



EQUITY

Meet the Manager: Michael McCarthy

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Michael McCarthy

Executive Vice President
Chief Investment Officer
Franklin Equity Group®

At an age when most children are digging in a sandbox, Michael McCarthy was digging out of a sand trap. In the decades since he picked up his first golf club as a five-year-old, McCarthy, now Franklin Equity Group's chief investment officer, has mastered more than just a solid swing. He says the softer skills he learned on the golf course, including controlling his emotions, have also helped his investment prowess. And considering he has focused on the small-cap and technology areas for much of his career, McCarthy has had ample opportunity to practice the art of staying calm in the rough. Let's get to know more about Michael McCarthy and his cool-headed approach to investment management.

Beyond Bulls & Bears: When did you first become interested in the investment management industry?

Michael McCarthy: I followed the stock market—or at least specific stocks—as a teenager, so the seeds were planted early. Back then, you had to check stock quotes in the newspaper—there was no Internet or CNBC in those days. After I read the sports page every morning, I'd check on the two or three stocks that I knew. I didn't really know what moved the prices

every day, but I became curious to find out. I spent a couple of summers during college working for investment firms, and after graduation was lucky enough to get an interview with Franklin Templeton. It's been 23 great years.

Beyond Bulls & Bears: What defines your approach as a portfolio manager?

Michael McCarthy: Our approach is long term, growth oriented and contrarian by nature. We search for businesses that we think can be substantially bigger over the next three to five years, and look to buy these companies at prices that don't reflect the long-term opportunity. Often, this price disconnect occurs because of a short-term issue that might not have much of an impact on long-term value, such as a quarterly earnings report that fell short of estimates. The growth path for smaller companies is rarely smooth, and we look to take advantage of this volatility. I believe we add value by thinking long term when most market participants seem to be fixated on the short term.

Beyond Bulls & Bears: Your specialty is the small-cap sector. What do you find exciting about that area?

Michael McCarthy: It's exciting to find a small company that has the potential to be a future large-cap company. Our analysts enjoy researching smaller companies that the rest of Wall Street tends to pay less attention to. Good research can definitely make a difference when investing in small caps.

Beyond Bulls & Bears: You have also focused on the technology sector throughout your career. How do you think the sector has changed since the dot-com boom/bust of the late 1990s to early 2000s?

Michael McCarthy: The technology sector has changed a lot in the last 15 to 20 years. I don't think we will see a period like the dot-com era again in my lifetime, in any sector. It was a period of tremendous innovation and, ultimately, tremendous speculation. It ended badly for many smaller companies. Today, though, the pace of innovation hasn't diminished much, but companies are on much more stable ground. Young technology companies are going public at much later stages of development, with more mature business models and healthier balance sheets. Overall, it's a slower growth environment, but a less risky one, in my opinion.

Beyond Bulls & Bears: What was the most challenging market you have faced during your career in investment management?

Michael McCarthy: The downturn in the market during the start of the financial crisis in 2008 was challenging. The price declines were severe from the beginning of 2008 through the bottom in March 2009. No area of the market was immune. Even the stocks of the highest-quality companies were hit hard. It was difficult to see any light at the end of the tunnel and difficult not to let fear influence decision-making. I am glad to say that we stayed true to our process, and used the price declines to invest in some great companies at fire-sale prices.

Beyond Bulls & Bears: What is the toughest or most frustrating part of your job?

Michael McCarthy: I think the toughest thing for a portfolio manager is to remain unemotional when investing. Stock price volatility can create frustration, fear or even excessive optimism. For portfolio managers, it's a constant battle to remain objective and not fall prey to behavioral biases.



Michael McCarthy, his wife, Kristen, and their daughters, Keely and Emily

Beyond Bulls & Bears: What achievement are you most proud of?

Michael McCarthy: I am extremely proud of the team we've built at Franklin Equity Group and of the success and growth we've had over the past two decades. A lot of people deserve credit, especially Ed Jamieson, who served as chief investment officer for most of that period. But to think I had some role in this success makes me very proud.

Beyond Bulls & Bears: We hear you're an avid golfer. Do you find that any of the skills required for the sport carry over to help your investment game?

Michael McCarthy: I started playing golf at five years old, so it's basically been a lifelong passion, and it's definitely a source of balance for me in my life. To play your best golf, you need to keep your emotions in check. The same is true for investing. Golf also demands

that you take calculated risks, with each shot requiring an assessment of the risk and reward—skills that can definitely carry over to investing.

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