

## Brown 2 Brown 2 Credo

Edwin Warfield interviews Tedd Alexander of Credo Capital for citybizlist

**Q: After enjoying successful careers at Alex. Brown and Brown Capital Management, why did you decide to go out on your own and launch a money management firm?**



Tedd M. Alexander III

Being a financial entrepreneur has always been my 'end game' — a goal, in a certain respect, programmed into my DNA, and in another respect, one for which I have prepared since the age of nine.

My grandfather, T.M. Alexander, Sr. founded Alexander & Co. an insurance brokerage firm in his hometown of Atlanta, Georgia in 1931, after graduating from Morehouse College with \$100 in savings — he used \$10 to pay for the marriage license to wed my grandmother, the other \$90 to start the company. He managed Alexander & Co for nearly 60 years and had a roster of clients including Coca-Cola, and

the City of Atlanta. He would tell me, one of his proudest achievements was securing through Lloyds of London the property and casualty insurance needed by Martin Luther King, Jr. to legally initiate the Montgomery bus boycott.

My father, T.M. Alexander, Jr., after graduating from Morehouse College with an economics degree and later from New York University and Columbia University with a Masters in Business Administration and a graduate degree in Economic Geography, respectively, worked for Dun and Bradstreet and Chase Manhattan Bank before moving back home to Atlanta to join Courts & Company as a stock broker. This was in the late 1950s and early 1960s. In the early 1970s, he was appointed by President Nixon to be a Regional Administrator for the U.S. Department of Housing and Urban Development in Washington, D.C. Later, sometime in the late 1970s, he joined E.F. Hutton as an investment banker. Dad, too, was an entrepreneur. I know how very proud it made him, when in his role as power broker, he was able to secure land and airway rights for 99 years for a historic black church in the Buckhead section of Atlanta. He had negotiated for several years on the congregation's behalf against a developer who tried to bully them off their land. In 1983, my dad died in a boating accident off the coast of Belize. At that time, I was a college student.

So given my grandfather and father, I don't think that I could escape my genetic programming to be an entrepreneur, even if I tried. And I never tried escaping; to the contrary, I embraced it.

I have been fascinated by investments since the age of nine when my maternal grandparents would have me look up their stock investments in the financial pages. I was thrilled at 13 when after I purchased my first stock, Eastern Airlines, it went up. I even wrote a computer program simulating the stock market when I was in high school. It was a very popular game with my classmates. I remember seeing a newspaper article about my dad taking investment classes from Alvin Dodd, the father of value investing along with Benjamin Graham. You can imagine my amazement given my interests in investments.

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Investments were like a game to me then, but as I got older, learned more about the investment business, and considered my entrepreneurial ambitions, I recognized a common theme that investments and entrepreneurship resounds which I have found attractive to this day. Both are founded on a principal of meritocracy that rewards measurable performance. In other words, you can compete on a level playing field. The best competitor wins. I believe Dad and Granddad knew this all along.

By the time I graduated from Morehouse College with a degree in Computer Science, I was sure that I wanted to be an entrepreneur in the investment business. I joined the investment banking unit of E.F. Hutton as an analyst in Atlanta and later in New York. It was then that I made an assumption that I would need to gain an MBA from a superior program and work in established firms for about 15 years to be a credible, confident, and competent fiduciary of other people's money. When I looked up 16 ½ years later, I had graduated from Wharton, worked for four firms and held positions as an investment banker, a sell-side and a buy-side equity research analyst, and had been a portfolio manager for over eight years.

Finally, and as important as the other points that I raised, during my career I had developed my own investment philosophy, process and tools within the growth investment style. I wanted to use them to compete and to be judged on my own merits by the institutional marketplace. From my vantage point, starting a firm was the best way, perhaps the only way.

After 33 years since I first looked up a stock, I was ready to start Credo. Every fiber in my body had led me to it, perhaps literally at the DNA level. During my entire career, I had worked towards it.

I have no doubt I had to be an entrepreneur. I had to compete on a level playing field. I had to start Credo.

You asked about success. I will say one thing about my definition of success. I was asked how I define success by a former colleague upon his finding out I would be starting a firm. My response was I never have defined success by where I worked. I will consider myself to be successful if: (1) my three sons grow up with a legacy of entrepreneurship and a sense of responsibility to their community perhaps even greater than what I inherited, (2) Credo Capital Management is regarded as a preeminent firm in the investment management industry able to attract and retain the best and the brightest talent, and perhaps provide the tools for future entrepreneurs, and (3) I am able to make a charitable gift to dedicate an academic building to the memory of my father and grandfather.

**Q: How much capital do you presently have under management? To date, who have been your primary investors?**

A: Not enough. Currently we manage less than \$25 million. I reference the \$25 million level because one of our near term goals is to surpass that level of assets under management and apply for SEC registration. Currently, Credo Capital is registered under the Maryland Securities Act. So, in the short term, \$25 million or more under management is an important milestone. The next significant milestone in terms of assets under management is \$100 million. I can tell you that \$1 Billion is a very significant milestone for consultants

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in the large institutional market segment. So if you want a third milestone, I would say it is \$1 billion under management.

Which is a nice segue to the second part of your question. We are focused on the institutional market, specifically corporate and public pension funds, endowments, and foundations. We currently have two public pension fund clients and expect to sign a contract with a university endowment. The channels through which we can access the institutional market include being hired by a manager-of-managers and, of course, by establishing a direct relationship. The way in which we envision serving individual investors is either by being hired by an investment company to sub-advise a mutual fund or by participating on a wrap account platform.

**Q: Salesforce.com and Legg Mason are part of your core positions. Would you please describe your positions in these companies and the investment rationale?**

A: Sure, I'll be glad to. Salesforce.com and Legg Mason, as do all of our investments, surfaced as research candidates through our use of ABACUS, our proprietary expectations model. Salesforce.com is the leading player in the on-demand applications services sector. The company's co-founder and CEO is Marc Benioff, formerly a Senior VP at Oracle. And I admit, he is more promotional than I typically like in a public-company CEO. Nevertheless, I think the company's business model has merit and can support über revenue growth for at least the next couple of years. The value proposition revolves around lowering the total cost of ownership for business service applications. The company offers an alternative solution to companies who would otherwise need to buy the hardware and software needed to operate and maintain their applications in-house. Think of it as a modified version of time-sharing and you essentially have the big picture. The company's growth formula is fairly straightforward and is a function of customer growth, customer penetration, and revenue per subscriber. All of those metrics have been trending in the right direction. The principal risk worth noting is investment risk, particularly as it relates to the stock's current valuation.

Legg Mason also surfaced as a research candidate through the use of ABACUS. At the time of our investment in Legg Mason common shares, we considered Legg Mason a super-regional broker/dealer with a very strong asset management franchise. Post the announcement on June 24, 2005 that Legg Mason and Citigroup would swap business units, our fundamental outlook markedly strengthened. I have a tremendous amount of respect for the depth of management talent and the vision of the company's CEO, Raymond "Chip" Mason, in part due to my experience working at the firm, and in part due to having had the opportunity to build relationships with some members of the management team. From a fundamental perspective, the company's realignment as a pure-play investment manager through its exit of the cyclical brokerage business reduces the overall risk of the business and positions the company for more predictable growth. All other things being equal, an investor should be willing to pay more for a more predictable stream of future cash flows. Management has its work to do, and we are confident they will implement the necessary strategies to grow the business going forward.

**Q: Credo Capital Management has developed a proprietary expectations model, ABACUS. Would you describe how it works?**

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A: Absolutely. For most of my buy-side career, I have been dissatisfied with the available tools that assist investors during both the screening and stock selection phases of the investment process. Most screening methodologies use historical data, or as we prefer to say at Credo, are backward-looking. Central to our investment philosophy at Credo Capital is a forward-looking perspective. In a nutshell, ABACUS crunches through approximately 255 data items for 1600 companies on a weekly basis and ranks those companies and their 180 industries on the relative attractiveness of their fundamental expectations. While the data ABACUS uses is readily available to the public, our investment team, consisting of me as Portfolio Manager and Cheis Garrus as Research Analyst, gains unique insight that is the result of algorithms within ABACUS that I developed and that Cheis and I continue to improve upon.

The competitive advantage to having ABACUS is that it refreshes the list of research candidates for us on a regular basis. Moreover, our process is not adversely impacted by the emotional bias that typically influences an analyst's decision to research a particular industry or company. Furthermore, it is an efficient use of our research effort because we need not spend time on companies that ABACUS scores at the bottom of the universe.

ABACUS has uncovered 100% of the research candidates that ultimately became portfolio holdings. Some candidates were not included in the portfolio as we determined through fundamental research they were not the strongest candidates. It is also important to mention, that ABACUS has also caused us to steer clear of certain industries and companies. Not surprisingly, some of the industries we have avoided are the same ones sell-side analysts continue to recommend.

ABACUS is the cornerstone of our ability to develop an independent view. Without ABACUS, our odds of discovering some of the companies we own for our clients would be greatly diminished.

**Q: Your father was a successful investment banker in the South. Would you provide us with more on his background and how he influenced you?**

A: Exactly how much time do you have? Well I certainly appreciate the question and I will try to be brief. I have already mentioned his academic training and professional career.

His influence on me and on others with whom he came in contact with during his life was far more profound and impressive than his resume. In the book [In The Black: A History of African Americans on Wall Street](#) by Gregory S. Bell, there are countless stories that illustrate his chutzpa and understanding of the art of deal making. His network of contacts was vast and diverse. I remember our family being on vacation in Hong Kong and as the five of us walked down the street, a man from the other side of the street yelled out "T.M." Less than totally surprised, we turned around to see an American business man crossing the street to talk to dad.

He was totally committed to helping others. Throughout my life, different people have shared their "T.M." stories with me recollecting how he helped them solve a problem or advance their career. I'm rarely surprised by the stories because my dad was simply extending the legacy he had inherited from his dad.

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My desire to win, to behave ethically and with integrity, to pursue excellence, to not be taken advantage of, to teach and help others, to be a loving father and husband, to pass on a legacy to my children are the traits I can easily ascribe to my dad's influence. I'm sure there are countless benefits I failed to mention, but suffice it to say, he was one heck of a role model.

**Q: Would you tell us about the background of your associates, Cheis Garrus and Melanie Mendoza?**

A: The most important point I can make about both Melanie and Cheis is that they are as dedicated to the vision of Credo Capital as I am.

Melanie, our Chief Compliance Officer, is originally from Jersey City, New Jersey, but has spent most of her adult life in Ellicott City, Maryland. She earned her undergraduate degree from the College of Notre Dame of Maryland. Her 22 year professional experience includes her positions in client service, trading operations and compliance with major buy-side and sell-side investment firms. Melanie's career has taken her from brokerage sales with E.F. Hutton and Alex. Brown to Portfolio Administrator and Trader with Brown Capital Management. Immediately prior to joining Credo Capital in April 2004, Melanie worked as a Compliance Analyst for UBS Financial in Washington, D.C. Melanie also is Series 65 registered.

Cheis is a Baltimore native and graduate of McDonogh School. He earned his undergraduate degree at the University of Virginia and received a Toigo Fellowship to attend the Wharton School where he earned an MBA. His career reflects his dual passions of securities analysis and entrepreneurship. His industry experience includes his working as an Analyst in private equity at Trust Company of the West, Latin America Partners, and at T. Rowe Price, Strategic Partners, as well as, as an Analyst at Cargill in Sao Paulo, Brazil and at Strategic African Securities in Ghana, West Africa. Immediately prior to joining Credo Capital in August 2004 as a Research Analyst, Cheis was an investor and operator of a retail business in New York.

**Q: One of the challenges that you must be facing are the negative repercussions of the Nate Chapman debacle. Are these real and how are you responding to them?**

A: The real challenges we face are numerous. One of the most obvious challenges we face is overcoming the perception that as a startup firm, we are less qualified than an existing firm to deliver institutional quality performance and service. The reality is we are experienced investment industry professionals capable of delivering consistently superior investment performance over time. We continue to deliver this message to prospective clients in the institutional market and I am happy to say that we are gaining traction.

We face another challenge that only the passage of time will allow us to overcome and that is the market's dependence on historical track records. For some of the gatekeepers of assets, their individual risk aversion is reflected in their manager selection process. In instances where a three-year track record is a minimum requirement, we are shut out for the time being. Fortunately, there are segments of the market where we can gain assets prior to our firm achieving an independent three-year track record.

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Another challenge we face relates to planning for future success. We never want to become complacent, deliver poor performance or inattentive service as might be the result of success. My goal is to maintain the entrepreneurial, hungry, performance-driven and customer-centered culture that Credo embodies. The best way for me to do this is to maintain the team's focus on our vision, fortify our systems and process, hire the best, brightest and competitive investment entrepreneurs, and compete to win. If we do this, we will do well for our clients and for ourselves.

Let me put the so called "Nate Chapman Challenge" in perspective. For balance, I want to first highlight some success stories. Baltimore has been fortunate to have had several successful African American investment professionals including Richard Hackney, Eddie Brown, and Vernon Reid. Outside of Baltimore, John Rogers and Buddy Fletcher, to name a couple, started firms, gained professional recognition for their investment talent, and have a sizeable amount of assets under management. I would like to think that the most important challenge I face is raising the bar beyond the outstanding achievements of these individuals, not in de-linking myself from the failures of one individual.

The impropriety of any investment professional can cast dispersion on all investment management firms and their professionals, regardless of race. The failure of an African American investment professional creates additional challenges for me and for Credo, as clearly some potential clients may associate my potential with the failure of another individual because we are both African American. However, we can all see the shallowness of that view. Criminal acts as well as wonderful achievements are made by individuals not by an entire race. One should be judged on their own merit. My challenge, as always, is to have the client see me, Tedd Alexander, and to judge the talent, integrity and professionalism of my team at Credo Capital Management. I try to do this by demonstrating expert performance and service.

**Q: In closing, Tedd, please feel free to ad-lib a little about your company, what owning your own company means to you, the ups and downs – and perhaps share some insights in regard to your investment philosophy.**

A: Leading the effort at Credo Capital requires me to strike a healthy balance between my family commitment, my work commitment, and my community commitment. For most people this is a challenge. For entrepreneurs and for people motivated by winning, finding this balance can be especially difficult.

For example, I am committed to supporting education and so serve on three Boards in Baltimore: Gilman School, Baltimore School for the Arts, and the Living Classrooms Foundation. I also serve on the Advisory Board of Stocks In The Future, a successful supplemental educational pilot program in middle school that teaches underperforming students financial life skills and gives them an incentive for improving school performance. These are no small commitments, and my family will be the first to tell you. "Dad/Husband don't you have enough on your plate?" they might ask.

Let me put this in perspective. When I was starting Credo, I took my family out to dinner to inform my three sons, who at the time were ages 9, 7, and 3, that I was starting a firm. My wife Teri had known of my dreams since the time we first met as college students in 1982, so for her, the question had always been "when, not if." My oldest son, Teddy, asked me "Does this mean you will have more time or less time to spend with us?" My

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middle son, Julian asked me “Do you have to pay these people?” My youngest son, Cameron, was circling the dinner table. It was not until the next week upon realizing that I had not left the space in the bed Cameron alone would usually assume by that time that Cameron turned to me and asked “Dad, are you going to work?” It was then that I realized my sons, each in their own way, had revealed to me in a new way that my decision would impact them and my new colleagues. Balancing these accountabilities is my challenge as an entrepreneur.

Not an easy challenge, by any stretch of the imagination. But, I will tell you this: I am determined. Which reminds me of my granddad’s favorite poem. I think it best sums up the entrepreneurial spirit that has fueled three generations of Alexanders to be successful in business and life’s other endeavors. If it is okay with you, I will pull it out and read it to you. It is titled *Will*, and was written by Ella Wheeler Wilcox.

Will

There is no chance, no destiny, no fate;  
Can circumvent or hinder or control  
The firm resolve of a determined soul.  
Gifts count for nothing, will alone is great;  
All things give way before it, soon or late  
What obstacles can stay the mighty force  
Of the sea-seeking river in its course,  
Or cause the ascending orb of day to wait?  
Each well borne soul must win what it deserves  
Let the fool prate of luck. The fortunate  
Is he whose earnest purpose never swerves.  
The one great aim. Why, even Death stands still,  
And waits no hour sometimes for such a will.

Ella Wheeler Wilcox



Edwin Warfield