

Star Gazer Joe McNay - Chairman and Chief Investment Officer of Essex Investment Management Company

Essex Investment Management Company has \$4.4 billion under management. Joe is a portfolio manager and also oversees Essex's investment strategies. Joe managed the now famous 54/50 portfolio, the Yale class of '54's intended gift to the University for their 50th class reunion, which over 21 years (25th reunion to 2000) increased from \$75,000 to \$90 million, a CAGR of 40%!

[start box] "I learn more from my mistakes than I do by being right. The real wake-up call is when something doesn't work rather than when it does. First of all, it brings you back to reality. When things go correctly, you think, "Oh, I'm so smart! I never do anything wrong or I always do it right." But, when you make a mistake, you know you were wrong, it's painful and you look at it, you analyze it and you say, what was my mistake, why did I make it, what happened?"

A lot of it comes from getting exposed to what is going on and recognizing when things are occurring that appear to have real substance and can really be something important. To see a company that began to establish a franchise, a position, a name and brand recognition, and to do it well and make it a better product at a better price and a better service, meant that they were going to get the business and watch them grow. Spotting change, and you spot change by awareness, by reading, by having a background in what is going on, and you see the kind of things that occur, and that is where the growth really comes from.

Right now I read The New York Times, Wall Street Journal, and IBD. Investor's Business Daily has become one of the most important suppliers of information, but a lot of it comes from observing public things, and observing people and what they do, what they like, and what they will do. A desire of a population that's aging a little bit to want to look nice promotes a wide set of products, all of which have come into being in the last 5 or 8 years. Whether it's Botox or using lasers for removing wrinkles, tattoos, hair, whatever and to realize what a big and important area this is and then zero in on companies that are doing it is a very good example of recognizing change.

My biggest mistakes are sometimes not staying with them for the entire life of the investment. As a company, we owned 5% of Medtronic back in the early days and after Home Depot came public we owned over 5%. With Home Depot, we saw a problem coming for one or two quarters in roughly 1982 when there was a wet period and homes weren't being built quite as much down in Georgia, where it's founded. We left it for a little while, then sure enough, the stock went from 18 to 12 but then it went from 12 to who knows, thousands? Stay with the winners is a good lesson. Wal-Mart was another great case in point. I was a major stockholder of it but left early.

Sometimes my biggest mistake was selling, but then we also make the mistake sometimes of overstaying. When you see change that you feel may not leave things like they are, that's a signal that change is occurring. Secondly, if you bought it for a particular purpose and that purpose isn't occurring or stops occurring, then you may want to leave it. Some of the great successes I've had, I was in earlier than anybody else. I was in the medical area, I was in the waste management area, I picked up the cellular area before anybody, I picked up international telephones, but above all I picked up the internet. One of my early very successful investments in the internet was a local company to the Boston area called CMGI. I bought it as a public venture capital firm in the internet and it was a wonderful way to play it and as the internet developed, the bubble developed, the stock ultimately went from \$4 to \$160. I was even interviewed by the Boston Globe in the first week of March in 2000 and they asked, you still have your CMGI and like it? And I said, yes. Well about 2 weeks later, I noticed that the new issue market was beginning to fade and not work. One of the reasons to own a company that's in the venture capital business with a lot of holdings is they go public at very big prices! Well, when I saw that, I sold all of the stock at \$120, it was down from \$160 already, but so what? And that turns out to have been a very good sale because it ultimately went to \$1. My purpose for selling it was, I bought it to have ownership of companies as they went public and benefit from it so I sold it because I saw that new issues were not going to be able to be done and there was a possibility that the whole internet that we had, I won't call it a bubble, I'll call it a double bubble, that it was starting to burst.

My thesis behind Harris and Harris is identical to CMGI. I got very interested in the nanotechnology area and I got interested in it very early. I had already been interested in nanotechnology, I did more work, and I thought that this would be to nanotechnology what CMGI was to the internet and that is why I own it, and it's actually coming along pretty well.

Use the Peter Lynch approach, go look at, see, test, feel the product yourself, and see if it has the appeal. Secondly, see how it impacts others and what the impact on them is. The iPod would be a great example of that. Do kids want it, like it, and you can't get into the store to buy it? That is a very good beginning."