FIRST UP

Fed Followers

A Wall Street investment banker with ties to the Gulf Coast aims to be a leader in a strategy based on following.

Nearly everyone on Wall Street, from penny-stock day traders to billion-dollar hedge fund managers, follows the Federal Reserve. It's an obsession that turned former Fed Chairman Alan Greenspan into something of a sage during his 18-year tenure: When he spoke, markets moved.


Doug Roberts

But Doug Roberts, a Wall Street analyst and investment banker, has taken this follow the Fed thing to a new extreme. Roberts formerly ran a $20 million cosmetics company founded by his mother, Longboat Key entrepreneur and philanthropist Flori Roberts. He has spent several years studying just about every move the Fed has made since the stock market crash of 1929 — and the statistical impact each move had on all sorts and sizes of stocks.

His research resulted in Follow the Fed to Investment Success: The Effortless Strategy for Beating Wall Street. The book is creating a small stir in Wall Street investment circles as a potential new idea in an industry where new ideas are rare.

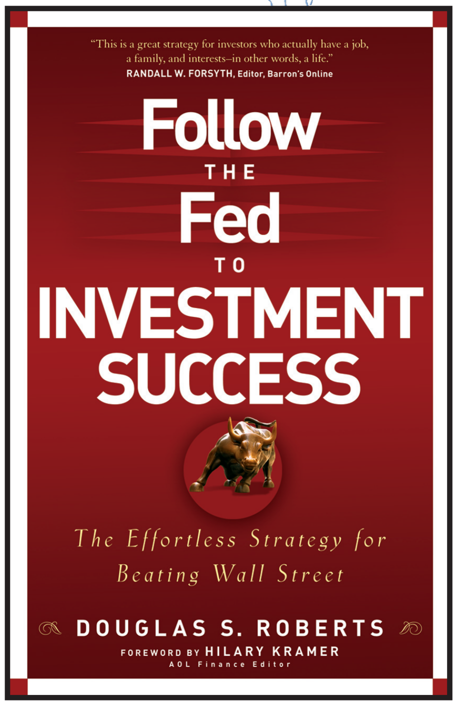
"The Fed is really a dominant force," says Roberts. "Even though they say the Fed is one of several central banks, it's kind of first among equals."

The gist of Roberts' strategy is that the Fed's monetary policy offers both soft and hard clues as to how certain types of stocks will perform, says Roberts. In short, when the Fed hews to an easy money policy, small caps stocks are the right bet. But when the Fed moves to a tightened monetary policy, Roberts' research shows it's best to move some money into large-cap stocks, which are traditionally marked as companies with a market capitalization of more than $10 billion.

Roberts says a key to his strategy is that it's not, and he's not, a "stock-picker" trolling for the next hidden gem. Instead, he uses mostly mutual funds and exchange-traded funds in his follow the Fed model.

For his research that led to the book, Roberts ran historical tests going back nearly 80 years, where he shifted funds a few times a year between large and small caps based on the Fed's monetary policies of the day. The tests worked: Roberts says his results regularly beat the S&P 500 and outperformed many major mutual funds.

The book was published earlier this year by Wiley, a New York publishing firm. And since then, Roberts, who regularly returns from his New Jersey home to visit family in the Sarasota area, has set up a companion Web site to the book, www.followthefedbook.com.



Doug Roberts' investing book, Follow the Fed to Investment Success: The Effortless Strategy for Beating Wall Street, advocates a policy of matching long-term stock picks to the Fed's monetary policies.

Roberts recently spoke with the Review in more detail about the book and his near-obsession with all things Federal Reserve. Here's an edited excerpt of that conversation:

Q. How did you come up with the idea that following the Fed's move would be a good investment strategy?

A. There is the old adage that you shouldn't fight the Fed. So I thought if that is true, than maybe the corollary is that you want to follow the Fed. Maybe the Fed is truly the determining influence.

And from a practical point of view, I had run a business and what I had seen is that really the biggest problem a business has, aside from a business strategy, is finding capital to grow. And when capital was easily available it was much easier to grow, whereas when capital was constrained, business growth was difficult.

So I thought maybe there was a correlation between interest rates [which control how easy or hard it is for businesses to borrow money] and small cap and large cap stocks.

Q. Does Wall Street overreact to moves the Fed makes?

A. You have to differentiate between what the Fed says and what it does. What it says can be quite confusing versus what it does. You have to rely on the numbers and the affect the Fed is actually having because, for the most part, a lot of what they say is really noise, not news.

Q. What are some of the differences you've noticed between Alan Greenspan and Ben Bernanke?

A. Alan Greenspan was more of a politician. He was a Washington insider. He had worked for the government. Greenspan knew how to operate politically and work with various parts of government. He avoided certain mistakes at the beginning [because of his political connections.]

Ben was more of an academic. He was primarily a professor, so initially he wanted to have more openness. He was running the Fed kind of like the economics department at Princeton and as a result there was a lot of internal dissension, which confused people.

— Mark Gordon