The Analyst Experience

Dan Chung, CFA
Chief Executive Officer, Chief Investment Officer, Portfolio Manager

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to the Alger Podcast: Investing in Growth and Change. 2024 marks Alger's 60th anniversary as an investment firm. It also marks 30 years at the firm for Alger's CEO and Chief Investment Officer, Dan Chung. As such, we're doing a special series of interviews this year with Dan, talking to him about both his personal history at Alger and some of the foundational ideas of the firm that have stood so strong since the company's inception. Dan, thank you so much for joining me this afternoon.

DAN CHUNG: Thanks, Alex.

ALEX: Dan, for this first interview I'm excited to discuss a subject that we really don't hear too much about: your early days as an analyst. What some people might not know is that you went through Alger's training process, starting out in pretty much the exact same way as our first year analysts do. So, you started out as a Research Associate, right?

DAN: I started at the very bottom of Research. I actually spent a week learning the back office. I don't know if that was a tradition in those days or not, but I started in the back office for a week, before starting in the Research department, which was the plan. As a Research Associate, I worked for a young Analyst, and I was at the very bottom.

The strength that Alger had then and still has is that the training program was a combination of a playbook of process for research and guidelines on what to look for in a company specific to our investment philosophy, building financial models, which was actually totally brand new to me. I'd never really used. At the time it was Lotus 1-2-3 but building models and then, of course, how to use them to gain investment insights that are useful.

Then flip over to the people/culture side. First of all, the freedom to go out and do the research on companies you were assigned and industries that you were supposed to follow in the real world, and that was tremendously exciting and interesting to me. I mean I was going to conferences, talking to experts, talking to people in an industry and just learning as much about it as you could.

I mean to get to go to a tech conference and see presentations by the leading technologists of the time, interview them or their associates, and then of course see whether what they're saying matches up with what they're reporting in their financial results or what they're reporting in terms of, for example, industry market share, I mean it was all very exciting and a lot of learning and a very dynamic process.

So, then it was something that I was actually fairly familiar with from being a lawyer, which is the Socratic method. It was very much the culture and process at Alger. Which is, you may be the new Research Associate, but if you were assigned a piece of research on a company, when you're presenting it, you're expecting basically to get a thousand questions, probing, challenging, simply just trying to go deeper into our insights about a company.

I was actually well equipped to handle that part of it.

ALEX: I know you grew up in Silicon Valley. Did you naturally gravitate towards tech?

DAN: I didn't actually start off in tech. I mean my first assignment as a research associate working for an analyst, I think we covered contract manufacturing, some industrials, restaurants. We covered cellular phone companies and funeral parlors. That was under the category of industries that are rolling up and consolidating. We also covered a trucking company for example.

But in our process, after passing the CFA, getting promoted to Analyst and getting my own coverage, in those days, I mean I got a small assignment. But the whole culture was really like, well, now you're an Analyst, so now you get to basically be a hunter/gatherer. Go out. Research. Find the great ideas in the stock market. It's a wide, open playing field.

But technology came anyway with that small start.

ALEX: And just to be clear, this is the mid-90s that we're talking about.

DAN: Basically, there was one name within the coverage that I got that was on every headline but wasn't really considered important by Wall Street which was America Online. Just to give you an idea of how small it was, I mean I think at the time the market cap of the company was essentially $200 or $300 million. It was a small cap company.

But what I knew about America Online and through our investment philosophy of high growth in particular, was that they were seeing tremendous demand in growth from consumers to get online. They were in the headlines not because they were having great success. But because they were having huge outages and failures and getting a lot of criticism for that. But I saw the problems as likely solvable.

I did research on that, including visits down to their data centers. I would ask the engineers and the data center managers, "Well, what are the biggest problems here?" and they would walk me around and show me where their problems were, and then I took those back and did research, made connections. And I realized that they had a good problem to have, which is so much demand that it wasn't that their technology architecture was incorrect or faulty. It was simply they couldn't install enough of it quickly enough with enough capacity to handle literally the hundreds of thousands that went to tens of millions very rapidly, exponentially. So they were just sort of having logon problems.

It was actually the first stock I recommended I think as an Analyst. It ended up being a top holding not only that year but in successive years, and ultimately ones when AOL acquired Time Warner in I think 1998 or '99. So, that's how it all started.

ALEX: What was a day in the life like for you as an Analyst back then?

DAN: Well, we were certainly very paper based there. Even though we had financial models, they weren't really connected to anything. My desktop computer in '94 and '95, was not connected to the Internet. No one was. I had to actually ask David Alger to get an Internet connection because our big holding was America Online, and also I was trying to pitch the stock. So we had one connection, and it was on a shared desktop which I kind of dominated I guess because actually, frankly, a lot of the other analysts were not particularly interested in it, or it wasn't their area, or they had other things to do.

Getting financial data, manually inputting it because you got the 10Ks and 10Qs basically through the mail, and then you carefully read them and input the data that you wanted into your models. That's a good part of the day. We spent a good part of the day on the phone calling companies or experts or just industry participants. I spent a lot of time. And frankly as a junior Analyst, it's not like I could call the CEOs and CFOs. They wouldn't really pick up the phone call.

A lot of time on the phone. The standard practice there would be to read newspapers, read industry journals. We'd look at press releases. Then for my research, note who was being quoted at a company and then try to call them or contact them. Or in a newspaper article, not just looking at the New York Times, but looking at a local paper in an area. I remember spending quite a bit of time looking at papers in Virginia for a while because of the development of basically now the big office centers they have there. Calling the local writers of an article on business and then asking them for further insights on whatever they were reporting on.

So, a lot of time on the phone, a lot of time in front of the models and then meetings. We had some big standing meetings that you couldn't miss. Meet with PMs of course if they want to. A fair amount of travel. Go to visit the companies at their headquarters. Set up a bunch of interviews. Try and get deep inside. What's the character of a company and its insights?

I think we learned a lot in those days because the companies, especially small cap, we're often surprised that an analyst was going to fly like halfway across the country to meet just with them. Spend a day with them, and don't just talk to the CFO and the CEO but the Head of Sales, the Head of Manufacturing, the Head of R&D, whoever they would actually let you talk to pretty much. So, I really enjoyed that and I did do a lot of travel.

ALEX: And what was it like for you when the dot.com's crashed? You were pretty young at that time, comparatively. It must have been an intense experience.

DAN: Around 2000, the Internet had sort of started to crack. David [Alger] called and the other PMs called and arranged for me to come in and say, "Look, we've got to reorganize the tech portfolio. So, what do we sell? What do we keep?" So, I made a bunch of recommendations with the general purpose of cutting down the number of names and also potentially doubling down on those because they had gotten cheaper.

I remember we were successful in the first round of this because I had already gotten us out of Yahoo and thought that a lot of the consumer Internet names had gotten just overextended in valuation, and fundamentals were changing, and also we were worried about a consumer recession. But the thought that I had was the growth in the Internet was still going to occur in enterprises and corporate, in fact, because they were slower to adopt, but things like online warehouse management, new kinds of cloud computing – they weren't calling it the cloud then, but it's essentially the cloud. The idea was that companies had realized that the Internet was going to change their architectures, change their logistics, change how they ran their businesses. So that stream of revenues and those companies that served it would basically grow through recession.

There was a big bounce. A lot of what I call enterprise Internet companies rallied. But then it seems like everything hit the wall.

So, I remember going in and recommending the sale of a whole bunch more companies, and I said, "David, I feel bad. I'm not finding any stocks that I want to buy in all of this stuff," and he actually said, "It's okay. You carried the ball for a long time. It's time for other people in other sectors to carry the ball. You were minimizing losses and getting us out."

ALEX: Dan, how did your experience as an Analyst all those years ago inform your role today as Chief Investment Officer?

DAN: Well, meritocracy, giving opportunity to people regardless of their age or experience, to show that they could contribute. Those were the hallmarks of the firm then, and I think preserving those attributes now is a major part of what I try to do with my partners here. It's not so easy because meritocracy requires some things that some people don't like which is rigorous accountability, sometimes quantitative, sometimes qualitative, but nevertheless accountability for results and accountability for how you get to the results.

I do believe that in a meritocracy you also have to have a culture that people can be objective. There's a whole culture that sometimes says, oh, well, try to avoid that in some way. I'm not sure why that really benefits people. I think this is the most competitive business in the world. What other one is more competitive?

Some people say, oh, professional sports. No, they're not. The number of teams is limited. The number of players on the field is limited and all kinds of rules.

That's the price for meritocracy. It takes a pretty unique set of people to understand why that's good for not only the firm but good for them. I do think that's the hallmark of a boutique like Alger, and I've seen it in other fine boutiques too. out."

ALEX: Dan, thanks so much for joining me today. And I look forward to the next part of our interview.

DAN: Thanks, Alex. Great talking with you.

ALEX: And thank you for listening. For more information on how Alger can help you unlock your growth potential, and for more of our latest insights, please visit www.alger.com.