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## Investor rides markets to millions

**Bob Gillam** rebuilds his career, putting Alaska on the money map

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**Anchorage Daily News**

### Staff

Ten years ago, **Bob Gillam** was nearly broke. His Anchorage bank had failed in the city's real estate collapse, taking with it millions of his own money and soiling his reputation with the taint of failure.

In 1989 he started over. He sold his Jaguar sports car and used the \$7,500 to buy computers, hire a tutor to teach him statistics and open local investment company McKinley Capital Management.

It was, to say the least, a shrewd investment.

A decade later Gillam, 54, is back, having built what may be Alaska's biggest fortune.

McKinley is a red-hot investment company with a roster of clients from across the country, about \$5 billion under management and annual returns of more than 29 percent.

For the financially illiterate, that's a lot of money, and it's growing fast.

He is worth several hundred million dollars and, he proselytizes, spearheading the emergence of a decidedly different sort of business for Anchorage -- money management.

It's an odd fortune for Anchorage. In a town where big money smells like crude oil, fish and the sap of fresh-cut old growth, the only smell at McKinley's Midtown Anchorage headquarters is a whiff of coffee and the analytic singe of 100 computers.

Never mind that in a city skyline where the only business people with higher offices are oil and bank executives -- Gillam plans to be moving on up. He has an architect sketching out a new office tower nearby.

For **Bob Gillam**, the rise has been like a phoenix climbing from the fire.

CAN'T INVEST FROM ALASKA?

In the halls of McKinley's fifth-floor Midtown offices, it is hard to imagine a man more at home in his surroundings than Gillam.

He is broad-shouldered, well-fed, tailored in dark blue.

Walking into the trading room, a score of intense, nattily dressed men and women stare into computer screens or grip phones. Gillam's presence has the electric effect of a coach in the locker room.

He slaps backs, grips shoulders, wheels among his traders with an easy banter, tossing out market observations.

The wise: "Nothing is going to move until Greenspan does."

The arcane: "An earnings ratio is like looking through the rear window of a car."

And the pungent: "The market is crap today."

McKinley's offices are a maze of cubicles and offices. A running soundtrack of television financial news murmurs through the offices. Every employee -- even the receptionist -- follows the stock markets.

It's all about the market.

McKinley invests money for people and institutions. For individuals, the minimum account size is \$150,000. Its institutional clients include the Alaska Permanent Fund and the state employees' retirement systems as well as chunks of retirement funds from Birmingham, Ala.; Providence, R.I.; the Volkswagen Corp.; and BellSouth phone company.

In the early years, McKinley's growth was steady. Gillam ran the investments. With solid returns, he pulled in millions more dollars to invest each year. But as the amount of money under management has grown and Gillam's record of success lengthened, McKinley's growth is accelerating.

Since Jan. 1, 2000 assets under management have increased 79 percent to about \$5 billion. The number of employees has grown from 52 to 78. In the 10 years since inception, the firm has become one of the 500 largest investment companies in the world.

McKinley's fees bring in roughly \$35 million annually to the company. Gillam estimates his 80 percent ownership of McKinley is worth several hundred million. Many of his employees have become millionaires.

In the past 20 years there has been an investing exodus from East Coast money centers like New York and Boston with firms like Janus in Denver or RCM Dresner in San Francisco.

The national media have taken special delight in McKinley's Alaska location. One magazine even drew a caricature of Gillam's son Robert, who works at the firm, in an Eskimo parka.

Despite the oddity of investing from Anchorage, Gillam preaches the advantages of an Alaska location: the quality of life and a working day that straddles the time zones of European, American and Asian stock markets.

"When guys in New York are into their second martini, we're trading in Asia," Gillam said. "Who says you can't invest from Alaska? We're doing it right now."

#### KUT RATE KID

Proving up Alaska is a recurring theme for Gillam.

Gillam's father, Byron, ran the Kut Rate Kid liquor store on Fireweed Lane in Anchorage. Parents, Bob and his brother and sister lived in an apartment behind the store. Gillam never saw his high school football team play a game.

"I worked every Saturday," he said.

His parents emphasized academics, often reading report cards aloud and rewarding good results with gifts, said his sister Linda Black. Each of the children had ambition. Gillam's older brother Dick is a history professor at Stanford University. His sister earned a Ph.D. in education. She is principal of College Gate Elementary in Anchorage.

Gillam developed his father's taste for business.

After graduating from high school in 1964, he went east to the pure-bred Wharton school at the University of Pennsylvania in Philadelphia. The son of a liquor store owner from Alaska, he says he felt out of place among the prep-school kids and the sons of Wall Street.

"Bob always needed to prove Alaska was not the end of the world," his sister said.

Accentuating the split with his fashionable friends, Gillam developed what for some in the radical 1960s was an unfashionable taste for the stock market.

Under the wing of his fraternity adviser, he hung around a Philadelphia

investment firm watching the stock quotes. When his friends razzed him for reading Barron's, he kept his study of stocks to the brokerage office, he said.

After graduating from the Wharton School of finance in 1968 and getting a master's degree in business from UCLA in 1969, Gillam came back to Anchorage to work at an investment firm.

## THE BIG BOOM

That year, the Prudhoe Bay oil discovery was announced. Over the next 16 years, oil money fueled an Alaska boom, a speculative real estate bubble that ended in a spectacular bust that nearly ruined Gillam.

Between 1970 and 1985, Gillam worked at two investment companies, including as a partner in Denver-based Boettcher & Co. In the mid-1970s, in Anchorage, he became part owner of an infant savings and loan association, Home Savings Bank.

Home Savings was one of a score of banks that sprouted during the oil boom to fund a real estate frenzy. Between 1978 and 1983, housing starts tripled statewide. In Anchorage, office buildings, strip malls and subdivisions mushroomed across the city's boggy hinterlands. Home Savings and most of the other lenders dealt out money as if the good times would roll forever.

Then the bubble burst. In 1985, oil prices slid from \$29 a barrel to \$9.

Gillam's investment company had been sold, and he was without a job. The Home Savings board hired him as chairman and chief executive in late 1985.

The bank was already in trouble, said Larry Pedersen, who joined Home Savings in early 1986 as chief loan officer. Numerous bad loans pitted the portfolio, he said. And the real estate market continued to erode. Between 1985 and 1987, home prices fell 25 percent. Condo prices fell 50 percent. Regulators ordered executives to reduce the value of loans. Banks began to fail.

With the loan portfolio under pressure, Gillam scrambled for investors. Alone among executives, Gillam invested almost his entire personal fortune -- about \$4 million, according to Gillam and Pedersen -- into Home Savings. He even persuaded his sister to put in money.

"He raised money when no one else could," Pedersen said. But Gillam's fund raising couldn't offset losses in the loan portfolio. "He was much more of an investor than a banker."

In spring 1988, as the bank slid toward bankruptcy, bank president Joe Miller illegally changed the personnel policy to give himself, Gillam, Pedersen and another employee extra pay if they left the bank.

When federal regulators took over Home Savings the next month, Gillam and Miller took a combined \$265,480 in pay and resigned. Pedersen refused the money.

For Miller and Gillam, taking the pay was a pivotal decision.

Regulators immediately sued Gillam and Miller to recover the money. Gillam repaid his share after a three-year court battle.

Meanwhile, federal officials began a criminal investigation, convicting Miller of misapplication of bank funds for altering the personnel policy in 1992. Miller never implicated Gillam, attorneys on the case said. Gillam said in an interview last month that he knew nothing about Miller's personnel policy changes and the bank had a legal opinion that the pay was legal.

Regulators continued to pursue Gillam.

In 1994, the federal Office of Thrift Supervision sought to bar Gillam from the banking business. The government asserted that "Gillam, Miller and the two other officers met almost daily in March and April 1988 to discuss 'how to get around' " a personnel policy that did not allow for pay when executives left the bank.

The government claimed that Gillam knew Miller changed the policy. Further, the OTS contended that bank executives misled the lawyer who gave them a positive legal opinion about accepting the money.

The accusations were never litigated. In 1995, Gillam, without admitting or denying any wrongdoing, settled by signing a consent order that prohibited him from becoming an officer at a federally insured bank unless the Treasury Department gave him written permission.

In November, Gillam said about the document: "Nothing in there has ever been proved."

Gillam insists he knew nothing about Miller's changes to the personnel policy. He signed the consent order in 1995 to end time-consuming and expensive litigation that sought to bar him from a business he was no longer interested in, he said.

The government's final thrust at Gillam ended in 1996, when a judge threw out a government lawsuit seeking to recover money from Gillam that the government lost in the Home Savings failure.

The investigations, the headlines and Miller's conviction tainted Gillam's image. He gained weight. His blood pressure rose. His acquaintances drifted away.

"I'd see people on the street, and they wondered why I wasn't in jail," he said.

His attorney, J.L. McCarrey, compared it to an old blues standard: "Nobody knows you when you're down and out."

## BOOTSTRAP

Gillam is about as interested in talking about Home Savings as a heart transplant patient is picking at his stitches.

"If you write about this stuff, our competitors will use it against us. We'll lose money," he bristled in an interview last month. "I never did anything wrong. I'll be goddamned if I'm going to apologize about it."

The Home Savings' debacle does not seem to have blunted McKinley's prospects.

"It was a big question mark for us," said John Vann, a Dallas investment adviser who has directed clients to McKinley. "When you look into it, you find Bob acted honorably. And he continues to. It's in the past."

Less than a year after leaving Home Savings, Gillam sold his Jaguar, bought a bank of computers and hired Ted Gifford, a University of Alaska Anchorage computer instructor, to tutor him in statistics.

Together he and Gifford created software to analyze company growth and market performance.

The software winnows the roughly 17,000 stocks down to about 400 companies whose stock prices are climbing faster than the market. Those 400 are screened for fitness. Managers study profits, markets and research, discarding those with an unsettling penchant for profits surprises or firms grappling with deteriorating markets. The idea is to be left with the fittest of the fit.

It's an elite corps of stocks, including performers like JDS Uniphase, Cisco and Home Depot. But membership guarantees no sympathy if a stock should stumble on weaker than expected profits.

"We're the first ones to sell," said Robert Gillam, who manages the International Portfolio. The younger Gillam has an alarm on his computer at home, which sounds when a stock is in a steep slide.

"Never fall in love with a stock," said Sheldon Lien, another portfolio manager.

This is momentum investing, though McKinley employees shun the label, pointing to their labor to understand the true value of companies and markets. The technique requires nimbly entering and exiting the market, boldness and aggression.

"It's just like Bob's personality," said Helen Campbell, a former Texas Firefighters Pension commissioner. In 1995, she was the host of a conference at which Gillam spoke. "He's aggressive, and he's confident. It works."

The average annual of growth of his flagship fund over the past 10 years is 29.4 percent, making the McKinley fund the 12th best performing in the world in the past 10 years through the third quarter of 2000, according to Nelson's Investment Research.

Spectacularly successful in growing markets, the technique also appears to work when the market slows. Last December, McKinley won its first share of the Alaska Permanent Fund: \$200 million. In 12 months, the money grew 4 percent to \$208 million. In the same period, the Standard & Poors index of the 500 largest U.S. stocks fell 6 percent.

A \$150,000 investment in an index fund of the largest U.S. stocks in 1990 would be worth \$705,000. The same amount with McKinley would be worth \$1.9 million as of October.

## THE ALASKA EDGE

Gillam estimates his personal money and the value of his McKinley stock to be worth "a substantial nine-figure number." At the suggestion that he may be the richest man in Alaska, he shakes his head in recognition as much as modesty and says only "perhaps."

Gillam is generous with employees. In the past two years, he has given away 20 percent of the firm's ownership to workers. For several years he gave employees with new babies \$1,000 to start a "prom fund." He has been known to sidle up to people with family emergencies in the Lower 48, hand them a plane ticket and order a few days off.

Gillam said his passion is education. McKinley is working with Alaska Pacific University to build a master's degree program in global finance. Last summer, McKinley gave \$100,000 to the school. McKinley also gives \$50,000 in college scholarships for Alaskans. This fall, when Gillam discovered his children's Anchorage school had too few computers, he opened his checkbook and bought 10 more for the computer lab. He is considering a grant program to supply computers to public schools.

In total, Gillam and McKinley give away about \$200,000 a year.

Gillam is spending his fortune on a daydream.

His private jet takes him across the country on business. For his personal time, he's happy with humble diversions, such as an RV trip to Fairbanks with the family last summer. He has a float plane, snowmachines and four-wheelers. He has a 15,000-square-foot fishing lodge on Lake Clark. The lodge is an important selling point for the firm. Gillam and his clients puff on cigars, drink scotch, eat and fish for kings.

Gillam lives with his wife and three children on Campbell Lake. He has two children, including Robert, from a previous marriage.

But so far, there are no "**Bob Gillam** Foundations," no eye-popping gifts to museums or efforts to save the Third World from infectious disease. That's in part because his fortune is so fresh, in part because it is largely tied up in McKinley stock and in part because he has not figured out what to do with it. Just wait, he said. "I'm going to give it all away."

At the question of whether any of his employees are millionaires, Gillam answers with bemused impatience.

"Please. Of course," he said. "I pay them extraordinary amounts of money."

Understatement is not his forte. Gillam is an accomplished talker, able to range from the stock markets to history to international affairs.

His confident, easy style often slips into bravado, even bragging. On the eve of making a presentation to a prospective client in Chicago a couple of years ago, Gillam called Tom Willison, a former consultant to McKinley and now company chairman, asking his advice.

" 'Tone it down, lose the bravado, just tell it straight,' " Willison said. "I tell him that all the time."

But if the bravado repels, Gillam's charisma also draws people in.

"Sit down with **Bob Gillam**, and in 15 minutes you'll be nodding your head," said Pedersen, his former colleague at Home Savings.

Prospective employees get a full dose of the Gillam gumption.

When Dave Burdick, a computer systems specialist, went looking for a job at McKinley, Gillam boasted of McKinley's results. He then badgered Burdick, suggesting he look for a job at an oil company. Gillam put his feet on the desk, took phone calls and asked his trademark: "What's the difference between a stock and pork chop?"

With a background in computers, Burdick stammered that he did not know.

Gillam offered him the job. (Correct answer: "You can eat a pork chop.")

Once people are hired, Gillam can be loyal to a fault with employees. After a contract employee lost an account with insurance giant Prudential, Gillam gave the man a second chance, hiring him in-house at a lower salary. Gillam let him go only after the employee sued McKinley for lowering his pay.

For now, Gillam's ambition to build McKinley remains. Money management is a fluid market where assets flow to the highest returns.

Gillam compares tiny McKinley and investment titan Fidelity, which has more than \$1 trillion.

"Our returns are better than Fidelity. I see their assets and think, . . . 'That's my money.'"

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