

# Eat your own cooking says local hedge fund | Richmond BizSense

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Sometimes there's a nugget of wisdom in even the corniest business cliché.

Take "Eat your own cooking." If a chef won't touch the clam chowder, most likely the patron should lay off, too. (Insert gross restaurant tale here).

But the idea behind the saying applies to most any small business. Using your service or product can be a powerful sales tool that assures potential customers that you believe in the brand – and the case of the restaurant biz, that the chicken salad hasn't sat in the sun for three days.

The expression is particularly apt in the world of finance. A mutual or hedge fund manager who doesn't invest his personal assets might give off a vibe that he's not confident enough in his own fund, i.e. a de facto vote of no confidence. Warren Buffet, on the other hand, has almost his entire net worth invested in Berkshire Hathaway, which has boasted returns of more than 20% a year for decades. In general, shareholders often like to see that a company's management is vested in the growth of the company's share price, and some even go so far as to expect it.

[Adam Marquardt](#), a marketing professor at the University of Richmond's Robins School of Business, said the exact percentage the hedge fund requires isn't as important as the simple fact that they invest their own money in the funds, which acts as a "signaling mechanism."

"When you think about it, an independent coffee shop owner walking down the street with a Starbucks coffee doesn't instill confidence from someone who would go there to buy coffee."

However, Marquardt said that some businesses must make sure not to avoid sampling the competition, especially in the restaurant industry. "One of the most effective strategies for a small business restaurant is to go to other restaurants and see the preparations styles, the serving styles, the presentation, and the ambiance." Perhaps a restaurant in another town, so as not to confuse customers.

TFS Capital, a Richmond advisory firm that manages two hedge funds and two mutual funds, requires its principal owners to invest at least 75% of their personal liquidity (not counting the value of their homes) in company funds. Larry Eiben, one of the founders and the COO, said that the owners usually invest even more than the 75% benchmark. That way, customer's interests are aligned with the firm's interest (to use another business cliché, "skin in the game.")

TFS Capital was started in 1997 when three former Capital One employees turned a propensity for tinkering with their 401K plans into a money management firm. These days the company boasts \$230 million in assets between four funds. That figure was \$80 million in 2004. Currently, around \$195 million is in the [Market Neutral Fund](#), which buys stocks long and short. So far this year, the fund has returned 1.7%. The S&P 500 Index, meanwhile, is down 6%.

For TFS Capital, large ownership stake is a marketing tool, as is a No. 1 ranking in Morningstar's [long/short category](#).

Steve Cooke, director of investment services at Heritage Wealth Advisors, said seeing a fund manager who's heavily invested in the fund can be a factor when he allocates client money. Conversely, "You have to be curious if it's a straight forward type of investment and the portfolio's principals are not investing in it. That would be a sign that you need to know a little more about what's going on," Cooke said, adding that it's one of many factors used and probably not the most important one, which would be historical returns.

Sam Harris, TFS's marketing director, said that unlike the big players in the mutual fund industry, TFS doesn't advertise heavily. Instead, Harris said he'd "rather spend our money on research."

Pooling the company owners' finances alongside clients' savings has few drawbacks, Harris said. The partners don't feel

overly exposed (all their eggs in one basket) because the fund is designed to perform in both bear and bull markets by betting that certain stocks will rise and fall. TFS uses computer models and makes a lot of low-dollar trades, which help to reduce risk, the company said. By betting long and short, the funds are intended to provide stable returns even in a down market.

### **Other industries**

Most other industries face less pressure to eat their own cooking, and most customers of those industries don't expect to know how a company's ownership invests its money. But some professionals face similar pressure to "live the brand." An ugly beautician with a lousy haircut is going to have a hard time convincing potential customers he or she knows how to make clients over. Likewise, an architect in a dark and dilapidated building might not have much luck selling his services.

And consider this: some dental students (young professionals already out of college) get braces so that they have perfect teeth when they begin their practices. Out of a class of 90 dental students in the Class of 2008, around 15 got braces upon enrolling, according to Davie Turok, a fourth-year dental student.

"When you're learning about this stuff, and what can be done, you take more into account," Turok said.

"How do you talk someone into getting veneers and teeth whitening if your teeth look like crap?"

Of course, some businesses don't have the resources to buy their own products. Mechanics are notorious for driving jalopies, and most local advertising firms don't advertise. Some professionals, meanwhile, even prefer to defer to someone else in their own industry. Doctors rarely treat themselves or their families.