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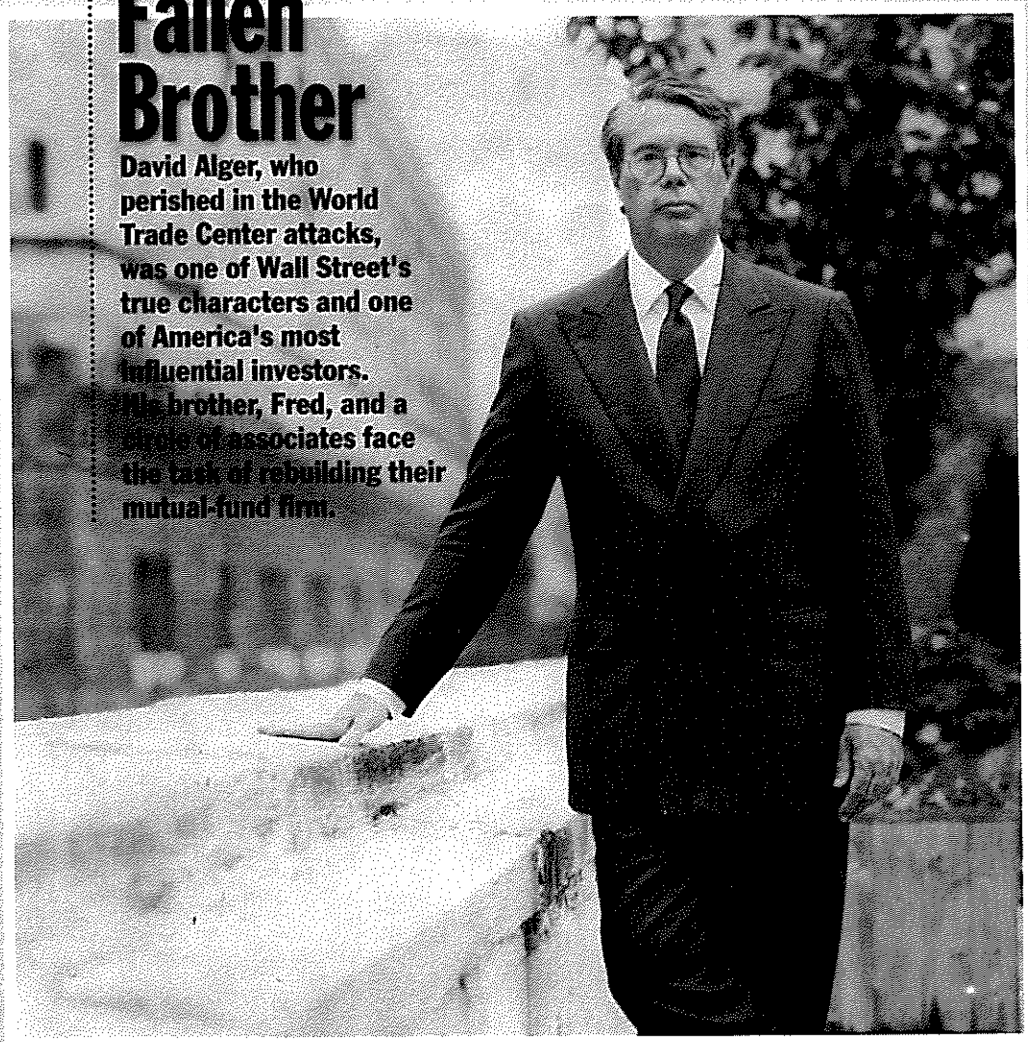
Fallen Brother

David Alger, who perished in the World Trade Center attacks, was one of Wall Street's true characters and one of America's most influential investors. His brother, Fred, and a circle of associates face the task of rebuilding their mutual-fund firm.



John Abbott for Barron's

(over please)

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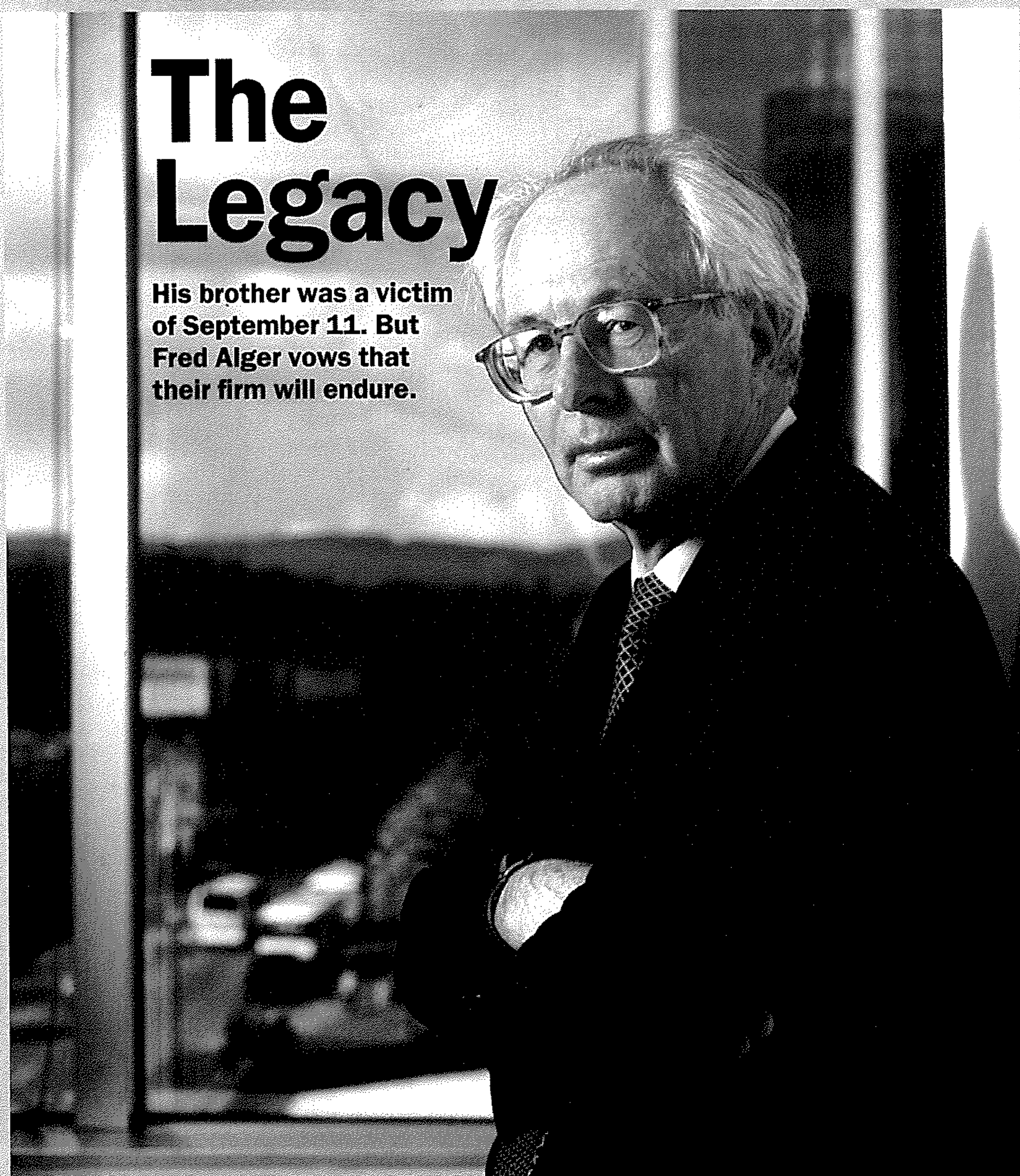
Mutual Funds



The Legacy

His brother was a victim of September 11. But Fred Alger vows that their firm will endure.

Gary Spector for *Barron's*

The Legacy

From the ashes of tragedy, Alger Management is reviving

BY LESLIE P. NORTON

Steve Skoll for Barron's

Fred Alger, left, sometimes was at odds with his brother, David, but together they built a well-regarded firm.

FOR YEARS, FRED ALGER MANAGEment has been just a trickle in the giant, swift-running river of capital that courses through Wall Street each day. But by dint of its owners' fame, its track record, its popularity with some institutional investors and the high visibility of many of its alumni, it's often made a splash in the markets disproportionate to its size.

Alger, which was based in the North Tower of the World Trade Center until the awful events of September 11, managed $16 billion in assets as of June 30, a minuscule sum, at least when compared with the $43.9 billion overseen by Fiduciary Trust, over in the South Tower of the Trade Center, or the $688 billion run by Deutsche Bank Asset Management, whose satellite office stood a stone's throw away across the slender canyon of Liberty Street.

Yet Alger adroitly navigated in the wakes left by bigger firms. Alger's heyday could truly be said to be now, as it posted strong returns in the market of the New Economy. Its **Spectra Fund,** which was heavily tech-oriented and whose largest positions included stocks like eBay, was among America's best funds in the 'Nineties, returning nearly 30% a year, on average. A December 1986 investment in **Alger LargeCap Growth** would have climbed nearly sevenfold by this past August.

Even as the bull morphed into a bear, the firm was on a roll. Fred Alger, its founder and the elder brother of CEO David Alger, had lived in Europe as a tax exile since 1995. But Fred polished the firm's image abroad, and his face was well-known in Germany, where he appeared in flashy ads for Alger funds. In late August, David, who resembled his brother in looks but outdid him in vivacity, returned from a business trip in Asia in high spirits, cheered by his assessment of the firm's prospects in Taiwan and elsewhere.

When David took over in 1995, Alger had just $3 billion in assets. That changed, as his stewardship coincided with the emergence of America's seemingly insatiable appetite for mutual funds. In the same span, Alger Management's payroll had gone from 82 to 220.

Then came the terrorist attacks. Of the 40 people assigned to Alger offices on the 93rd floor of the North Tower, 35 were lost in one ghastly morning, including David Alger, 57. The five survivors had been out of the office. As rescue workers labored in the smoking rubble, Fred Alger returned from his summer home in East Hampton to take the chief executive's post. He swiftly named his son-in-law, Dan Chung, a top tech analyst who'd been at a meeting for Tyco International in midtown, as chief investment officer.

The survivors moved to offices in Morristown, New Jersey, in a space that Fred had set up, presciently fearing a second terrorist assault on downtown Manhattan after the 1993 Trade Center bombing.

The task facing Alger Management now is gargantuan. Among those lost were portfolio managers Seilai Khoo, Ron Tartaro and Bonnie Smithwick. Khoo was a fiercely independent Malaysian who routinely took issue with Fred's views. Tartaro was a skilled statistician who'd found his way to Wall Street from AT&T's Bell Laboratories. The senior analysts who were lost included Lisa Gregg, the convertible specialist who ran Alger's convertible bond fund, and Ginger Risco, the brainy generalist who was a 20-year Alger veteran.

In the following days, the firm exercised an influence beyond its size. The jitters afflicting the stock market when it reopened on September 17 extended to many of Alger's big positions, including **Tyco, Home Depot** and mutual-fund firm **Stilwell Financial**, the holding company for the Janus Funds.

The fear was that news of the losses would cause pension plans to pull their accounts with Alger, and fund investors to redeem their money, and thus Alger would have to dump holdings to meet redemptions. Alger quickly issued a statement that there was "virtually no redemption of assets" on September 17. Yet rumors and fears about this apparently figured in the dreadful slide the stock market experienced in the ensuing week.

Alger's influence had been felt in the markets long before, as its alumni could be found throughout the investment-management universe. Alger grads labored at some of Wall Street's biggest firms and savviest hedge funds. Among them: Pequot Capital, Janus Capital, Putnam Investments, State Street Research. They appeared on lists of star analysts compiled by Institutional Investor and The Wall Street Journal.

Some of the most celebrated former researchers included major investors now at Janus Capital: Helen Young Hayes, chief of $20 billion **Janus Worldwide**, Jim Goff of $3 billion **Janus Enterprise**, and Warren Lammert, who runs $8 billion **Janus Mercury**. They also included Tom Marsico, who'd been instrumental in building Janus before leaving to start his own Denver-based firm; Shelton Swei of Sapphire in New York and Rob Lyon of Institutional Capital in Chicago.

No small part of their success owed to David Alger, who joined his brother's firm in 1971, and became its head of research in the 1980s. Alger helped steer the firm through its many changes, and with his brother hired a nucleus of 15 or so analysts, including Lyon and Marsico. As assets expanded, the Algers made yet another change, deciding the analysts would become superior stockpickers with their own researchers.

The brothers shamelessly mined their alma maters, Yale and Harvard, for musicians, poetry majors, actors and jocks with high grade-point averages. "They figured these people were smart, used to managing their time and used to working long hours. And why stop at one? They could do even better if they hired two. "It was like Noah's Ark," recalls Rob Lyon.

In 1983, Marc Pinto was writing a thesis at Yale about human rights as the centerpiece of President Jimmy Carter's foreign policy. He had no idea what investment managers did, he confesses, and checked with his classmate Mark Broach, also interviewing with Alger. "Mark said to ask him about his investment philosophy. I did, and David described the changes in companies' life cycles." The theme struck a chord with Pinto, whose father had recently bought shares of Lockheed Martin, then exiting the commercial aircraft business to focus on defense. "David began waving his arms around. He shouted, 'That's exactly right! We made a lot of money in it!' As it turned out, it was a big home run for them. He was very intense and passionate." Today, Pinto oversees a group of large-cap portfolios for Janus, and Broach picks stocks for Pequot, whose most famous investor is *Barron's* Roundtable member Art Samberg.

His analysts would recall David Alger as an ardent, volatile boss. An inch or two over six feet, dark-browed and Waspy, he always was nattily dressed. He had a vigorous quality. He would declaim and rant.

To reporters, he was astonishingly thoughtful, a refreshing departure from fund managers who dispense scripted platitudes and generalities vetted by compliance departments. But he detested muddled thinking. He remembered what had been written and who had written it, and he would sarcastically quote from an article he found flawed when its author phoned again.

Working at Alger wasn't for the thin-skinned. David Alger often would question an employee's intelligence, particularly if one of that person's stocks was performing poorly. "At Alger, culturally, if you got a stock wrong, it was immoral," recalls Warren Lammert, now at Janus. "It wasn't just an analytical mistake. It was wrong. There was a lot of emotion. It was a very charged atmosphere.... The negative is that it was very stressful. The positive is that it was an energized place. David would break the tension and stress with a good sense of humor."

Analysts were encouraged to shun Wall Street research and build their own models. The firm did its own trading. It didn't buy only traditional growth stocks. And, often, it scarcely heeded valuations.

Says Fred Alger: "We have always invested in rapid change. It was the serendipitous factor, and that's where you find surprisingly good results." The firm made its contribution to growth investing, thanks to David, by abandoning slide rules and using networks of sources to identify promising companies—those whose markets were rapidly expanding, with new products that would buoy volume and margin growth, or whose shifts in strategy catalyzed a new expansion in profits. Aided by their networks, the analysts sought companies with accelerating earnings and revenue growth, rising cash flows and margins. They would project earnings forward as much as five years, and use those projections to justify the prices at which they bought.

One morning in the 'Eighties, Alger arrived red-eyed, having stayed up all night to finish *The Soul of a New Machine* by Tracy Kidder, about Data General's effort to create a new minicomputer. That afternoon, he bought several copies and ordered the analysts to read the book by the weekend. "It was about taking 10 people and putting them in a garage to build a rocket," says Rob Lyon. "They [Data General's competition] were bigger, so they had to be better. That was his idea of what we were all about, too. Fred inspired David, and David was a very creative guy."

David Alger routinely would engage analysts in debate, and made a variety of experiments to improve performance. Weekly, the analysts would defend their worst stocks, with some meetings ending in near-brawls. And there were contests in which analysts ran separate paper portfolios, the success of which determined part of their compensation. Alger dropped the latter as analysts became obsessed with beating their colleagues. By mid-1994, he had appointed official portfolio managers—previously, the Algers had run them all themselves, with input from their staff—to counteract the effects of what sometimes became a free-for-all.

It was a lively group, and to relieve the stress, Alger would organize basketball games, pitting older analysts against younger ones. Sometimes these, too, ended in fisticuffs. He played tennis as though he were going to war. Warren Lammert remembers elaborate impromptu office games involving crumpled research documents and the trash can. Says Lammert: "He would listen and engage kids out of college just a couple of years, even though he had very strong opinions. You were definitely going to hear his case. He was incredibly passionate about stocks."

Alger was a startlingly good writer, composing *Raging Bull*, the case for a bull market in the 'Nineties, and regularly penning letters to investors that made right-on-target forecasts. In his spare time, he wrote a children's book and a spy novel. At family gatherings, David, who would leave behind a wife and two daughters, would often produce a poem.

Hedge-fund manager Bob Emerson would later say that David, "in terms of verbal gymnastics," could sound "like Tom Stoppard," the playwright. He was a zealous advocate of growth investing, often taking potshots at value investors. Last year, he appeared 36 times on television, defending growth investing, Alger-style. The firm, 80% owned by Fred, 20% by David, drew the attention of foreigners eager to buy mutual-fund assets in the U.S.

The brothers often had a difficult relationship, one chronicled in Fred's self-published biography, *One Way Up Wall Street*. When David went on vacation, Fred would sometimes rearrange the firm's portfolios. The nine-year age difference sometimes led people to assume David was Fred's son, a mistake that annoyed Fred no end, according to the book's author, Dilip Marchandani. Fred was thin, while David had a spare tire. Fred was aloof and guarded; David, just the opposite.

Says longtime mutual-fund observer Michael Lipper: "A lot of the later success was also due in part to Fred, who trained David and started the organization. It was about the willingness to take risks for high returns, and a comfort with brand-new technology. The ability of both brothers, and specifically Dave, to attract bright kids was one of the remarkable things about the firm. It doesn't make him unique, but it makes him unusual."

On a recent Friday afternoon, the ghosts at the firm's offices in Morristown, New Jersey were almost palpable.

On September 13—his first day of work in Jersey after the attacks—Dan Chung, the firm's new chief investment officer, arrived at the offices and logged on. Chung is no slouch. He worked as a tax lawyer after graduating from Harvard Law School in 1987, and at Alger, worked his way up from researcher to a senior analyst specializing in the Internet and networking infrastructure. That Thursday, he recalls, he typed in his password, and his computer models and positions appeared. Then it was time to go through the portfolios of his missing colleagues. As each flickered onto the screen, it was like reading an unfinished story.

Since then, Chung and Fred Alger scarcely have had time to reflect on the disaster. After being photographed on Friday, Fred, dressed in a dark suit, sits in an unornamented office. He and Chung have held endless meetings with fund wholesalers and investors since September 11. And, Fred maintains, the firm has lost less than 1% of total assets under management since then, even though the **Commonfund**, which oversees billions of dollars for foundations, has yanked its account. Meanwhile, American Skandia Investment Services appointed Massachusetts Financial Services to help run some of the funds it has with Alger until it completes a review of the firm's management capabilities.

In fact, Fred Alger has been hiring. And some of the firm's alums are answering his calls for help. One is Dave Hyun, who left to join Oppenheimer Funds in June 2000, and now returns to assume primary responsibility for the funds that can invest in companies of all sizes.

Amy Ryan, a star retail analyst at Prudential Securities, is coming back. So is Steve Thumm, a trader who had been at a hedge fund. And Greg Richards, from the world of private equity. Ron Reel, an accomplished buy-side drug analyst, is coming out of retirement.

Within two weeks, Fred pledges, "We'll be back at full strength in terms of seasoned senior analysts, with the best research staff Fred Alger has ever had." In a few weeks, they'll all move to new offices at Fifth Avenue and 18th Street, a few miles north of where the Twin Towers once stood.

As tragic as September 11 was, much of the firm's infrastructure remains in place. Alger's chiefs of marketing and sales, Ray Pfeister and Jim Connelly, weren't there that fateful day. Neither were Joe Maida, the head of trading, nor the chief financial officer, Gregory Duch. Two of the four portfolio managers, including Dan Chung and Alison Barbi, a fixed-income specialist, survived. So did Kevin Collins, a small-cap expert, and tech specialists Nam Hoang and Patrick Kelly.

And the firm's administrative, finance and support offices, in Jersey City, New Jersey, are intact. Since September 11, Fred Alger observes, his company's funds have held their own against the small-cap benchmarks and, one day late last month, even received $40 million in net new fund investments—not bad for an outfit under such a cloud.

Fred Alger acknowledges that the market might have a difficult time rallying from its recent slump, but maintains that his research process gives it an edge. "We'll be in a trading range for a good period," he predicts. The definition of growth is now 10% [a year], not 20%. Rapid change will be a high value added by the manager. Instead of being a momentum market, it will be a stockpicker's market, and the art of investing is going to return. Which means you have to be in place with senior analysts who know what they're doing."

About the terrorist attack he so feared, for which he'd created the shadow office in Morristown, it has at last "raised the consciousness of the people and Congress to respond to the threat. We should feel safer today than yesterday. We're doing exactly what we should. And [President Bush] has suggested the right things."

Whatever the outcome, David Alger and his colleagues will be remembered.

George Paoletti of Digerati Partners, a New York hedge fund, joined Alger Management in '95. While there, he got full exposure to a style of investing that focused on selecting "winners, no holds barred." Paoletti subsequently left for Morgan Stanley, then landed at Digerati.

What was David Alger like? Paoletti reflects for a minute. "As a person, he was very bullish. He was very thoughtful, but also very emotional. David was kind of like the market—very bullish and a little bit volatile. He and the market went well together."

Now, only one carries on. ■

The views expressed herein are subject to change and there can be no guarantee that the views and opinions expressed in this reprint will come to pass. They should not be construed as investment advice. Investing in the stock market involves gains and losses and may not be suitable for all investors. Portfolio holdings are subject to change. At 9/30/01, The Alger Fund, The Alger Retirement Fund and Spectra Fund owned Tyco International, Home Depot, Inc, and Stillwell Financial shown below as a percent of total assets.

	Tyco International	Home Depot, Inc.	Stillwell Financial
Alger Capital Appreciation Portfolio	2.81%	3.90%	0.10%
Alger Small Capitalization	0.00%	0.00%	0.00%
Alger LargeCap Growth	4.09%	3.21%	0.19%
Alger MidCap Growth	0.00%	0.00%	0.48%
Alger Balanced	4.38%	3.07%	0.08%
Spectra Fund	2.78%	4.08%	0.02%
Alger Retirement Capital Appreciation	2.70%	3.63%	0.00%
Alger Retirement Small Capitalization	0.00%	0.00%	0.00%
Alger Retirement Growth	4.17%	3.02%	0.00%
Alger Retirement MidCap Growth	0.00%	0.00%	0.72%
Alger Retirement Small Capitalization	0.00%	0.00%	0.00%
Alger Retirement Socially Responsible	3.03%	3.06%	0.00%
Alger Retirement Balanced	1.68%	0.00%	0.00%

Spectra Fund Class N average annual returns as of 9/30/01

1 Year	3 Years	5 Years	10 Years	20 Years
-44.90%	3.91%	9.46%	16.19%	17.74%

Spectra Fund Class N calendar year returns

1980	62.61%	1985	40.12%	1990	2.81%	1995	47.69%
1981	-14.14%	1986	14.10%	1991	57.30%	1996	19.48%
1982	37.25%	1987	11.15%	1992	8.49%	1997	24.69%
1983	19.46%	1988	6.81%	1993	27.56%	1998	47.94%
1984	-4.69%	1989	31.61%	1994	3.66%	1999	71.94%
						2000	-32.45%

Alger LargeCap Growth Portfolio Class B average annual returns as of 9/30/01

1 Year	3 Years	5 Years	10 Years	Since Incep. (11.11.86)
-34.30%	2.55%	9.48%	13.25%	13.47%

Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate and the portfolio's shares, when redeemed, may be worth more or less than the original cost. Performance figures assume all distributions are reinvested. Alger Fund Class B shares' CDSC declines annually between 1-6 years according to the following schedule 5,4,3,2,2,1%. No sales charges are assessed after the sixth year. The Alger Fund also offers Class A and C shares. Spectra Fund also offers Class A shares.

For additional information about The Alger Fund, The Alger Retirement Fund or Spectra Fund, including charges and expenses, send for a prospectus from the Fund's distributor, Fred Alger & Company, Incorporated, 30 Montgomery Street, Jersey City, New Jersey 07302 or call 1-800-992-5437. Please read the prospectus carefully before you invest or send money.

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