

Investment Week

6 February 2012

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THE BIG INTERVIEW

CALAMOS INVESTMENTS

The archetype of the American dream

In London to open new UK offices, John P Calamos talks to **Lawrence Gosling** and **Sean Flynn** about the lessons he has learned on his journey from above an immigrant grocery store to managing assets in excess of \$32bn

From humble beginnings as the son of Greek immigrants, to the Forbes Rich List; it has been quite a journey for John P Calamos Sr over the past 40-odd years (and that is even before we talk about flying B52s over Vietnam).

His biography reads like a testimonial for the great American capitalist dream. From an early age, he was enthralled by the business of making money. He recounts one of the defining events which shaped the direction his future would take.

"I had always been interested in the markets from when I was a kid of maybe 16 or 17," he recalls. "I found a box with some old stock certificates in the basement of our grocery store and I investigated all of them and they were all worthless."

A box of defunct penny stocks was all it took to pique his interest.

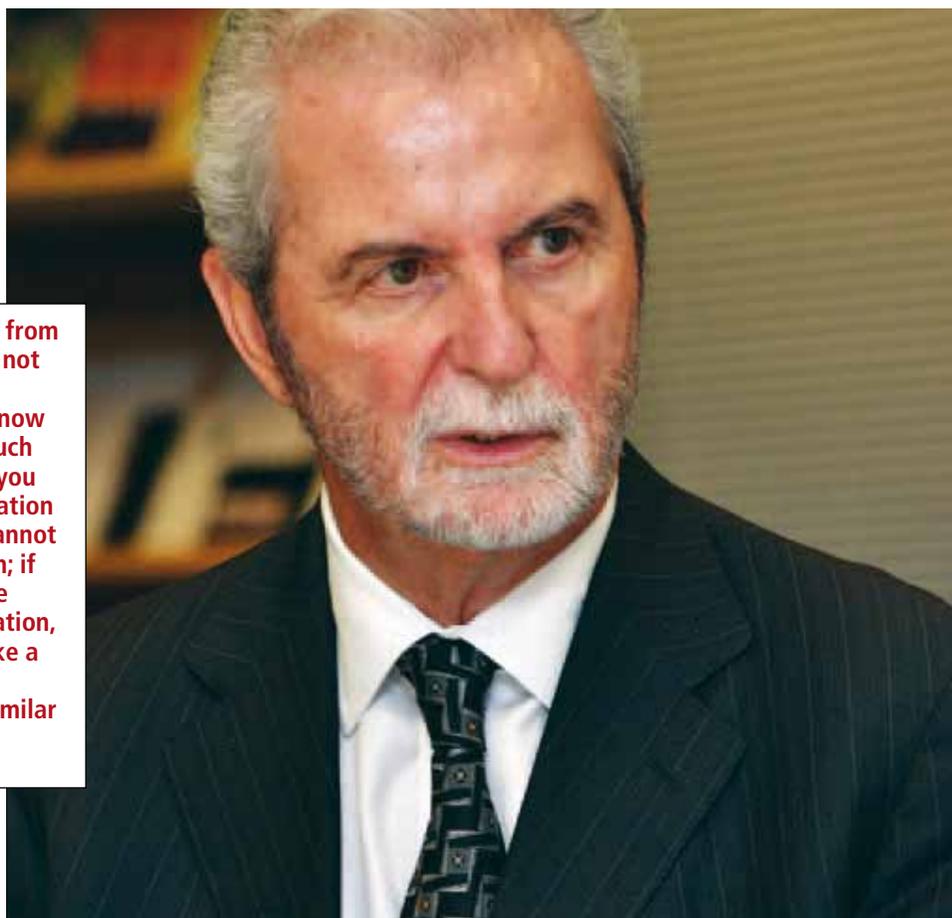
"I started looking at them and I came up with five stocks, a small portfolio, although it seemed a large one at the time. I talked my mother into investing, which is really what sparked my interest. Obviously when I went to college, I started studying business, economics and finance and continued that through my college career."

Learning risk the hard way

He became a stockbroker in 1970, but by then Calamos had already seen active service with the USAF during the Vietnam conflict.

"I was in the Air Force and I was a forward air controller in Vietnam. I also flew B52s on active duty and B37 fighter jets in the

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reserves," he remembers.

His company website tells us that "during his time in the Air Force ... Calamos became intrigued by the risk management aspects of convertible bonds".

A preoccupation with risk is perhaps an understandable corollary of flying Stratofortresses over enemy territory.

"When I was in the Air Force, on my offtime, I would be studying the markets and so when I became a stockbroker, I really started doing convertibles and in convertible securities warrant hedging," he says.

"In 1974/75 the Options Exchange opened and so I saw that as great opportunity to actually sell options against convertible securities; a very successful strategy in a very difficult market period."

JOHN P CALAMOS Sr

- CEO and co-chief investment officer of Calamos Investments.
- Founded the firm in 1977.
- Bachelor's degree in Economics and Masters of Business Degree in Finance from the Illinois Institute of Technology. Serves on the university's board of directors.
- An early industry pioneer in risk management through the use of convertible securities.
- Author of two books: *Investing in Convertible Securities: Your Complete Guide to the Risks and Rewards*; and *Convertible Securities: The Latest Instruments, Portfolio Strategies and Valuation Analysis*.
- Supporter of Hellenic philanthropies. Serves on the board of directors of the National Hellenic Museum in Chicago. Honored for his lifetime contributions by the Hellenic Bar Association.

Calamos, who has written two books himself – Investing in Convertible Securities: Your Complete Guide to the Risks and Rewards, and Convertible Securities: the Latest Instruments, Portfolio Strategies, and Valuation Analysis – is a big fan of Sheen T. Kassouf's seminal 1967 work Beat the Market.

"It sounds like a not-so technical book but it is actually very technical. It was really about how you buy convertibles and hedge them with warrants."

He was among the first to apply option price theory to convertible valuation and it is a process that his firm still uses to this day. "The option market just began, people were struggling with how to value these things and we saw an application to convertibles. So my book on convertibles talks about how you would apply option price theory to fair value a convertible."

While working as a stockbroker in the early 70s, Calamos was really keen to be a portfolio manager so he could pursue his own investment philosophy with convertibles. "A lot of people told me I was crazy," he remembers fondly. "But I felt if I could do it, I would have more flexibility and more means to use the innovation techniques that we were using. So we set up a firm in 1977."

Calamos Investments has since gone from strength to strength and its founder's philosophy is surprisingly straightforward: "We obviously want to perform well but we really need to be managing risk all the time, he says. "I think what the 1970s taught me, and the principle that we manage money by today, is that we need to be managing risk," he adds.

Family matters

A strong family firm, Calamos Investments, has always been about growing talent within the ranks. His son is part of the portfolio management team and his nephew actually joined the firm in 1983, right out of school, and is now a co-chief investment officer.

"So much of our investment team has been grown in house. We take kids right out of school, we sponsor their CFAs or MBAs and we have them as junior analysts. As much as 90% of our investment team has been home grown."

Unsurprisingly for a former air force pilot, Calamos returns to aviation as a source of inspiration and context. "If you get in an aeroplane, whether you are the pilot or the passenger, you are in a risky situation, so how do you manage that? The more you are prepared the more you can do that, you can manage a risk. Anything can happen. You have to be able to manage risk."

Speaking of risk, the UK and European markets are already quite crowded in terms of asset management companies going out to investors and opening new UK offices. Calamos does not see it in those terms. "We

are new in the sense of just opening up a London office but we are not new to Europe," he explains. "We have been here for many, many years, so we have had institutional clients, and sub-advise for some of the private banks in Switzerland and other places."

The flipside

Perhaps it is the fact that Calamos started out at a time when the Dow Jones stood at 1000, and halved in his first five years in the markets, that has given him such a phlegmatic approach to risk and volatility.

"One of the things that we learned in the 1970s and people are learning today is you have to remember the flipside of volatility is opportunity," he explains. "This is a struggling market, but there is opportunity if you can see through the volatility and take a longer view."

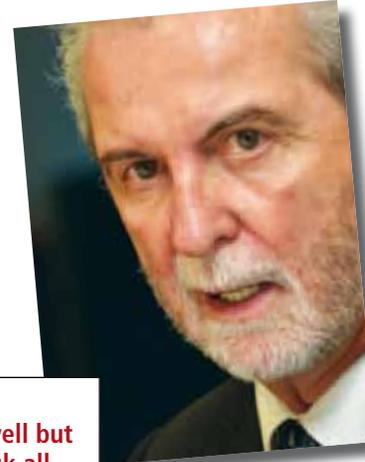
But similarities aside, Calamos sees some crucial differences between the markets today and those of his pioneering years: "The big difference between the 1970s and today is as a US investor in the 1970s you had no place to go – you could not invest outside the US very easily. Today, money flows all over the world, and capital goes to where it is treated best. Money flows are very quick."

Of course there is the information paradigm to consider. "I think when I was managing money in the 1970s, I always felt if I had more information I could do this better," he said.

"I was doing my graph paper and the French curve and charts and all that. When I bought my Apple computer in 1983 it was 'Oh my gosh, this is wonderful'. So we have gone from thinking we don't have enough information to now we have too much information. If you have an information overload you can't make a decision; if you don't have enough information, you can't make a decision. The problems are

similar but different just because of that."

Going back to the original five stocks that Calamos invested in: "Texas Instruments, this was when they first came out; Beckman Instruments, so technology. Seiko Chemical, Brunswick and Muns TV. The four stocks that I gave you first were ones I picked and researched. The fifth one, Muns TV I think at the time they had invented TV or something like



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that, was a tip from my cousin."

Sadly for his cousin, this was

the stock that failed. "But Texas Instruments split and split again and that was the beginning of a portfolio that my parents retired on," he says proudly.

It was reported recently in his local newspaper that he had "committed \$10m to Illinois Institute of Technology, part of which will establish two new endowed chairs at the university".

But billions of dollars down the line, Calamos is not a man who has forgotten where he came from. "My father was a Greek immigrant, we lived above the grocery store, so they thought savings were a silver dollar in the cigar box. My mother had a lot of faith in me to allow me to actually buy the stocks."

OVERVIEW: CALAMOS INVESTMENTS

Calamos Investments is a globally diversified investment firm serving the needs of institutional and individual investors. The company's clients include public and private pensions, foundations, endowments, corporations, financial advisers, families and individuals from around the world who have contributed to the firm's \$32.8bn in assets under management as of 31 December 2011.

Founded in 1977, the firm went public in 2004 and is traded on the NASDAQ (ticker: CLMS). The company's global headquarters are located in Naperville, Illinois, USA in the western suburbs of Chicago. The firm also has an office in London.

Calamos offers a range of global investment solutions – equity, fixed income, convertible and alternatives – to work with clients' multi-asset allocation frameworks.

It serves professional/sophisticated investors around the world through Calamos Global Funds PLC (UCITS) distributed by Calamos International LLP. These funds mirror the strategies utilised by the firm's US client base for many years.

