



Leading the Boutique-Firm Renaissance

An Interview with Ronald E. Blaylock, Chairman and Chief Executive Officer, Blaylock & Partners, L.P., New York



Ronald E. Blaylock

EDITORS' NOTE While the slings and arrows of an off-putting, if not outrageous, economy have prompted most Wall Street firms to condense their trajectories, Chairman and CEO Ronald Blaylock has spent the past two years aggressively expanding his firm's "platform, product delivery, and the intellectual-capital widgets we sell." Moreover, "we entered into a strategic partnership with AIG," which gave Blaylock & Partners the enviable "ability to expand" and "attract high-quality, capable, and experienced professionals." After all, "we're in the business of intellectual capital," Blaylock asserts, and as such, the firm differentiates based on its analysts' experience as well as their ability to "exceed" the efforts of "most of the bigger firms." But at the same time, the chairman and CEO is quick to note that knowledge and experience are only part of the equation; ultimately, Blaylock & Partners' success can also be attributed to something more visceral. For, as he concludes, "We're passionate about the business, we're passionate about helping people," and "that translates into hunger and a strong sense of purpose."

Before launching Blaylock & Partners in 1993, Blaylock held senior-management positions with PaineWebber Group, Inc., and Citicorp. He currently serves as a director on the boards of several charities and organizations, includ-

ing the Inner City Scholarship Fund, New York University, Prep For Prep, Radio One W.R. Berkeley Corporation, and the American Ballet Theater. He holds a B.S. from Washington, DC's Georgetown University, whose celebrated basketball team he was a member of, and an M.B.A. from New York University's Stern School of Business.

COMPANY BRIEF With headquarters in New York and offices in Atlanta, Boston, and Chicago, Blaylock and Partners, L.P., offers institutional clients equity and fixed-income research and trading capabilities in a boutique setting. Founded in 1993, the firm has repeatedly been ranked by *Black Enterprise* magazine as the leading minority-owned Wall Street firm and is a member of the NASD (National Association of Securities Dealers) and the SIPC (Securities Investor Protection Corporation).

With so much doom and gloom in the financial marketplace, how in the world can Blaylock & Partners continue to expand, while the other big Wall Street firms are still in the red? What's your secret?

Two years ago, we made the strategic decision to expand our platform, product delivery, and the intellectual-capital widgets we sell. Along these lines, we entered into a strategic partnership with AIG to help us with our intellectual capital. That partnership positioned us with an ability to expand the platform, as well as take advantage of some of the consolidation, to attract high-quality, capable, and experienced professionals in this tough environment. And today we can do that in this environment without the burn rate that it would have taken us two years ago.

Hank Greenberg of AIG is not known as an easy taskmaster, so you must have a sharp eye looking over your shoulder. What's it like to work with him?

Well, all I can say is, we have to make the numbers clear and simple.

What distinguishes Blaylock's research from that of its competitors?

At the end of the day, it's the experience of our analysts. On average, they each have more than 20 years' experience in covering their particular industries and sectors. We're in the business of intellectual capital, and our analysts can offer investors a different perspective and understanding that can bring things to light that others might not be able to see. So that's probably our most distinguishable trait, in addition to our aggressive, independent views.

What industries do Blaylock research analysts focus on?

We focus on a range of industries. We have a very strong presence in media; telecom; publishing; retail hardliners; energy; and financial services, including insurance and bank stocks. We'll round out our services with health care and technology going forward, and we're in the process of looking for people in those areas.

Are you going to expand into other operations?

Yes, high yield and probably convertible bonds as well.

You've long been known as a fixed-income shop. Do you still have bond-trading operations?

Yes, the fixed-income market was originally our focus when we started. And now, in our 10th year of business, it represents roughly 50 percent of our efforts, and we continue to expand upon it. As this magazine's readers might know, the fixed-income area has been one of the few bright spots on Wall Street, and for us in particular. So we'll continue to grow that business and add talent to that sector.

Will you focus your future business on the U.S. market, or is it viable that overseas corporations will become clients of yours in the United States?

It's very viable. The companies we serve have large international presences. So going forward, it would definitely be in line for some of the overseas firms to use us eventually. But we'll stick with the States for now. I don't see that changing, unless it originates from the United States.

A lot of analysts have gotten into

trouble lately. How can analysts stay sharp and honest at the same time?

I'd like to think that the vast majority of Wall Street analysts have always practiced with a lot of integrity and honesty. I think that the business models themselves were blurred, and consequently some of the analysts' proper business methods were blurred as well. For analysts to maintain their integrity, firms like ours have to be clear about their expectations of the analysts and their dos and don'ts, and firms must enforce a zero-tolerance policy for anything that can even be perceived as non-independent or biased.



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You put an important price on the independence of research, yet you've participated in some major underwritings. Can you be truly independent if you're involved in underwriting?

I think you can. In our role in underwriting, on the equity side, we've never lead-managed an IPO, and going forward we don't plan to lead-manage an IPO. We usually operate as a co-manager. We're not controlling the books, and interestingly, the institutional investors have always come to us in those deals for a more drilled-down opinion.

Why should clients choose Blaylock? Because you're a boutique and more caring than the industry giants, because you give them better returns, or because you have better people? Or is it all of the above?

I won't say all of the above for every day, but over the course of a season, our per capita, per person efforts are going to exceed those of most of the bigger firms. Plus, with our experience and the breadth of our services, our clients get "A" quality work and an "A" quality team. Some larger firms are having difficulty delivering that on a consistent basis.

Blaylock & Partners comes across as a hungry group.

We're passionate about the business, we're passionate about helping people in the financial markets, and that translates into hunger and a strong sense of purpose.

It used to be that only big firms thrived. In the wake of the scandals that have faced some of the larger firms, do you think boutique firms are on the brink of a renaissance?

I think there will be a renaissance for boutique firms of 100 to 1,000 employees, and I think the industry will resemble a barbell somewhat. On one end, you'll have very large players, and on the other, you'll find the 100- to 1,000-person firms that offer unique, niche services and specialized products that add value. I think everyone in the middle will have a very difficult time excelling.

As an expert in the financial field, do you think there are certain policies that should be instituted to better serve investors, both large and small?

On a global basis, both small and large investors need a better and more transparent way to value equity research. There needs to be a more efficient and transparent way to attach a value to a research-production unit so that investors know what it's worth and what they should pay for it. When certain regulations came down the line in 1975, the value of a research unit started to detach from the actual unit, and that, unfortunately, led to the blurred lines that created a lack of transparency and compromised equity research. So, ultimately, if industry leaders and regulators can come up with a way to standardize the value of a unit of independent research, it will, in turn, be good for small and large investors.

As an industry leader, what can you do to make that happen?

It starts at Blaylock & Partners, where we're aware of what each research unit should deliver. We communicate very well with our customers as to what they want to pay for and what we're asking them to pay for.

Does there need to be an actual industry rule?

I'd like to get together with some industry leaders to try to come up with standards for measuring the value and price of those units. That will ultimately help everybody: It will help industry players manage their businesses better, and it will help clients to better understand and appreciate what they're getting and to make better selections of service providers.

You started Blaylock & Partners just 10 years ago, and you've become extremely successful. Where will your future growth come from?

We'll continue to grow our institutional sales and trading and broker-dealer research effort. But a large part of our efforts over the next 10 years will be in the asset management area, where we will build products with distinguishable track records that serve investors well.

What annoys you?

I'm annoyed by people who lack passion, people who don't feel highly fortu-

nate to be in this business, and people who take shortcuts in their work ethic.

What makes you feel good?

Winning makes me feel good. I feel good helping people meet their objectives and providing people with solutions. Plus, seeing Blaylock's people excel and achieve things beyond what they thought they were capable of makes me feel wonderful.

While at Georgetown, you were a member of a winning college basketball team. How did you get from there to where you are now? Did that prior experience help you to become so respected in your current field?

I got into college basketball out of necessity. I needed a scholarship, and fortunately Georgetown gave me a scholarship to play basketball. My experience there taught me the competitiveness of a team sport and how to be an individual on a team. Knowing about great team chemistry has helped me to build a team at Blaylock and has enabled me to garner respect in the industry and among my executive peers.

With your reputation, you're a prime candidate for public office.

Having gone to school at Georgetown in the nation's capital, I always had a strong interest in the political landscape, public policy, and how they greatly influence our daily lives, from Main Street to



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Wall Street. Ultimately, our final legacy is who and what we served, and whether entering politics as an elected official or in an administrative role, I think that's an arena that would be appealing to me someday.

What would happen to Blaylock & Partners if you left?

Over the past five years, I've stated strongly that Blaylock & Partners reaches a milestone each time I become less and less important. And given the way we're building this firm, in the next 10 years, I won't be nearly as important as I am today. The firm will prosper without me and far beyond my time.

But you're still young.

I'm young, but I'm old, too. ●