Portfolio managing for scientists

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A doctor-turned-portfolio manager finds the ever-changing economic and business environment stimulating.

At 10:44 AM on the Tuesday after Labor Day, seven of the 26 tiny companies currently in the Special Situations Life Sciences Fund are trading up, ten are trading down and eight have not yet traded. The fund has risen by eight basis points (0.08%). The general market indices are trading down for the day and have been flat for the year. I sit in front of six computer screens, four of which are filled with flashing red and green numbers, one showing a research report and a biomedical statistics program and the last filled with e-mail, instant messaging, and Twitter and news feeds. From this mix of data sources I look for situations where I can be right while everyone else is wrong, triage my investors' capital to those places where it can do the most good and generate the highest returns.

This is not what I envisioned when I graduated from medical school.

There are plenty of white coats hanging in the closets of portfolio managers, analysts, investment bankers and traders. A lot of scientists, doctors and engineers work on Wall Street; the skill sets needed to succeed in any of these fields are very similar. Moreover, given the increasing complexity of the platforms on which many biotech, life sciences and medical technology firms are based, familiarity with the basic vocabulary of molecular biology, epidemiology and biostatistics is essential to making educated investment analysis, recommendations or decisions.

There are several routes from the laboratory to the business world. Most scientists get their starts on Wall Street as 'sell-side' analysts, supporting investment bankers who broker sales of companies, stock offerings and merger activity by evaluating the quality of the scientific work underlying potential new client companies, and later publishing written reports on those companies as they progress through their business plans. The scope of the analyses broadens over

time from a narrow focus on just the scientific platform of a company to a comprehensive evaluation that also includes critiques of the management, capital structure and other core business considerations.

Experienced analysts are therefore bilingual—conversant in the languages of science and business.

Many analysts later move to the 'buy-side', that is, to hedge funds, venture capital or private equity funds and mutual funds, where they help the portfolio manager decide how to invest client's money. Some subsequently become portfolio managers themselves.

From bedside to buy-side

I took a somewhat unusual route to being a portfolio manager. After graduating with a degree in economics, I attended medical school, undertook a residency in obstetrics and gynecology, a fellowship in reproductive endocrinology and practiced medicine for 11 years. During this time I also started and funded a business, performed consulting work for colleagues in venture capital and continued studying finance and accounting. In 2003, I was asked to evaluate the healthcare portfolio of a trading desk at Deutsche Bank, which in turn led to an offer to manage the healthcare portfolio of the Special Situations Funds, a New York hedge fund group. As portfolio manager I decide which of the almost 3,000 public life science companies to include in our funds, I negotiate the terms of structured stock offerings in which we participate, collect industry and company-specific data and formulate our funds' strategies to respond to general science and healthcare shifts, such as healthcare reform or changes in government funding for stem cell research.

A typical week includes meetings with five or six company management teams, negotiations with bankers over two or three major stock sales, discussions with senior managers of companies in which we have invested, all punctuated by fact checks and on-the-fly opin-

ions with my partners and frequent glances at the flashing red and green numbers showing market activity. I travel a couple of times a month for medical conferences, company site visits or board meetings. I can duplicate my desk by means of the internet from anywhere in the world.

Although there are similarities between the laboratory and the business world, there are fundamental differences as well. Those of us trained in science, having grown accustomed to reproducible outcomes, the scientific method and evidence-based decision making, face an adjustment period: in the business world the standards for data presentation vary with the judgment and intentions of the presenter. The technical and very specialized platforms on which biotech and life science companies are built give senior management teams an advantage when dealing with potential investors, particularly those who lack the science vocabulary to adequately assess the value that these companies may represent. Intentional omissions of relevant data or background material, misleading presentations of data and outright errors in statistical assumptions are not unusual.

Labor Day week has ended. A small biotech company was acquired by a large pharma company, whereas a large biotech company tries to avoid the same fate—or extract a higher price. The National Institutes of Health has resumed stem cell funding. My fund reinvested in newborn health. I spoke at length with the CEO of one of our portfolio companies about funding his clinical trial, then had him walk me through how it was powered. Another company in my fund announced that their pivotal data will be released in a few days, whereas a third pushed their phase 2 proof-of-concept trial back a few months. Many data points to analyze, ideas to generate, decisions to make, outcomes to observe, record and report.

Science after all.

COMPETING FINANCIAL INTERESTS

The author declares no competing financial interests.

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