BEAR STEARNS

Focus on the Manager

Richard Buch: High Yield

"We put our reputations on the line every day," says Richard Buch, a Managing Director at Bear Stearns Asset Management (BSAM®), when describing the nature of his business. Richard's role at BSAM is the management of high yield products — the riskiest, but potentially most lucrative sector of the fixed income universe. "When I come into work in the morning, I like the fact that I have no idea what my day is going to be like," he says. "Every day involves reacting to new situations like earnings announcements, changes in Fed policy and events in the news. There's always something that changes the course of my day."

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When asked what initially drew him to asset management, Richard speaks of the unstructured environment, the excitement of fast-paced markets and the immediate feedback he gets on his performance. "I wouldn't be happy at a consulting firm where I worked on six-month projects," he says. "I like the idea that I get a report card at the end of every day. No one else can tell you how you did at the end of the year — you know exactly how you did based on your performance," he explains.

Before joining BSAM in 2000, Richard was a senior portfolio manager at Nomura Corporate Research and Asset Management, Inc. "You're only as good as the resources you have to put into the decision-making process, and at BSAM, I've got more resources at my disposal," says Richard about his decision to join the firm. "I've got an investment-grade manager and his team of analysts right down the hall from me. I've got a bank loan portfolio manager and his team of analysts on our floor. I've got equity managers....When we invest in the same companies, we share ideas and opinions, as well as meetings with management teams."

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"Asset management is one of the few careers where you can gain responsibility and accountability at a relatively early age," Richard says. "As a private placements analyst at TIAA-CREF, I was given the freedom and responsibility to make recommendations that directly impacted our portfolios. I wanted that responsibility — I was driven by it — and I want people working for me who have that same kind of attitude," he states.

"Today, I try to give the same opportunity to my analysts: I want them involved in the business with that same sense of ownership," says Richard. He explains that nothing goes into his portfolios without his analysts' approval. While Richard ultimately maintains the right to veto any investment recommendation, it's entirely a team approach.

"I'm not so concerned about what happens when things go well," he says. "Instead, I look at a company and think, what's the worst thing that can happen to this company, and if it happens, will it survive? Some people just can't handle the pressure of making these kinds of decisions. People either love this kind of environment or they don't."

One area Richard's team focuses on more than other managers is a company's management team. "I like sitting across the table from management, looking them in the eye, and seeing how they respond to our questions," he says. "You get a good sense for whether they really understand their business, or if they're just figure-heads," he explains. "Ultimately, I want to know if the management team is one that will know what to do and how to operate if things get really rough."

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As involved as he is in his work, one of Richard's most significant accomplishments has little to do with his time in the office. In 1995, Richard and his wife ran the New York City Marathon to raise money to support Leukemia research. "One of my salesmen who had recently lost a daughter to leukemia asked if my wife and I would run the marathon to raise funds," he explains. "I got on the treadmill the next day and made it a mile and a half; I thought I was going to die," he says. After six months of training, however, Richard and his wife ran the marathon, raising more than $30,000 for the cause. "It was an incredible experience knowing we did something for someone else by running that race," he says. "It reinforced in my mind the values of determination and confidence — that if you put your mind to something, you can accomplish it."

In his approach to the high yield markets, Richard has instilled in his team several concepts that he values in making investment decisions. First — the belief that yield doesn't make a bad deal good. Richard explains, "The company that promises higher returns isn't necessarily the best investment. If the credit risk isn't acceptable to us, we won't invest in it. Our focus is on identifying companies that are improving and avoiding the market's problem areas."

Second, Richard recognizes the importance of owning his mistakes, minimizing the losses and being objective. "One problem managers have is that they become emotionally attached to an investment. Our sell discipline helps us avoid that pitfall. We ask ourselves, would we buy that same investment today? Does the original investment thesis still hold? If not, we sell it."

Third, Richard sees the importance of recognizing that he can't be right all the time. "When you lose sight of the fact that you're not beyond making mistakes, you're in trouble," he states. "I get humbled every day. With the number of securities we manage, there's always some investment that doesn't go according to plan, and ultimately I'm responsible."

In his spare time, Richard enjoys golf, and sees an important parallel between the sport and his role at BSAM. "There's no substitute for practice in golf and there's no substitute for doing your work when managing assets," he says. "One is a quest for knowledge and the other developing a skill, but both take determination and focus. You can't be good at golf by just dabbling in it; it's the same with my job at BSAM. The companies we invest in are constantly changing, and we've got to stay on top of them."

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Richard lives in Scarsdale, New York, with his wife and son.

By Bobbie Turner, a financial writer based in New York City. 10/04

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