Wednesday, April 10, 1991

COVER STORY

Garzarelli driven to excel
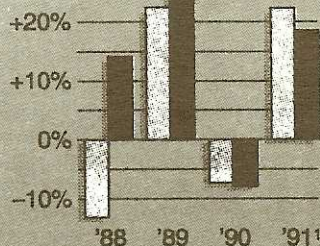
COVER STORY

She proves to be no flash in the pan

Her mutual fund's performance lags

Garzarelli has been a winning advice-giver, but hasn't done as well managing money.

Percent change

☐ Garzarelli's fund
■ Capital appreciation fund average

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+20% ─────────────────
+10% ─────────────────
  0% ─────────────────
-10% ─────────────────
     '88  '89  '90  '91¹
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1 — first quarter
Source: Lipper Analytical Service

USA TODAY

By Susan Antilla
USA TODAY

NEW YORK — Autographed photos of rock stars are scattered around her office, yet her clients include some of the USA's most conservative money managers. In a business that turns some women into prissy risk-avoiders, she isn't afraid to send a suggestive wink toward a client or colleague.

She is Shearson Lehman Bros.' Elaine Garzarelli. Wall Street knows her as a star stock market analyst who predicted the 1987 stock market crash.

By Stephen Lefkovits, USA TODAY
GARZARELLI: To relax, she t her work to the beach.

Garzarelli, 39 ("Do you have to put that in?"), a high-profile — and highly strung — analyst, saw her fame soar after that prediction. The Dow Jones industrial average crashed

USA TODAY

driven to excel

Advice worth following

Garzarelli's major buy and sell recommendations since late 1984 have all been big winners.

"Sell"

"Sell"   "Buy"

"Buy"

"Buy"

Dow Jones industrial average, beginning of month close

'85 '86 '87 '88 '89 '90 '91

3000
2600
2200
1800
1400
1000
0

Source: USA TODAY research   USA TODAY

508 points Oct. 19, a week after she said it would come unglued.

Her instant fame after calling the crash led skeptics to say she would prove to be just another of Wall Street's shooting stars. So far, detractors have been wrong. *Institutional Investor*, a magazine that ranks the popularity of analysts among institutional investors each year, has put Garzarelli first in her field of quantitative analysis for seven straight years.

More important, her record backs up her victories in the *Institutional Investor* popularity contest. Accountants from Coopers & Lybrand confirmed Shearson's statistics that anyone who followed Garzarelli's advice from 1977 through 1987 would have done well: Garzarelli beat the market each year by at least four percentage points, the accounting firm says.

Her recent advice has built on that reputation. Last fall, when the recession was in full swing and stock prices were near 1990 lows, Garzarelli urged money managers to buy stocks. Many who thought she was crazy then are sorry today they didn't listen. Now, even market veterans sing her praises. "I put her on the flash-in-the-pan list initially, but not anymore," says Steve Leuthold of The Leuthold Group, a Minneapolis-based stock and bond research firm. "She's one of the few people in 1990 to catch the stock market bottom. I think she's certainly more than flash."

Equally compelling proof that she has arrived is in the way Garzarelli can bend the rules. In the mostly male Wall Street world where many women work hard to conform, the flirtatious, curly-haired analyst ignores protocol. She works out of her home two weeks a month. She regularly arrives late to meetings: Last month, she left 150 young Shearson Lehman brokers cooling their heels for a half hour before she breezed in for her morning speech.

Her record is not without warts. Garzarelli started managing a mutual fund for Shearson in August 1987. Called the Sector Analysis Portfolio, Garzarelli's mutual fund was a loser in 1988, when she ignored her own buy signal on stocks in February and kept her fund mostly in cash. "I'll never go against my indicators anymore," she says. But critics say Garzarelli is incapable of passing up a chance to see her name in print and that sometimes leads her to make bad short-term market predictions. She told CNN's *Business Morning* in March 1990 that there would be no recession and that she was bullish with the Dow at 2735. The Dow's rally was almost over, and the recession started that summer.

The only daughter in a family of three kids, Garzarelli had a mother who pushed her hard, ultimately turning her into a workaholic perfectionist. "She taught us typing and elocution and made us take tap dancing," she says. "She was really too much" with all the pressure, Garzarelli says. Garzarelli fought for recognition, overshadowed by an older brother who always got the spotlight in their home in Springfield, Pa., a Philadelphia suburb. "He could do no wrong," she says of Robert, an electrical engineer who died in 1977 in a car accident. "I was always being compared to him — I wasn't as bright, I wasn't as good."
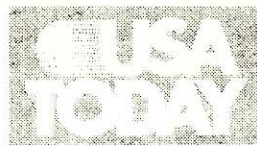
COVER STORY

Work is her 'passion'

While Robert fiddled with electrical circuits, Elaine dissected cow hearts and played with chemistry kits. She enrolled as a chemical engineering major at Drexel University in Philadelphia but switched after taking an economics course. "I took economics as an elective," she says, arms waving to make her point. "It clicked. I just loved it." By the time she left Drexel, the chemistry nerd had a master's in economics.

Brokerage A.G. Becker hired her in 1972, and Garzarelli's boss gave her a formidable assignment her first day on the job: Figure out what makes the stock market go up and down. Others might have found an economic statistic or two that conveniently correlated with the stock market. Garzarelli worked the numbers on 50 economic statistics, finally whittling it down to 13 that really mattered. (*Garzarelli's system, below.*)

Shearson hired Garzarelli in 1984. Her job is to use stock and economic indicators to predict turns in the market and to recommend when to buy stocks in certain industry groups. Half her job is to produce a monthly report called "Quantitative Industry Analysis" — 100 pages of charts of industry groups and hand-scrawled notes on market trends. It's a must-read document for Shearson's 6,000 institutional clients.

To do the report, she locks herself in her Greenwich Village apartment two weeks a month, sometimes awaking with an idea at 1 a.m. and working the rest of the night. With report in hand, she hits the road the second half of each month, taking her latest analysis to Shearson's most important clients.

At the countless luncheons Shearson throws to show her off, the audience can't get enough, says Marvin McMurrey of Houston's Investment Advisors Inc. "She has a good presence," he says. Garzarelli told a Houston audience in January that it was time to get into stocks, "and frankly, the outlook couldn't have been worse," says McMurrey. "We were fixing to have a war, the economy was falling apart, and here was Elaine saying to get into the market," he says. "Well, she was dead right." The Dow soared from 2490 in mid-January to 2973 by early March. Today, his ears perk up when he hears that a Garzarelli opinion might be changing.

Garzarelli worries endlessly about clients — whether money managers or the smaller investors in her fund. That means she rarely relaxes on weekends. Even at her other homes in East Hampton on Long Island, and Boca Raton, Fla., she keeps fax machines, computers and other work paraphernalia. She shuns exotic island excursions because telephones and stock quotation machines would be tough to come by. The year after the stock market crash, she wouldn't even fly while the market was open in New York, fearing she'd be out of touch when critical news came that affected a stock in her fund.

Garzarelli's personal life is the victim of all that work. She has been divorced twice, broke off one engagement and says she won't marry again. She talks about wanting to adopt a child. But friends like Linda Friedman, her college roommate, question whether Garzarelli could balance her hours and parenthood. A determined Garzarelli insists she would be able to manage motherhood. "I'll just have to cut out some of my social life. I've got work down to a science now."

Whatever her personal life holds, those who know her say the perfectionist will keep pumping out some of Wall Street's most carefully researched work. Her boss at Shearson, Jack Rivkin, says there aren't many people he'd trust to work from home. "But with Elaine, it's not even an issue."

Considering all the sprinting she does on the job, you'd figure she must do something to wind down. She does confess to her own Garzarelli version of relaxation. "I go to the beach and study charts and equations," she says, with a perfectly straight face. "I get my fun and my sun. But while the other people on the beach read a dirty novel, I'm reading my charts. I just always work. It's a hobby for me. It's my passion."

How Garzarelli crunches numbers

Quantitative analysts such as Shearson Lehman's Elaine Garzarelli depend on mathematical equations and a load of statistics to predict what the stock market will do. Each "quant" has his or her own favorite indicators. In Garzarelli's case, there are 13 statistics she carefully tracks.

Among economic indicators, she watches gross national product and leading economic indicators. Among monetary figures from the Federal Reserve, she plugs in statistics including free reserves in the banking system, short-term interest rates and five other monetary statistics. She also tracks the fortunes of U.S. companies as shown by the ratio of companies' dividends to their stock price and corporate cash flow.

To predict the stock market's moves, Garzarelli plugs those numbers into various equations to figure out the probability that the market will rise or fall. A number of 30 or lower means trouble ahead. Before the October 1987 crash, the number reached 8. A number of 65 or higher means buy. Today, her stock market indicator is at a "buyable" 86.5.

Garzarelli also uses statistics to predict earnings for 65 industry groups. After figuring an economic outlook, she moves on to see how each industry is likely to perform. Industries to watch today: Leisure time, truckers and restaurants, she says.

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