Investing 101: The Prospect of Growing Your Money

Date : March 19, 2012

Paul Atkinson is the head of North American Equities at Aberdeen Asset Management in Philadelphia. In that role, he is responsible for all U.S. equity portfolios and team members. Atkinson joined Aberdeen in 1998 and was originally in charge of specialist global equity funds before formally joining the U.S. Equity team as senior investment manager in 2005. Prior to working for Aberdeen, Atkinson worked with UBS and Prudential-Bache, both financial services companies. He sat down with Knowledge@Wharton High School editor Diana Drake to offer an overview of investing.

Below is an edited transcript of the conversation.

Knowledge@Wharton High School: Paul Atkinson is the head of North American Equities at Aberdeen Asset Management in Philadelphia. He joins us today to offer an overview of the world of investing. Paul, thank you for joining us.

Paul Atkinson: It's my pleasure.

KWHS: Help us understand what the head of North American Equities does at an asset management firm.

Atkinson: My job is to be responsible for all aspects of the investment management of North American companies, which are principally U.S. companies and Canadian companies. My team and I do the research on the companies. We decide what goes in the portfolios [a collection of varied investments], and then we have the pleasure of talking to our clients about those portfolios, and the decisions we've made.

KWHS: Let's jump right into investing. What does it mean to invest money, and how does that differ from savings?

Atkinson: I think investment is putting money aside for a longer period of time, but with the capital [cash used to generate income] at risk. That's the main difference between investment and savings. [With] savings, very typically, you will put your money in a bank and be pretty much guaranteed your money back. In investing, you are putting your money away for a defined period of time, like savings, but the capital is at risk. And hopefully, by your analysis, you can figure out ways to get enhanced returns for lower risk.

KWHS: Why do people invest?

Atkinson: I think people invest for the very fact that they believe, through time, investing can grow their money. And they can use that money for lots of different areas. But if you can grow your money through time, that's a pretty good way to go forward.

KWHS: What is risk, and why is it important for investors to understand?

Atkinson: Risk can mean lots of things to lots of different people. For us, it means the risk of not getting your money back. If we make an equity investment — we buy a stock for $100 — we want to feel that we will get that $100 back, plus the prospect of capital gain, and possibly some income with it, too

KWHS: How do you make an investment?

Atkinson: There [are] two ways. You can do it yourself, or you can engage a professional. If you do it yourself, you open an account at a brokerage company, and then give them the instruction to buy the company that you want to buy, after the investment work that you've done. Secondly, you could employ a professional investor — professional money manager — like Aberdeen Asset Management, and buy collective funds, which are portfolios of companies within the funds. They are more diversified than a single equity investment.

KWHS: What are the primary investment choices? Can you give some examples?

Atkinson: Yes. The primary investment choices are really three main asset types. They would be equities [stocks], fixed income or bonds [debt equity where you are loaning money to an entity, like government, for a set amount of time, at which point you get that money back, plus interest], and also physical assets as well. Within that could be gold or real estate. But when you're investing, you are investing for a material amount of time. All of those assets can be invested in for that material amount of time. They have different risk characteristics, but they also have different return characteristics. You're constantly looking for a balance of that prospect of reward as well as risk.

KWHS: Why are companies like Aberdeen important to the investment process?

Atkinson: Aberdeen is a global asset manager whose job it is to take clients' money, invest it sensibly, give them their money back at the end of the period of investment and, hopefully, deliver them some capital gain and income through time. We do that through paying a lot of attention to the investments that we make. A lot of work goes into it, a lot of rigorous analysis. We have what we call an investment process, which sets out how we do things and how we arrive at those conclusions. Then when we're asked by clients to explain what the return was, or what the risk was, we can relate those characteristics to our method, which is the single most important thing that we do.

KWHS: You're part of a bigger industry, correct? There are a lot of different companies doing what you do, or similar to what you do.

Atkinson: Yes. Aberdeen's equity style is one of the many styles out there. We are what we call bottom-up investors, where we focus on understanding the company, its prospects and its risks. And then we try to put a valuation [an estimate of what a company is worth] on that company. Then we try and build portfolios that will outperform the market [do well in both good and bad economic times].

KWHS: What is a research analyst?

Atkinson: [The role of] a research analyst involves lots of hard work — talking to companies, writing reports on those companies, focusing on how that company will grow its earnings through time. What are the risks to growing its earnings through time? Then the analyst, of course, has to communicate his or her findings to the team, or the investment manager, and then make a recommendation in the context of the rest of the portfolio.

KWHS: A company like Aberdeen has several research analysts, true?

Atkinson: We have lots of people doing company analysis. I myself do company analysis. The most junior people on the team do company analysis, as well. Aberdeen is slightly differentiated in that we see the research side of our job and the investment side of our job — or the decision-making – as part of the same continuum. So, we don't necessarily segment the role of the research analyst and the investment manager. We think it's all part of the same function, which is to find good companies that are getting better at the right valuation and putting them collectively into equity funds that we think will outperform through time.

KWHS: So, research is fundamental to what everybody does.

Atkinson: Research is absolutely fundamental. But it's also very important that the research has a natural way into the portfolio. We want people who are doing the research also to make those investment decisions.

KWHS: What are the best ways for new investors to get started and to learn about the world of investing?

Atkinson: That's a good question. I think the best way to find a product that you're interested in is to go to the company's website. Go into the investor relations part of that website. Download the corporate presentation. Find out more about what the company does, what its growth prospects are and what its balance sheets look like — how much cash it can generate. Then back that up with some more work — downloading the annual report or the 10-K [a form that a public company must file to update investors and analysts on the state of the business over the last year]. Find out more about the risks associated [with the business]. If you understand what the company does, what the risks are, you've got a sense of how well it can grow its level of profitability [the ability to make money after all expenses are paid] through time. And then with some basic valuation work, you're most of the way there.

KWHS: What is valuation?

Atkinson: Valuation is working out what you think [a company's] earnings can be in the future, and putting a valuation on those earnings.

KWHS: What was your career track? How did you make your way to Aberdeen?

Atkinson: I have studied economics and finance at undergraduate and post-graduate levels. I then moved into an investment bank in the city of London, which is where I'm from, in the 1990s. And then a colleague at UBS recommended me to Aberdeen in the late 1990s. Since then, I've worked for Aberdeen. I started off in company analysis and then worked my way through to presenting to clients about what we do and how we do it, explaining fund performance. Then through time, I have been given responsibility for more people. So I manage equities, but I also manage people, as well.

KWHS: Who has influenced you the most in your career?

Atkinson: I've been very fortunate to have a lot of good advice along the way, from both clients and colleagues. No single person. But I think the most important thing about advice is remembering it, taking it on board and doing something about it.

KWHS: How important is business school to becoming an investment manager?

Atkinson: Business school certainly can be a help. It's not the sole passport to a good career in financial management. I think there are lots of different study areas that can facilitate [this]. Law is a very good background. Even the sciences or engineering are both very good backgrounds for careers in investment management.

KWHS: What personality traits and skills do you think are important to people who work in your industry?

Atkinson: It's worth remembering that financial management is very much a marathon and not a sprint. So, stamina is good. Patience is essential. And also, a basic set of core principles with which you can really slim down the amount of information that's out there. The industry churns out a huge amount of information. Only some of that is useful in order to make long-term investments. It's working out which information is important that can really help you make the long-term investment decisions.

KWHS: Paul, thank you for joining us.

Atkinson: Pleasure.

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What role does research play in money management?

Why must investment managers be patient? What other traits do you think are essential to this job?

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