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Booming Shaker Investments finds room to grow

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Shaker Investments Inc. has a problem that plenty of its competitors would love to have -- unexpectedly rapid growth. Thanks to stellar returns, the money management firm in the last year has tripled its total assets under management to \$1.5 billion from \$495 million. To handle the growth in clients and assets, Shaker Investments plans to add another eight to 10 staff members by the end of this year, and to move by late summer to a larger office. With 31 employees crammed into 4,200 square feet of space in the Tower East office building in Shaker Heights, the firm does not have a single spare cubicle or office to accommodate another employee, said Edward Hemmelgarn, founder, president and chief investment officer of Shaker Investments. To handle the new hires, the company recently agreed to lease 16,000 square feet in the newly developed One Chagrin Highlands corporate office park in Beachwood. It plans to move into its new space in August. 'We're not apologizing, but our returns have caused us to grow a bit faster than we had expected,' Mr. Hemmelgarn said. Shaker Investments said the firm generated a 98.5% net return for its clients last year, handily beating the 21.1% rise last year in the Standard & Poor's 500 stock index. Indeed, the firm said it has generated an average annual return of 36% since its inception in 1991, compared with a 20% average annual rise in the S&P 500 during the same period. 'Our approach isn't exciting,' said David Webb, who joined Shaker Investments in 1993 and now is the firm's executive vice president. 'We look for companies with very strong to dominant positions in high-growth areas. And we buy when their prices are attractive.' Mr. Hemmelgarn said the thing that

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differentiates the firm is not its approach – indeed, thousands of money managers are looking for growth at the right price – but its 12-person research team. Shaker Investments maintains it is the only independent money management firm in the Cleveland area that still makes regular, on-site visits to companies. Shaker Investments prefers to jump into sectors that have fallen out of favor and enjoy low valuations, Mr. Hemmelgarn said. For instance, the firm has begun to buy shares in thrifts and regional banks, including National City Corp. of Cleveland, because it is convinced that the market has overreacted to interest rate fears. 'We like to go where the attention isn't,' Mr. Webb said. 'Generally speaking, if everyone goes away and there's a real lack of interest, that's when you find buying opportunities.' The approach has taken Shaker Investments a long way in a short period of time. In 1993, Shaker Investments had just two staff members, Messrs. Hemmelgarn and Webb, who handled every facet of the company's business, from research and trading to attracting new clients. To save money, Messrs. Hemmelgarn and Webb would pile into their cars and drive to meet clients rather than book expensive plane flights. Mr. Webb said he still remembers a Toronto investor 'dropping his jaw' when he learned they had driven all the way from Cleveland. 'We were lean, very lean,' Mr. Webb said. 'I think anyone who has ever tried to build a business from scratch will have empathy with that.' Though Shaker Investments still is lean, the firm gradually has assembled the normal vestiges of an investment firm. Last September, the company hired a chief operating officer, James Janetz, who has helped to implement the firm's first marketing strategy and annual report. Mr. Janetz also convinced the firm to hire an outside marketing firm to target more institutional clients. 'What Jim has done is allowed us to spend 100% of our time focusing on research and investments, which is a tremendous improvement over the way things used to be,' Mr. Webb said.

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