High-flying Kovitz comes through

Investment group is unabashed about being stockpickers, and has left S&P in the dust

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Mitchell Kovitz and Jonathan Shapiro have pertinent questions for investors.

Do you really want to put your money into a fund spread across countless stocks and sectors? There's no way for a fund manager to have that many great ideas, so the approach guarantees mediocrity.

Do you want to invest in a fund that, for all its lip service about long-term outlooks, often acts as a short-term trader to prop up quarterly returns and dissuade people from pulling their money?

Do you want to invest with a manager who's confined to a stylebox? A stylebox can be a straitjacket, but if you want to try it on, consider an index fund and save on costs.

Kovitz and Shapiro are unabashed stockpickers and contrarians, but they've got more than rhetoric at their disposal. With little promotion besides word-of-mouth referrals, their **Kovitz Investment Group** has just surpassed $1 billion in assets under management.

Their clients are 680 wealthy individuals, mostly in the Chicago area, who have signed on to their focused and patient approach. "We are willing to have a lumpy 15 percent annual return rather than a smooth 12 percent annual return" over time, Shapiro said.

Jonathan Shapiro (left) and Mitchell Kovitz are co-chief investment officers for Kovitz Investment Group in the Loop. | Thomas Delany Jr. - Sun-Times

It's no wonder they've gotten referrals. What they call their core equity strategy fund, KIG, has outperformed the S&P 500 by an average 6.34 percentage points per year from 1997 to 2006. The cumulative totals are 296 percent for KIG vs. 124 percent for the S&P.

In four of the 10 years in the comparison, Kovitz underperformed the S&P. But it has never trailed the index over a three-year period. "We are not afraid to underperform," Mitchell Kovitz said.

The core holdings are distributed among all account holders, so there's little deviation in returns from one customer to the next, Kovitz said. He typically limits investments to around 30 stocks.

Kovitz and Shapiro, both 43 and chums from their days at Highland Park High School, founded the firm in 2003 as an outgrowth from their work at **Rothschild Investment Corp.** With offices at 222 W. Adams, the small firm is nestled near such giant competition as **William Blair and Co**. and **Northern Trust.**

Both are generalists; they'll suggest investment ideas from any industry, and the staff will follow up with research to see if the stocks make sense. Shapiro said they look for companies that are good stewards of capital, as evidenced by the following:

The companies need to show a return on capital, including equity and debt, that's higher than the 6 percent-8 percent range of the costs to raise money. Pricing power and brand strength are important, so they'll look at the history of profit margins. Finally, they want companies whose requirements for capital are fairly low.

Stocks making the cut include **Home Depot (HD), Wal-Mart Stores (WMT)** and **Bed Bath & Beyond (BBY).** The Kovitz team follows the **Warren Buffett** philosophy of careful study and long-term holds, so it's not surprising that the biggest chunk of the portfolio is in Buffett's **Berkshire Hathaway (BRK.A).** Among its more recent finds is the manpower firm **Robert Half International (RHI),** which Mitchell Kovitz said is worth 30 percent to 40 percent more than the current share price, $35 as of Friday's close.

Customers need at least $250,000 to start an account at Kovitz, and for that they get a promise that the managers' interests will always be aligned with theirs. Information is at kig-llc.com. Nothing is sold on commission, and expenses are modest, except for one little fling: When it reached the $1 billion asset threshold, the company gave all 25 employees free plane tickets to anywhere in the United States.

They should check their passport status now, in case $2 billion comes up fast.

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