



Have Research Will Travel... How the West Was Won

by Brian O'Connell

The name Wells Fargo conjures up visions of rough-hewn riders atop galloping horses, hooves pounding the dirt, straining at the bit to get the mail to the next cactus-strewn outpost. The image reverberated and hit home to scores of baby boomers who grew up with the television ad. They understood Wells' clever message -- that the 150-year-old bank would ride like the wind and never rest until it took care of your business.

So it's no surprise that the San Francisco-based bank's research arm, Wells Fargo Van Kasper, has taken up the company battle cry and "can do" culture to deliver top-notch research to its client base -- primarily institutional and retail investors west of the Mississippi River.



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Purchased by Wells Fargo Bank in 2000 as part of its buyout of First Security Corporation -- which had only purchased Van Kasper one year earlier -- Wells Fargo Van Kasper, LLC is a private brokerage and investment banking firm that aims a laser-like focus on high-growth technology, gaming and hospitality, healthcare and consumer product companies. The original Van Kasper was founded in 1978 by F. Van Kasper along with five partners. From its humble beginnings, the company quickly grew to nine offices in California and Arizona and more than 350 employees. Operations were not only in research and analysis, but also in private brokerage services, institutional sales and trading, leading research and investment banking services.

Like its parent company, Wells Fargo Van Kasper radiates a sunny West Coast aura, with its offices dotting regional sites like San Francisco, Fresno, Los Angeles, San Diego, Newport Beach, San Jose, Sacramento and Walnut Creek, Calif., as well as Salt Lake City, Utah, Portland, Ore. and Phoenix, Ariz.

Still, the company's analytical outlook is geographically oriented to the West Coast. "We've established a solid reputation of providing our clients with unique and original investment ideas, specifically concentrating on small- to mid-capitalization stocks based in the western United States," says J.P. Mark, director of research and telecommunications analyst at Wells Fargo Van Kasper. "Our research approach focuses on discovering powerful fundamental growth trends, and investing in those regional companies that will benefit most from these trends."

The company's marketing program takes a decided "left" coast slant as well. Like an old-West frontier scout, Wells Fargo Van Kasper keeps its ears close to the ground for its investment banking clients through close interaction with the management teams of all the underwritten companies it covers. "We sponsor regular meetings and investment conferences at which our investment professionals and clients may meet regularly with the management of companies we follow, providing a considerable advantage on the decision of where and when to invest," adds Mark. One such conference, Wells Fargo Van Kasper Annual San Diego Growth Stock Conference, recently drew 500 investment company professionals and 46 Southern California companies to the plush Wyndham Emerald Plaza Hotel in downtown San Diego.

Stock Pickers in Paradise

But to a company like Wells Fargo, a \$218-billion financial giant, such community outreach is merely an appetizer to the main course -- Wells Fargo Van Kasper's ability to pick stocks.

"Research has led this company all along," comments Mark. "We've aligned ourselves with an industry-specialized approach a while ago. For example, we had analysts who were industry experts, who examined specific sectors, no matter where the companies were located."

Speeding that process along, Mark, along with Ragen MacKenzie financial services analyst Jay Tejera and Wells Fargo Van Kasper head of equity capital markets John Hullar, began luring top-shelf analysts who knew their industries cold. "It's good to have a few generalists," adds Mark, "but not too many. We wanted to be thematic in our approach to research, using a bottom-up outlook and primarily focusing on West Coast companies."

So what kind of analysts does the company look for? "We want them to know what our investors care about, what their vision is for the industry, and where they think the industry will be three years from now." Then there's the old Wells Fargo rough-rider theme, which means company analysts getting down into the trenches and not coming up until they have the information their clients need. "We want our analysts talking to clients and customers, conducting channel checks, and doing more things themselves." Mark adds that many of the companies that Wells Fargo Van Kasper covers have limited coverage and thus are eager to talk to the firm. "That's a big advantage for us and we need to capitalize on it. By the time one of our target companies issues a press release, our clients should already have all the information they need. That's always been the goal for us."

Hybrid Flavor?

With more than 200 companies covered now by Wells Fargo Van Kasper, including those covered by Ragen MacKenzie -- up from 120 before the Wells Fargo buyout of Van Kasper -- the firm is further fine-tuning its stock-picking strategy, with slight variations between the West Coast and East Coast operations.

"Ragen MacKenzie [in Seattle] has a slightly different approach than we do," says Mark, "primarily because it is more value-oriented and we are more growth-oriented. That's not to say that all of the analysts at Wells Fargo Van Kasper aren't using the same financial analyst metrics and our writing isn't similar, because we are and it is. We are both focused on small- to mid-cap companies, from about \$500 million to \$5 billion (company analysts will cover some micro caps and cover some big caps)."

Mark adds that each Wells Fargo Van Kasper analyst will cover at least two to three big caps, if only to give them better knowledge of the industries they cover. "I think what you're seeing with Wells Fargo Van Kasper is that we're taking the best practices from a Van Kasper, a Ragen MacKenzie and other good analyst firms, and applying them to the specific market opportunities that we look for, which are the small- to mid-cap West Coast companies that we know." Mark says that there are not a lot of other firms in that space, with seemingly everyone else looking up-market to big-cap companies. "There used to be more competition where we are, but consolidation has taken a lot of steam out of the analyst market."

Top Picks

Mark points to one area that he specializes in, wireless communications, as a good example of how the Wells Fargo Van Kasper analyst operation works. "We're ahead of the curve on that one," he explains. "It's a very interesting time in the wireless sector, which really has been beaten up. Companies have stopped spending money, not only here in the U.S. but in Europe and Asia. However, we're seeing an upgrade cycle that should occur by the end of 2001. We've found that companies are beginning to move -- or plan to move -- from second-generation equipment to third-generation equipment, where more global standards are being implemented. Investors who've left the sector will definitely want to be a part of that." At the top of Mark's list are Nokia (NOK) and Powerwave (PWAV), large-cap and mid-cap companies respectively, that are big on third-generation wireless equipment and well positioned to meet increased consumer demand.



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On the financial services side, Jay Tejera, Wells Fargo Van Kasper's senior vice president and director of research for Ragen MacKenzie, is having good success identifying steady-growth companies like Washington Mutual (WM) and Pacific Northwest Bancorp (PNWB) early on and hanging on for the ride upward. "What's nice about the financial services space is that you can find a model that's working that can carry you for years," says Tejera. "You see a company like

Washington Mutual that is both mass-market-focused and which has a good value-added product or two to meet customer demands, and you stay with it."

On the small-cap side, Tejera likes an Oregon-based financial holding company called Umpqua Holdings (UMPQ). "It's an \$800-million company that's one of the early benefactors of the rules allowing financial holding companies to own banks, brokerage firms and insurance companies. The company has 42 bank branches, a brokerage subsidiary with \$1 billion in Street name assets, and a great Starbucks-like commitment to customer service that grades brokers on performance, and proves an incentive for them to do a better job. I see Umpqua expanding from San Francisco to Seattle and beyond."

Tejera says that some of the older approaches to looking at banks and thrifts need to be changed in a new financial services industry. "You've got to look at components -- for example, a capital markets area is a 15% growth business, and so is asset management. But other areas might grow at even faster rates, so you're going to have slow-growth and fast-growth areas within financial services companies. The trick is to find them early."

With a 150-year tradition of keeping its eyes on the trail and delivering the goods, no matter what the conditions, it's a good bet that the new Wells Fargo Van Kasper will do just that for its stable of clients.

After all, the company has the horses and the pedigree, and it knows every nook and cranny of the western United States business culture. Somehow you get the feeling that it'll deliver the goods.