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# Companies, investors tend to prosper when founders remain at the helm

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USA TODAY

Founders know best.

Like coddling parents guiding their kids as they grow, companies' founders have a gut instinct on how to best care for their babies.

Investors who've noticed the powerful link between founders and their companies have been rewarded. Shares of companies that retain their founders as CEOs, even after they become large corporations, have enjoyed gains that top the market by four times on average, according to a USA TODAY database study.

Apple has become the most celebrated example. Its stock was \$2.03 in 1985, adjusted for splits, when founder Steve Jobs left, according to market data provider CSI. When Jobs returned in 1997 after 12 years, shares traded for \$3.95. Fast-forward 10 years, with Apple's shares at \$127.57.

It's not just the Jobs effect. Think Larry Ellison at Oracle and Fred Smith at FedEx.

Academics, investors and founders themselves struggle to explain why having a creator at the helm is so helpful to a company. Possible reasons range from founders having deep industry knowledge to having a powerful presence in the company to having a huge financial stake in the success of the business.

Whatever it is, it works. USA TODAY used data supplied by Ohio State University finance professor Rudi Fahlenbrach identifying companies launched in the 1970s, '80s and '90s that still have the founder as CEO. Fahlenbrach's data study companies in the Standard & Poor's composite 1500 index, which includes companies of all sizes.

Going back 15 years, stocks in founder/CEO companies have surged an average 970%, vs. a 222% gain for the S&P 500, according to data from S&P's Capital IQ.

The club is small. Most founders of that era cashed out or aged into retirement, leaving 63 as of mid-July (chart, right).

While not all 63 of the stocks have soared, average performance has been huge. Big gains might be expected in the early years of hot upstarts, so USA TODAY examined stock performance only since 1993. That was after most of the 63 founders had vacated their garage laboratories for office suites.

The market's recent turmoil is a reminder that there's no guarantee past performance will be repeated. Yet, the enduring performance of so many founder-led firms is hard for professional investors to overlook. "I should've attached more attention to it over the years," says Rob Sellar, a money manager of Aberdeen Asset Management.

For founders, many eager to leave their creations in others' hands and do something else, the founder-knows-best phenomenon can be a burden.

Consider John Sperling. He was 83 in 2004 when he decided to give up the chairman role at the company he founded, Apollo Group, which operates University of Phoenix. Sperling, an academic by training, wanted to leave so he could write books.

Soon after he left, Apollo ran aground. He says squabbling raged inside the company, and accounting problems surfaced. In the time Sperling was gone between June 30, 2004, and Jan. 11, 2006, shares of Apollo fell nearly 30%.

He returned to a demoralized staff, a pending earnings restatement, an investigation into stock-option practices and a possible delisting from the Nasdaq. Apollo stock bottomed in the months after Sperling returned and has recovered 65%.

Apollo, up 6,340% in the past 15 years, led the 63, followed by Amazon (4,381%) and Pre-Paid Legal Services (4,302%). USA TODAY attempted to smooth out the impact of the highfliers, yet still found a median stock appreciation of 521%. Forty-seven of the 63 at least doubled the performance of the S&P 500.

Even when adjusting for industry trends, "The excess return is robust," Fahlenbrach says.

## Amazon.com

Online retailer

15-year stock gain:

**4,381%**

## Pre-Paid Legal Services

Lawyers for the masses

15-year stock gain:

**4,302%**

## Apollo Group

Operates Phoenix University

15-year stock gain:

**6,340%**

## S&P 500

Stock market index

15-year stock gain:

**222%**

## Oracle

Database management

15-year stock gain:

**2,650%**

## Dell

Computer maker

15-year stock gain:

**3,389%**

So robust that Charles Schwab, a member of Club 63 with a stock rise of 2,139%, sounded a little surprised. Schwab says he has met many members of the club, including those who join him on the Forbes 400 list of richest Americans: Jobs, Smith, Ellison, Warren Buffett, Michael Dell