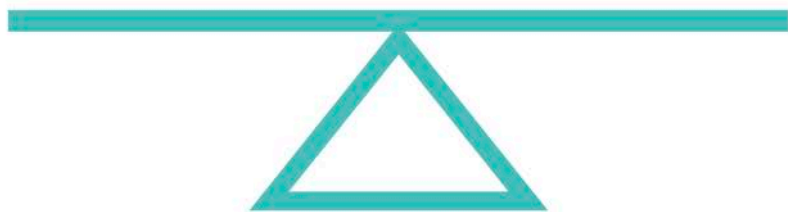


"A smart, gutsy book, written by a smart, gutsy businesswoman."

—**Robin Ely**, Harvard Business School

EVEN THE ODDS

SENSIBLE RISK-TAKING
IN BUSINESS,
INVESTING, AND LIFE



KAREN FIRESTONE

Praise for
Even the Odds
and Karen Firestone

“Risk is everywhere, and we all need to manage it wisely. This book teaches you to manage risk as a highly proficient and articulate investment professional does. Karen Firestone shares her copious experience in a series of useful and engaging examples.”

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“There is no other book like ***Even the Odds***. It is a must-read for every MBA student launching a career and every midcareer professional contemplating what is next. This book spans risk/reward tradeoffs with uncommon candor, clarity, and cleverness. It blends Warren Buffet’s wisdom with the engaging personal appeal of Oprah Winfrey. Written by one of the world’s most successful and witty money managers, this book adroitly navigates the opportunities in the turmoil of markets and money as well as in the complexities of love, family, and community life. Unlike the biographical reflections of most CEOs and public officials, Firestone reveals missteps showing the lessons of resilience and how to detect dangerous mischief of others.”

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“Karen Firestone has produced a very thoughtful, articulate, and eminently readable book on how to think creatively about risk and deal with our uncertain world. I particularly enjoyed her anecdotes and vignettes on specific case studies of both personal and financial risk-taking, which include her blunt assessment of both successes and mistakes. She is persuasive in providing examples of how a more systematic assessment of risk might lead to better decisions and outcomes.”

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“Even The Odds: Sensible Risk-Taking in Business, Investing, and Life is Karen Firestone’s experience utilizing her personal courage and critical analytical sense to navigate through the riptides of the waters of billion dollar investments, take on the risks inherent in becoming CEO of an investment firm at the height of one of the nation’s most historic financial collapses, and now help guide others through the uncertainties of their own risks.”

—Peter Gammons, writer, journalist, and
analyst at the Major League Baseball Network

“Karen Firestone has brilliantly navigated market risk for many years. In ***Even the Odds***, she offers us the gift of her clarity and pragmatism in assessing that risk. By showing us how to ask the right questions and unearth potential pitfalls, this book offers wisdom about how to pursue our dreams without losing our shirts—or our minds—in the process. . . . A smart, gutsy book, written by a smart, gutsy businesswoman.”

—Robin Ely, Diane Doerge Wilson Professor of Business
Administration, Senior Associate Dean for Culture
and Community, Harvard Business School

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**SENSIBLE RISK-TAKING
IN BUSINESS,
INVESTING, AND LIFE**

KAREN FIRESTONE



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To David

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INTRODUCTION

I am a practitioner in the risk trade. You are too. Every day we face challenges that deal with exposure to uncertainties that range from benign to highly dangerous, from immaterial to very costly. We might nudge our car too aggressively into traffic at a busy intersection, interrupt a colleague in a meeting to make a controversial point, impulsively invest in a friend's start-up against our own better judgment, or decide to eat a loaded cheeseburger and secretly delight in the fact that we weren't offered a salad rather than fries.

The possible outcomes following these actions vary enormously, from a car accident and heartburn to financial debacle or a pleasant drive home, yet they illustrate the range of our daily risk-related experiences. Very often, we barely register the potential downside, and even when we should evaluate the situation carefully, our effort can be hopelessly inadequate.

My day job involves constant encounters with the unpredictable. My company invests money and manages the financial welfare of clients who trust us enough to pay for our expertise in making tough investment choices for them. We make our living by successfully analyzing risk and subverting the many factors that may bring our clientele tremendous financial pain. The practical focus of this book is directed

toward constantly pursuing strategies of sensible risk-taking, to improve the outcomes of decisions and to add real value.

Other than a break to attend business school, I have spent my entire adult life in the investment business assessing risk. The stock market fascinated me from the time I was in fifth grade, when Mrs. Culhane had our class create a model portfolio that we followed and charted through the course of the year, keeping track of our gains and losses. IBM, Xerox, Kerr McGee, United Aircraft (now Technologies), and Eastman Kodak made up that 1967 portfolio. I sold United Aircraft and bought Flying Tiger and replaced Eastman Kodak with Avon. Those were the go-go years and we all made a killing—on paper. I suspect that Mrs. Culhane was playing the market actively herself.

I attended the Commonwealth School, a private high school in Boston, where I had a substantial scholarship thanks to the largesse of the school's founder and headmaster. His name was Charles Merrill, and his father, Charles E. Merrill Sr., had cofounded Merrill Lynch.¹ I asked Mr. Merrill to help me get a job at Merrill Lynch's office in Copley Square, close to the school. A devout liberal, Mr. Merrill put his head in his hands and shook it so vigorously that I was worried he was having a seizure. Finally, he looked up at me and said yes, he would arrange an interview with the branch manager, Bill Strott, with one important condition: I must promise never to become a "capitalist." Given that I didn't really understand the term at age sixteen, I agreed. (I have since apologized to Mr. Merrill for breaking the promise I made all those years ago.) The next day, there was a note for me on our bulletin board from Charlie Merrill. It said, "See Bill Strott at 3:30 p.m. tomorrow. WEAR A SKIRT!!!" I did, and Mr. Strott, who doubtless had little choice, hired me to do whatever menial tasks they needed done around the office. That was my first paid job in the investment business. I was in heaven.

Now, as the CEO of an investment firm I cofounded more than ten years ago, shortly before one of America's most severe financial

crises, I understand the risks inherent in starting and building a new company. Before I started Aureus, I spent twenty-two years at Fidelity Investments, where I managed large growth funds with assets of more than \$12 billion. During that experience, I grew to fully appreciate the risks in trading large equity positions and trying to outperform the market over a long period of time. My career also happened to coincide with raising four children, unquestionably adding another dimension of risk-related decisions to an already rich itinerary.

Even the Odds is about analyzing these various types of exposures by applying the four tenets of sensible risk-taking: right sizing, right timing, relying on knowledge and experience, and remaining skeptical of promises and forecasts. My experiences have forged these perspectives on risk evaluation, and they have helped me navigate some of the most severe challenges in my life, regardless of the arena in which those challenges appeared. Practical assessment of these tenets and their application is discussed through the real-life cases of people who have either mastered or neglected this approach to sensible risk-taking.

Even the Odds explores the individual parameters of each tenet, and then applies the tenets to the broader categories of business, investing, and life. Part 1 describes the properties and framework that characterize each tenet and looks at cases dominated by that principle. Part 2 considers the application of the tenets to business, including leaving one company to found another while building this new enterprise amidst major financial recession. Part 3 shows how I and other investors have used the risk-taking tenets to make judgments throughout our careers, along with cases where we wished we had paid closer attention to them. And part 4 describes evening the odds through the application of the tenets to one's personal life, through the lens of some difficult situations.

As we apply the four tenets of sensible risk-taking, we begin to recognize how frequently we encounter situations in which they are useful—we see how they can help us choose paths that will likely benefit us and avoid those that will probably bring harm. The consequences of

failing to address risk can be devastating, ranging from losing money, a business, or our reputation to damaging our health and even losing our lives. Whether the decision is to start a new company, invest in a friend's enterprise, have a child, or go running in the dark, *Even the Odds* gives you a robust and easy-to-use framework for evaluating the risks and the rewards life throws our way every day.

The vignettes in this book are a mix of true stories of people I know, as well as composites of individuals whom I have come across through the years. All of them are designed to illustrate the role risk plays in our lives. When managed well, encountering risk can result in a very positive outcome. When misread or mismanaged, we may suffer an unmitigated disaster. Some of the stories you will read are also my own, and show how I've learned to approach risk.

From the time I divided a notebook page down the middle, to segment the plusses and minuses of attending a new school, I have consciously gravitated toward analyzing risk. I can recall cases when I have made sensible choices early in my life, such as choosing my job after business school and dating my future husband. Of course, there were also some severely deficient ones, including waiting too long to walk home in a huge blizzard, leaving me stranded in the underground subway system for hours. We learn from our successes and failures, and I have tried to offer insights from a life of evaluating risk taking—my own, and that of others I have observed.

PART 1

Sensible Risk-Taking

CHAPTER 1

Right Size Your Risk

Over the course of my career, risk has been my ever-present companion. Risk is well recognized and acknowledged, studied intensely from Wall Street to the halls of academia. Despite the contemplation and analysis, there remains a void in practical suggestions for how to handle mainstream risk-taking.

Too often, we ignore certain risks and disregard the possibility of unhappy consequences. The tenets I've outlined in *Even the Odds* are designed to improve decision making and help you avoid dire pitfalls. The allure of rewarding outcomes drives and often manipulates our perception of risk. Whether you are beginning to invest in emerging markets or are thinking of giving up your Wall Street job to teach, the results of major life changes are steeped in uncertainty, and the process of evaluating potential costs and benefits is daunting. Our pursuit of big rewards in all aspects of life can distort our ability to carefully consider a reasonable course of action.

My proficiency in balancing risks and rewards is perhaps my greatest core strength, and my experiences as an investor, a business owner,

and a wife and mother of four have enabled me to distill principles of risk-taking that can be applied universally. These tenets—right sizing, right timing, relying on knowledge and experience, and remaining skeptical—have been effective in guiding my decisions both when I wrangled with international financial crises and when I had to choose a jogging partner. While the four principles are often interlaced in practice, one tenet frequently dominates the analysis, and it is helpful to isolate each as we discuss them.

The first tenet, right sizing, guides the scope of the risk you will incur. This risk might be monetary, emotional, or measured in time, effort, or energy. For example, there may be an oversized risk in taking a high-paying job that requires an hour drive each way if you tend to get sleepy at the wheel after thirty minutes. On the other hand, counseling your soccer-playing high school daughter to give the goalie position a chance is a reasonable bet: she might more easily make the varsity squad as a goalie, and she could always move back to defense. Individuals often have difficulty grasping how much may be at stake, even when they have a good sense of the potential reward or benefit they are seeking. We all have experienced problems with right sizing a risk. Following is one such problem that my firm faced a few years ago.

SETTING THE STRUCTURE

In 2005, I cofounded Aureus Asset Management, the firm for which I now serve as CEO, with my friend David Scudder. We created our company to offer families and individuals a means of investing using a style we call a “contemporary endowment model.” Universities and nonprofit institutions had, for decades, invested across a wide range of assets, including domestic and international stocks, bonds, hedge funds, and liquid assets including real estate, private equity, and venture capital. Our goal was to do the same for individuals.

When making an investment, we carefully research each candidate

and only take a position when we are convinced that a particular stock is a promising addition. We read all the financial information available on the company, review its SEC filings, and study the competitive landscape. Then we talk to the management, visit the headquarters, and build a detailed model of the future earnings and cash flow of the company. After all that, we discard at least 80 percent of the ideas because they do not offer enough reward given the cost.

We own no more than thirty-five to forty different stocks, so a new position would make up 2 or 3 percent of our clients' entire stock portfolios. After studying the benefits of diversification and attributes of concentration, as well as other factors, we determined early in our history that this was the right size for our positions. Each holding, though not particularly large, represents valuable "real estate" that we populate carefully.

TAKING THE PLUNGE

Although the return on our investment is the most important quality on which we are judged, there are sometimes additional factors and risks related to our clients' objectives. Halliburton represented such a case. In 2012, we began to study Halliburton, an oil services company whose past acts of environmental negligence had tarnished its reputation, even among conservative Americans who typically ignore such indictments. Former vice president Dick Cheney, who led the company from 1995 to 2000, staunchly denied every allegation of toxic dumping and violation of numerous federal and state regulations.¹

Halliburton's alleged transgressions went far beyond dumping and polluting, however. On April 20, 2010, an explosion at the *Deepwater Horizon* drilling rig in the Gulf of Mexico killed eleven workers and injured sixteen. Halliburton had provided the cementing of the wall of the rig, which was owned by Transocean Drilling and operated by British Petroleum. Following the disaster, the stock prices of each of these

participants, as well as all other players in the Gulf of Mexico energy sector, plummeted.

Our research team began to do some work on Halliburton, sensing that the worst news was behind it, though the stock had barely recovered since the spill. Though the company faced ongoing lawsuits related to dumping and transporting toxic chemicals, we sensed that Halliburton might be an attractive investment. The management sounded committed to more environmentally compliant behavior.

The stock was priced comparatively low relative to its industry peers on many financial metrics. The economy was recovering, and as it did, the price of oil was moving higher. We decided to buy Halliburton, paying between \$27.99 and \$42.07 per share over several months. We sized the position slightly over 2 percent for our accounts, a nod to the fact that the shares were volatile; we figured we could add more if the stock were to correct from that level. Fortunately, after fluctuating during the first half of 2012, Halliburton began a sustained uptrend.

LISTENING FOR RISK

Nearly two years after our investment in Halliburton, we were meeting with the investment committee of one of our largest nonprofit clients, a West Coast institution that owns and operates a beautiful nature reserve. The new chair of the committee explained that he had a problem with the trust owning stock in companies considered irresponsible and repeat environmental offenders, particularly in light of the organization's mission as steward of a forest and wildlife sanctuary.

We'd had a very strong relationship with the previous head of this group, who was a member of the family that established the gardens, but we knew little about the new chair. He had a specific problem with Halliburton in the portfolio. We outlined the rationale behind our ownership but had no success changing his mind. The investment committee promptly informed us that we needed to sell the stock before the

end of the year. We had eight more months, which was plenty of time. We assured the committee that, of course, we would comply with their wishes.

Oil service stocks have a strong correlation with the price of oil; the higher the amount realized for each barrel drawn from the ground or ocean, the more exploration companies are willing to pay for its extraction. As the spring progressed, the price of oil moved higher. Sanctions against Russia because of its military actions in Ukraine and Crimea, and the crippling of several oil fields in beleaguered Libya and Iraq, helped constrain the estimated supply. Traders pushed the price of crude higher. By June, a barrel of West Texas intermediate crude sold for nearly \$106. Other than the wild speculation of 2008, when crude skyrocketed in a summer spike to nearly \$150 a barrel, this was close to an all-time high. In hindsight, this would have been the perfect time to eliminate the Halliburton stock, but neither my partners nor I felt strongly enough about an imminent price drop to spearhead the sale.

We were not thinking clearly about right sizing our risk, which was much more than the price of Halliburton stock. The true risk was in losing the account, which was one of our largest.

HEEDING THE WARNING

As the summer of 2014 progressed, oil prices drifted lower. The main culprit was the huge fracking-based incremental U.S. oil supply flooding the market. In addition, Middle East output remained steady. On the flip side, economic weakness in Europe depressed demand. Even if the Europeans were eager to stock up on oil, the strengthening dollar, in which oil is priced, was making each purchase costlier.

In early September of 2014, we again hosted the four-person nature preserve investment committee to our office for a review. The performance of the account had been very strong but the chair quickly raised the fact that Halliburton was still in the account. We noted that the

mandate had been to sell the stock before the end of the year and we intended to do just that. I was able to interject that the stock was up 78 percent from the time of the purchase, but I heard muffled chuckling about how sometimes good outcomes result from bad decisions.

After the meeting, a few of us gathered in my office to discuss the risks in the portfolio with regard to the stocks, oil prices, and client retention. The United States and other world economies were in a recovery mode, which was positive for the commodity, but the supply picture was a major negative.

I then brought up the idea of selling Halliburton immediately to ensure we kept the nature preserve account, underscoring the true scope of our risk. The stock had fallen from a high of \$73 in late July to the middle \$60s. A couple of my partners argued that the stock might rally in the coming weeks, a reaction to extreme selling pressure in the energy sector. I agreed to call a friend who works in the oil industry to gauge his impression of the pricing environment, and then we would make a decision.

My contact in the oil industry assured me that oil would not possibly fall below the mid-\$70s per barrel, which may not have been a meaningful drop to him, but it was more than 20 percent below where we were at the time.

ASSESSING THE OPTIONS

Reflecting on our possible courses of action, I described four potential outcomes to my partners. We knew that the committee did not want to own Halliburton, requiring a sale by year-end. Holding the stock was extremely risky. What if we held it and the stock went down? We would almost definitely lose the account, which generated an important fee.

If Halliburton climbed higher after we sold it, I was sure that no one on the committee would even notice. The same was true even if we held the stock and it advanced through year-end. At a 3 percent weight

in the portfolio, there was virtually no upward move that could warrant retaining the position. The committee would not care. If we sold and the stock continued to decline, we would receive no credit, as they were the ones demanding that we divest the holding.

The answer was obvious to me: sell now. My partners agreed, and we sold the Halliburton stock in September for a 72 percent overall gain.

What happened? The price of West Texas crude continued to plummet, falling below \$50 a barrel in early 2015, and Halliburton stock plunged to \$37. We sold all our Halliburton holdings company wide before it reached that level, but wished we had acted as quickly for everyone as we did for the nature preserve. The most respected energy players were caught blindsided by this descent, although everyone with twenty-twenty hindsight admits that the signs were there.

This decision was not about predicting the stock price or the direction of crude oil, however, but about evaluating the size of the risk associated with not listening to the client's preference for environmentally responsible investing. The true scope of the risk was losing an important account; the clock was ticking, we knew the client's wishes, and we were all skeptical about the experts' opinions on oil prices. Once we analyzed the decision carefully, we knew that we had no option other than to sell the stock. Upon informing the committee we had sold the Halliburton, we received little more acknowledgment than "Good." That response was far better than hearing, "You're fired," a distinct possibility if we failed to right size the risk.

BENEATH THE RADAR

I would never call myself a daredevil or characterize myself as personally reckless in any meaningful way. I might jaywalk in downtown Boston, but only when it would be impossible for anyone to drive fast enough to hurt me or when there are no cars in sight. I have never driven when I am intoxicated, not only because I don't really like to drink, but also

because I don't want to risk getting caught, losing my license, or causing an accident. I would never swim at a beach if someone told me he had spotted a great white shark the day before, and I canceled a plan to learn to skydive when two people died at the facility where I was going to take lessons.

However, I did go to work on the day of the lockdown in the aftermath of the Boston Marathon bombing. That chilling event, on the afternoon of April 15, 2013, shocked everyone in the city of Boston and beyond. It is amazing and horrifying to contemplate the enormous risk, which these runners were not aware of. Around two o'clock on the afternoon of the marathon, I had driven across Commonwealth Avenue, one of the main thoroughfares on which the race is run, on my way from work to a funeral. I saw the racers and felt slightly, though not very, jealous.

Growing up, I lived a few blocks from the marathon route. Every year on Patriots' Day, a state holiday in Massachusetts, my mother and I would walk to Cleveland Circle to see the runners turn from Chestnut Hill Avenue onto Beacon Street for the final few miles of their journey. I have also run the Boston Marathon and, as anyone who has run a marathon can tell you, it's exhilarating but, man, it's not easy. As a friend of mine who has run about thirty marathons says, if you finish, you beat all those good runners who sat out the race that day.

On that gorgeous April afternoon, two bombs went off within seconds of each other at 2:49 p.m., killing three people and injuring 264. At the memorial service I was attending that afternoon, people started getting text messages from friends and family asking if they were okay. The whole city was in a state of shock and the suspects remained at large for several days.

Finally, in the early evening of Thursday, April 18, FBI Special Agent Richard DesLauriers and Carmen Ortiz, the United States Attorney for Massachusetts, held a press conference and reported that they had identified two suspects whom they believed had set off the bombs. As Agent DesLauriers spoke, a video of the two young suspects moving

across the screen played eerily, over and over. His voice calmly stated that the suspects were likely armed and dangerous. Soon after the video aired, the tip line began to ring.

Friday I went to my 6:15 a.m. spin class, but while changing after class in the locker room, a staff member ran in to tell us that the gym was closing, we needed to leave, and it had something to do with the marathon bombing.

I got in my car and listened to a radio broadcast that said the suspects had killed an MIT campus policeman the night before, then engaged in a shootout with the police in Watertown, a city adjacent to Boston on the northwest side. One suspect was killed and the other had escaped, so the authorities were going door to door in Watertown. Because of the urgency of the search, Governor Deval Patrick requested that citizens in adjoining cities and towns “shelter in place” for the day.

Despite the official warning, I decided to go in to my office, which is five or six miles from Watertown. I estimated that the risk of being injured was no greater than on any other day, and probably less because there were fewer cars on the road. I likewise decided I would not impede the investigation from such a distance. I evaluated the size of the risk to me and to other individuals as extremely small. So, I drove to work believing that the scope of potential danger to me or caused by me would be minute. Of course, if every other commuter had reached a similar conclusion, the roads would have been packed; on the other hand, most people offered a day off are very happy to take it.

There was also another factor that contributed to my decision. Jeremy Goldsmith,* a client prospect and one of the city’s most successful lawyers, had set up an appointment for that day and had already confirmed. Jeremy’s office was only a block away from mine. Something made me think that Jeremy would also go to work that day, and I was loath to e-mail him that I was staying home.

If he were in Boston and we met, I thought—perhaps optimistically—that

*Jeremy Goldsmith is a pseudonym.

my company had a strong chance of winning the account. When I arrived at my desk, I e-mailed my colleagues that they should comply with the governor's wishes and stay home, although a couple of people biked in anyway. I wrote to Jeremy to tell him that I was in the office, and he told me, as I had suspected, that he was in that day as well.

He arrived right on time, and we discussed, of course, the tragic nature of the bombing and its aftermath. He explained that he did not think that his presence on the Mass Pike would have any effect on the investigation and he found the deserted weekday streets an interesting phenomenon. The police did capture Dzhokhar Tsarnaev, bleeding from shotgun wounds, in a boat perched in a Watertown backyard, and Jeremy hired us. Would he have done so if I had rescheduled the appointment for another day? Of course, it is impossible to know, but there is a risk that he would have met and selected another investment advisor in the meantime.

Did I put myself in danger that day by coming into the office? I don't think so. I do know that I would make the same decision today. Plus, I would never have just stayed in my house all day, and if I ended up playing lousy golf, I would have been really annoyed.

Although this case of right sizing is very different from the Haliburton example, both illustrate the framework of applying the principle of right sizing to a situation where the total risk may be greater than it appears at first glance. It is often difficult in the heat of an emotional or pressured moment to grasp the true scope of the risk, which is exactly why we should, if the situation allows, calmly review the range of options, their costs, and their payoffs.

Sometimes, the risk may be less than initially presented, as with the Boston Marathon aftermath and my own physical danger. Frequently, the payoff becomes clear only after we analyze our options fully. Right sizing helps us think through the residual effects our decisions may have, such as losing or retaining a client, which may have little to do with the investment returns we generally focus on in my industry. Once we think in terms of sensible risk-taking, the various exposures become more obvious and easier to distinguish.

CHAPTER 2

Right Time Your Risk

The timing we use in confronting risk is often critical. For example, you do not want to set out on a fishing trip when the weather report warns of thunderstorms. Releasing a new film is always an uncertain endeavor, but if you drop a low-budget family film the same weekend the latest *Star Wars* movie hits the theaters, you are asking for trouble. If there are three houses on your street for sale, it might make sense to wait before listing your own, as a fourth on the market might cause potential buyers to question why so many homeowners are leaving that particular location.

One of the four tenets of sensible risk-taking is right timing, which is the process of evaluating how risk will change based on exactly when we take action.

Right timing rises in importance when people, markets, trends, and environments are changing and the specific move we are considering will be helped or hurt by our timing. You might not want to open a new ski store in July or an ice cream shop in December, for example. If you are a young political operative, you might consider starting your own

political consulting firm a couple of years before a presidential election, when numerous offices will be up for grabs. Any later, and the timing will be inauspicious. In addition to timing related to business conditions or other outside influences, there are matters of timing related to your personal situation. Your individual experience, training, age, or attitudes may render confronting a challenge at a particular time right or wrong.

MAKING THE PITCH

Anytime we seek to transform our role within an organization, we face career uncertainty, and that is exactly what I did in 2004. I found myself staring at the inside of the elevator at 82 Devonshire Street, the site of Fidelity's former headquarters, on my way to the fifth-floor executive suite. I disembarked, turned the corner, and saw the beautiful Japanese garden that our chairman, Ned Johnson, had planted years before.

I was there to see Roger Servison, one of the highest-ranking and longest-tenured managers within Fidelity, which was well known for the revolving door of top administrators surrounding Mr. Johnson. Roger was an anomaly at Fidelity in that he cared deeply about his attire and always wore a bow tie, well-polished loafers, and well-made shirts. He was also soft spoken and calm, two qualities in scarce supply among my stock-picking colleagues. My mission was to convince him that I had a strong concept for a new division inside the company, and that I could spearhead the new group.

Inside Roger's office, I took a deep breath and launched into my pitch. Wouldn't it be a great idea, I said, since we offered limited personalized investment advice, if I became the portfolio manager for our fifty largest individual clients? Instead of making decisions on their own, they would have a highly trained and experienced professional managing their money.

I was a senior fund manager requesting that Fidelity create a job that I wanted. That was certainly bold and perhaps foolish, but I had

determined that the time was right and that this was a role that both fit my skills and would help my employer move into a new market. My current assignment was managing several stock funds, the largest being Destiny 1 Fund, which I had taken over in 1998 when its long-time manager, George Vanderheiden, decided to turn over the fund and chose me as his successor.

Each mutual fund at Fidelity had one manager who took all the credit for good performance and all the blame when results turned south. In 2004, when I was in my late forties, I was not certain I had the stamina for another ten years running \$12 billion. Essentially, I wanted to create a new product line at Fidelity, not a new fund—I was advocating for a portfolio advisory division that would service our very wealthy individual clients, who might otherwise move their assets to find that service.

Roger asked me to elaborate on my proposal. If there were fifty Fidelity clients with \$100 million each, I would be managing \$5 billion. In his thoughtful manner, he pointed out that I now was responsible for more than twice that much money, so why would the company favor this change? I could feel the air leak from my popped balloon. I had not anticipated that question, and it was a good one.

Just because I had outlined my agenda did not mean that Roger Servison and the company would share my perspective. In fact, I barely considered my potential move from Fidelity's point of view, which included the very real risk that moving me off my product line would be a mistake. My new efforts would generate lower fees because of the smaller assets under my care, the initiative could take years to ramp up, and I had very little experience with client service, which would likely be a major component of my job. Why would Fidelity want to mess with a winning approach?

I stood up, thanked Roger for his time, shook his hand, and left the office. On my way down the elevator, out the front door, and down the street to my office, I realized that, in my enthusiasm for my own idea, I had totally blown my opportunity to make a strong case for myself.

It was at that moment that I began to consider the idea of not just leaving my current position but of leaving the company where I had spent nearly half my life, and starting something new. I had made a step in a direction, and perhaps I should keep walking while I explored the nature of the risks and returns implied.

Right timing seemed to be a dominant factor in the decision I was about to make, as I reviewed the reasons I wanted a change. I was seven years into the job to which I had always aspired, and I was growing restless.

GIVING UP A LOT

I understood that if I were to go into business for myself, I would be giving up a great deal. At the time, my role as one of the managers of a large U.S. mutual fund was among the most coveted at the company; it might have been one of the best in the entire investment management industry. In 2004, Fidelity Investments was the most successful fund company in the world, with assets of more than \$1 trillion.¹ As was true of all the Fidelity portfolio managers at the time, I made all the purchase and sale decisions for the assets in my fund, subsequently taking all the credit or blame, which was definitely an intense experience.

In 2004, Jennifer Uhrig and I were the only two women who managed large U.S. stock funds that invested across all industries, although we had two talented female colleagues who gave up their funds to follow other pursuits. My funds were Destiny 1 Fund, Large Cap Fund, and several others, sold through different sales forces to different markets.

I had arrived at Fidelity fresh from Harvard Business School in June of 1983. A female friend in the investment business warned me not to take the job, because Fidelity would surely chew me up and spit me out. That sounded like the perfect environment for me: the culture seemed

hard charging, the company hired analysts with a mix of backgrounds and genders, and I felt up to the challenge.

I discovered that I was pregnant with twins before graduating from business school, and, in a rare twist of career fate, I was offered a choice role as an assistant fund manager on Magellan Fund, run by the legendary Peter Lynch. Normally, new MBAs are assigned as analysts following an industry group, but Peter needed some additional help, and though I would be taking some time off, I already had four years of investment experience. I worked for Peter until the birth of my twins and through their first year, and then assumed coverage of my first industry groups.

Over the years, I followed many industries as an analyst, sector fund manager, and group head for health care. I also had two more children along the way, so by age thirty I had four kids under four years old. Very tiring, to say the least.

As a young woman, I always imagined that my career would be long and fulfilling, but I didn't realize that a working mother raising four children needs to develop patience about the speed of her career. Most of my peers, male and female, had no children, fewer children, or a spouse whose full-time job was caring for the house and family.

Many of my male colleagues advanced much more quickly than I did, but I did not complain. Debating the fairness of my situation was irrelevant; I knew that if I kept studying companies and proving my value as an investor, I would be rewarded. In 1997, after fourteen years at Fidelity, I was finally promoted to manage my first portfolio that could own stocks in all industries.

Seven years later, in 2004, there were twenty to twenty-five people at the firm who managed stock mutual funds with assets at the same size or larger than mine. Each of us was under considerable pressure to beat our benchmark, whether it was the S&P 500, a mid-cap, or an overseas index. In exchange, we were highly compensated. The leading mutual fund institutions were amazingly profitable. Just one fund

with assets of \$10 billion charging three-quarters of 1 percent generated \$75 million annually.

THE RIGHT PLACE FOR THE TIME

The explosion in the 401(k) market was the greatest thing that ever happened to firms like Fidelity, which quickly perfected the art of selling a suite of fund offerings to every Fortune 500 company.

As the market moved higher through most of the 1980s and '90s, employees—with their newfound control over their own retirement assets—increasingly selected stock mutual funds for this exposure. Fidelity offered them an incredible array of products. Funds were named for the size of the market value of the stocks held, such as Large Cap, Mid Cap, and Small Cap; the investment concept underlying the fund, including Growth Company, Blue Chip, Balanced, and Value. And, of course, there were those names that imply wealth, clever investing, and a better future: Magellan, Contrafund, and Destiny.

As the assets poured into Fidelity funds, the people who managed the large, diversified stock funds became our industry's equivalent of rock stars. Fidelity started a car service, Boston Coach, which had as its primary function ferrying fund managers to and from Logan Airport. We were awarded stock each year, assuming that our fund was keeping up with the benchmark, and the assets under our control grew and grew. Wall Street salespeople tripped over one another to host fund managers at concerts and sporting events.

On any given day, thirty to forty company managements came through our offices to meet with, and hopefully impress, the analyst responsible for providing in-depth coverage and analysis of the stock, and with the fund managers who currently owned the equity or might buy it in the future. Public corporations heralded our ownership the same way soap makers might covet the Good Housekeeping Seal of Approval.

WHY JUMP SHIP NOW?

A couple of years before speaking to Roger Servison, I had observed that most of the generation of fund managers ahead of me seemed to reach a point where they became averse to the daily pressure to outperform the market, or they simply wanted to have a less frenetic lifestyle. At that point, they retired from their funds. While I was very happy in my current position, I could imagine that I might reach that threshold five years into the future.

It was the right time for a change because I was, for the first time, interested in something new and different. I wanted to keep working full time in the investment business and had not contemplated working for a different company. I liked my idea—even if Roger didn't—so why not pursue it outside of Fidelity? Of course, as with all new enterprises, there would be many risks, but, again, the timing seemed right.

Not only did I feel ready for a change in some of my workplace functions, but it was the right time given my responsibilities outside the office. By this time, the youngest of our children was eighteen years old, which meant that all of our children would be in college or beyond within a year. Of course, as most couples today know, there is the occasional fledgling who returns to the empty nest, but offspring that old do not need to be driven to multiple activities, require help with school projects, or involve a lot of extra cooking.

Another factor in right timing my move was that I was financially secure after more than two decades at a successful company where I had been well compensated. Fidelity is a private company, with majority ownership by the Johnson family and minority ownership by a relatively small number of fund managers, analysts, and other professionals. I was lucky enough to have been a shareholder in Fidelity since close to my start date, and that stock, which I would need to sell back upon my departure, was worth a considerable amount.

I knew that I had the investment ability and knowledge to manage

assets inside or outside Fidelity, but I also believed that the twenty-two years during which I had worked full time while raising my children had helped hone key organizational skills that would come in very handy as I built and managed a start-up.

Finally, I was in my late forties, and if I was going to leave my job to create a new enterprise, the time was right to take that leap. There were multitudes of questions to be answered—such as whether I would do this on my own or with partners, what products or services my company would offer, and who would hire me—but taking the step at this time was the primary decision I had to make.

It was the right time to leave Fidelity. I had evaluated the factors in my life that would pertain to leaving my wonderful, high-paying job, and I was ready and prepared to start a business. Thus began my next journey—into entrepreneurship—where I would need to trust my long experience and hard-won skills.