds, put it into corporate bonds.

**Q: Do you listen to people who say this time real estate is different?**

**A:** It's hard to make a case that real estate is not overvalued. You hear all the arguments, which, by the way, if you just replace the words real estate with technology and take yourself back six years, you hear the same reasoning. It's had such a great run and if you look at any reasonable ratio it appears to be, at best, fairly priced, if not overpriced. We'll go a million other ways to diversify our clients first. We find commodity-based investments, TIPs (Treasury inflation-protected securities), hedge funds, international stocks or bonds better bets.

**Q: I'm surprised you encounter investors who are thinking about making big changes to their long-term investment strategy.**

**A:** It was Sir John Templeton of Franklin Templeton who said the four most famous words in the investment business are: "This time is different." The fundamentals of investing, the disciplines, asset allocation, diversification, setting a long-term strategy, these last through time, though the specifics all change. But changing your long-term investment strategy based on an article you read, some idiot neighbor you talk to or my father, that doesn't make much sense.

**Q: Does it matter at all who is president in terms of the economy?**

**A:** No. It absolutely does not. When I was in graduate school, I did some work on the connection between the political cycle and the economic cycle. Every four years, you get the same question. Are Democrats or Republicans better for the stock markets? And of all that research, there's only one relationship that's ever been borne out. And that is, years that end with the number five do well. There is no statistically significant relationship between who is in office, what political party is in office and whether stocks or bonds do well.

**Q: What asset allocation are you recommending to clients now?**

**A:** Stock portfolios we're clearly leaning toward larger cap, growth-oriented names in face of rising interest rates. On the fixed-income side, given that interest rates are moving up, we're recommending higher-quality, shorter maturity bonds.

**Q: You are chief investment officer, but you do a lot of public speaking.**

**A:** A lot of our business is not just about performance, it's selling. You can have the best engine in the world, but if the chassis on the car isn't appealing, nobody's going to buy it. It's still a lot about sales.

**Q: How do you deal with being in front of an audience?**

**A:** I still get nervous before speeches. I can't eat before them. But I eat a lot afterward. Let's face it, all else equal, investments and the economy and economists in general are pretty dull. It's a dull topic with dull speaking people. If you just inject a little humor into a presentation, you make it more accessible and more appealing.



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