Edward Lampert Page: Bio, Investments, Books, Mentors, Articles

“Alan, Alwin and I believe these changes will achieve greater clarity in our operating management and align this corporate structure with our vision of Sears Holdings... Our goal is to build one company with multiple ways of connecting with our customers including our various store formats, online offerings, service relations and credit products.” – Edward Lampert

Edward Lampert's Biography

Age: 49 (as of 2012)

Source of Wealth: Investing, Businessman

Residence: Greenwich, CT, United States of America

Country of citizenship: United States of America

Education: Bachelor of Arts/Science, Yale University

Marital Status: Married

Children: 3

Introduction
Edward or Eddie Lampert is the chairman of Sears Holdings Corporation (SHLD) and also the founder and chairman of ESL Investments. After graduating from Yale University, Lambert joined Goldman Sachs as an intern and later joined the company’s Risk Arbitrage department. After working at the company for 3 years (1985-1988), Lampert quit the job to establish ESL Investments in Greenwich. The name of ESL is drawn from Lampert’s initials.

ESL Investments

ESL Investments is a privately owned hedge fund that invests in American public equities. ESL is unique in the sense that it takes huge stakes in a small number of companies and holds them for many years. This is typical of passive investment funds who do not think that active trading can return a decent rate of profits.

According to Lampert, “If we put a product into Sears, we don't want to have to pull it out in a year, or two years, or three years. We don't want to do that only to have it yanked away.”

ESL’s portfolio shows a special bias towards the retail sector, especially Kmart which is the company’s largest holding. As of June 2010, ESL Investments had a 53.5 percent of Kmart’s ownership.

Since its inception, with $28 million seed money, ESL has witnessed an average return of 29 percent a year. Because of ESL, Lampert was worth about $3.1 billion (as of 2012). He earned approximately $1.5 billion in 2006 and subsequently became the richest person in Connecticut.

The main objective of ESL is to commit itself to large holdings in companies that have been studied thoroughly by its brokers, which allows it to leverage the full potential of its stock holdings. This of course increases its risk as well, considering that at any given time, the company is likely to hold anywhere between three to fifteen securities.

For any given company, ESL is likely to be holding more than 5 percent of issued shares. The main strategy of its hedge funds is Event Driven. In particular, ESL specializes in identifying distressed securities and intends to capitalize on them once circumstances around the company are reversed. Another obvious strategy is picking up of securities that are priced less than their intrinsic or fair value.

Units related to ESL include:

* ESL Institutional Partners;
* ESL Investments Inc;
* Kmart Holding Corp;
* RBS Partners;
* Sears Holdings (SHLD)
Founders and key management at ESL:

* Eddie Lampert;
* William C. Crowley;
* Richard Rainwater

ESL’s top 10 equity holdings (as of 2011-2012) include:

**Company Holdings**

* AutoNation Inc (AN)
* Sears Holdings Corp (SHLD)
* Autozone Inc (AZO)
* Gap Inc (GPS)
* Capital One Financial Corp (COF)
* CIT Group Inc (CIT)
* Seagate Technology (STX)
* Big Lots Inc (BIG)
* Genworth Financial Inc (GNW)
* iStar Financial Inc (SFI)

**Edward Lampert’s Investment Philosophy**

Edward Lampert believes in the investment style of “concentrated value”, and this is often focused on the retail sector. His investment style is frequently compared with that of Warren Buffet’s. It is said that Lampert tries to follow Buffet’s footsteps by studying and analyzing his annual shareholder letters and matching them to Buffet’s investment philosophy. He is usually referred to as “the next Warren Buffet”.

Both, Eddie Lampert and Warren Buffet started off as hedge fund managers without the guidance of a senior person or a peer in their respective fields. Furthermore, both the investors found themselves in a position of writing annual shareholder letters, since they took over failing public companies.

However, there are some vast differences as well, particularly in their dealings with the
shareholders. Writing about long-term investment plans, the two investors say:

“We will continue to make long-term investments in key areas that may adversely impact short-term results when we believe they will generate attractive long-term returns. In particular, we have significantly grown our Shop Your Way Rewards program, improved our online and mobile platforms, and re-examined our overall technology infrastructure. We believe these investments are an important part of transforming Sears Holdings into a truly integrated retail company, focusing on customers first.” – Edward Lampert

“By being so cautious in respect to leverage, we penalize our returns by a minor amount. Having loads of liquidity, though, lets us sleep well…. That’s what allowed us to invest $15.6 billion in 25 days of panic following the Lehman bankruptcy in 2008.” — Warren Buffet

There have been times when Sears has wavered under Lampert, but overall his record is commendable. In 2003, he rescued the bankrupt Kmart and merged it with Sears thus making Sears Holdings the country’s third largest retailer. However, despite the phenomenal growth in the retail sector, Sears has experienced declining revenue each year and the earnings have been reduced by 84 percent.

After the 1990s, Lampert became a more active investor and benefited immensely from his investments in AutoZone Inc. (AZO) and AutoNation Inc. (AN). When he purchased AutoZone in 1998, he owned about 30 million of the shares, which was 25 percent of the outstanding shares. From around $30 in 1998, the price has seen an appreciation of 388 percent and the share is now priced at $324. Similarly, his efforts in reconstructing AutoNation added value to the company which has returned about 165%.

Lampert also invested in Wells Fargo and Co. (WFC), which is said to be one of Warren Buffet’s desired stocks.

Merging Kmart and Sears

Another great achievement by Eddie Lampert was the merger of Kmart with Sears. While the company was facing bankruptcy in 2002, Lampert bought the controlling stake at $1 billion. He observed that the real estate blocks under the 1500 stores were very valuable. After stabilizing the company, he sold 68 of the company’s stores to Home Depot and Sears. This transaction earned him $850 million, which was almost equal to the amount he paid for all the real estate blocks. Finally, he closed down 300 stores and laid off 34,000 workers for the purpose of cutting costs. Under Lampert’s control, the value of Kmart’s shares increased from $15 in March 2002 to $150 by the mid 2005.

Some Other Examples of Remarkable Performance

Under Eddie Lampert’s guidance, the following changes took place:

* Big Lots (BIG) has seen an increase of 44 percent value in its shares after Lampert invested in the company.
* Seagate Technology (STX) experienced a rise of 35 percent

* Gap Inc. Rose by 19.5 percent

**Edward Lampert’s Recommended Readings**

In his letters from Feb. 26, 2009 and Feb 23, 2010, Lampert recommended a few books based on economics. They are as follows:

- **The Fatal Conceit: The Errors of Socialism** by Friedrich von Hayek
- **Intellectuals and Society** by Thomas Sowell
- **The Essays of Warren Buffett: Lessons for Corporate America, Second Edition** (Lampert tried to follow Warren Buffet’s investment philosophy even before he started a hedge fund. This book inspired him and helped him a lot.
- **Common Stocks and Uncommon Profits and Other Writings** by Philip A. Fisher (in an article published in BusinessWeek, Lampert referred to this as one of his favourite books.)
- **The Aggressive Conservative Investor** by Martin Shunk (At the third Avenue Management Investor Conference 2003, Lampert defined his hedge fund as an “Aggressive Conservative Investor”)
- **Good to Great: Why Some Companies Make the Leap and Others Don't** by Jim Collins (in his letter to the shareholders in the year 2006, Lampert states the evolution of Sears into a company that is “Good to Great”.)
- **Winning by Jack Welch** (in his 2006 shareholders’ letter, Lampert uses Jack Welch as an example of long-term excellence at GE.)
- **Atlas Shrugged** by Ayn Rand (It is said that Lampert handed out audio copies of this book to his investors during an ESL annual dinner)
- **The Road to Serfdom: Text and Documents--The Definitive Edition** by F.A Hayek (In his 2009 shareholders’ letter, Lampert recommended everyone to read this book and understand the effect of a socialist government on the business environment and economy)
- **Who Says Elephants Can't Dance? Leading a Great Enterprise through Dramatic Change** by Louis V. Gerstner, Jr.

**An Evaluation of Edward Lampert’s Success**

After turning his initial seed money of $28 million into a $ 9 billion hedge fund, Lampert stands out as a young and ambitious investor. His top clients are some of the major players in the business world, including the Dell inc. founder Michael S. Dell, the Tisch family of Loews Corp. (LTR) and the Ziff family.

His focus is so remarkable that he was back to work just within a couple of days after he was kidnapped in 2003. According to Thomas J. Tisch “Eddie is one of the most extraordinary investors of our age, if not the most extraordinary.”

Making a success story out of some of the least likely investments, Eddie Lampert has been
able to turn failing and lousy companies into profitable giants.

In his interview with BusinessWeek, Eddie Lampert stated that he wanted to be a role model for the businessmen and show them how a business is run. Truly, Lampert has invested in businesses scarred with financial crisis, as well as management issues.

**Edward Lampert’s Mentors**

At all stages of his life, Lampert has tried to work with successful men to increase his knowledge base and learn something. On many occasions he has worked with the former head of Goldman Sachs and Co., Robert E. Rubin.

Furthermore, he has also been associated with the economics Nobel Prize winner James Tobin and the well-known investor Richard Rainwater. Rubin was highly impressed by Lampert’s will and independence to do something out of the box.

When Lampert, 25 at that time, shared his plans of starting his own hedge fund, Rubin argued that Lampert was taking a detrimental step for his career. Rubin recalls "He had a clear-eyed view of the risk he was taking and the likelihood he would succeed; I'd say it worked."

**Edward Lampert's Control at Sears**

Lampert takes special care with his money. He controls how every dollar in his fund is invested and makes sure all his investments bring the highest returns. Thus, often a time his company has bought back shares on cash rather than increasing capital spending.

His CEOs accept that most of their conversations with Lampert are based on how to best allocate capital for maximum returns.

"He will always want to work through, at a pretty high level of detail, what we are going to spend our money on and what the business benefits will be, Eddie doesn't waste money -- ever." says Julian C. Day, Kmart’s director.

Lampert keeps a firm control at ESL as well. Not even a single penny is invested without his endorsement. Lampert tends to go in intricate details regarding each project to ensure calculated and profitable decisions.

"When an art critic looks at a piece of art, he can talk to you not just about the color and technique but the history and where it fits into art in general," says Gavin Abraham, an analyst at ESL during the 1990s "Eddie talks about an investment the same way."

Although often compared with Warren Buffet, Lampert tends to be more aggressive with his management style. He works his fund with the help of just 15 employees.

Friends attribute Lampert's success and ambition to his father's death. Lampert's father passed away at when he was a mere teenager at 14 years of age. His father was 47 and
succumbed to a heart attack as a result of which Edward had to assume the role of the man of the house.

"Eddie really assumed the responsibility, knowing that life had changed and we had to accomplish something by ourselves now," says his mother, Dolores Lampert.

**News Articles Related to Edward Lampert**

Eddie Lampert Still a Great Investor In Spite of Sears


Buffet Vs. Lampert – A Tale of Two Letters


The Next Warren Buffet?

[http://www.businessweek.com/magazine/content/04_47/b3909001_mz001.htm](http://www.businessweek.com/magazine/content/04_47/b3909001_mz001.htm)

Sears Chairman Will Take a Step Back


Lampert Tells Sears Investors to Remember Eli Manning


Lampert Uses Letter To Vent, Explain and Chat


Billionaire Lampert Takes Job at Sears


Lampert Says Sears is in Strong Shape


Picking likely Buffett successors - Pensions & Investments

Hedge fund bosses raking in the cash
Sears, Not Just a Retailer, Is Now Lampert Hedge Fund...

Crazy Eddie - Forbes.com

The Next Warren Buffett?

Millionaire Keeps His Cool, Escapes Amateurish Kidnappers...
Sears, Kmart Merge - 2004

StreetInsider.com - Will Lampert Bail on AutoZone (AZO)?

Sears, Where America Shops Less - Forbes.com