

Red Granite survives suit, only to face bear market

Still, investments have outperformed growth index

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The founders of Red Granite Advisors took precautions to avoid a lawsuit — but knew they risked being sued — when they quit Robert W. Baird & Co. Inc. and took their large cap investment team with them.

Ten months of litigation ensued, but Red Granite survived the nasty affair and settled with Baird for undisclosed terms in February 2007. Concluding the litigation eliminated concerns of many prospective clients Red Granite pitched, but within a year of the settlement, Red Granite has encountered the worst bear market since 1938.

Joel Vrabel, 59, and David Bowman, 52, who had led the \$5.3 billion Baird Investment Management for more than a decade, aren't worried. From their office on the 27th floor of the 100 East building in downtown Milwaukee, they're adding clients, including some former Baird customers, and note that their investments are outperforming the down market.

"Everybody gets hurt in the kind of bear market we've been in," Vrabel said. "The question is, will your clients be there to invest for another day?"

The Red Granite partners plan to attain within the next five or six years their goal of managing \$4 billion, which was the amount of Baird funds they managed. Today, the figure stands at \$167 million, which is considerably more than Red Granite's starting assets consisting of Vrabel and Bowman's personal funds.

Year-to-date, Red Granite's investments have outperformed the firm's benchmark Russell 1000 Growth Index by 11 percentage points. That index was down 34.3 percent as of this week.

Red Granite conducts research and manages portfolios of large-cap growth stocks — those the firm views as possessing above-average growth potential. Among local stocks Red Granite held as of Sept. 30 were Actuant Corp., Fiserv Inc., Harley-



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Joel Vrabel (right, with David Bowman) . . . "Everybody gets hurt in the kind of bear market we've been in."

Davidson Inc., Johnson Controls Inc., Manpower Inc., Metavante Technologies Inc. and Marshall & Ilsley Corp.

Retail brokerage clients of the 14-employee firm include Smith Barney, Stifel Nicolaus and RBC Dain Rauscher. Customers of those brokerages can select Red Granite to manage their investments. The firm also has attracted high net worth individuals through its investment counsel led by Baird Investment Management founder Bob Bosworth.

The Red Granite partners don't say much about the Baird litigation other than it slowed their firm's launch but didn't stop it.

A Baird spokeswoman said the Milwaukee-based financial firm has no comment on the lawsuit or Red Granite.

Within two weeks of Vrabel, Bowman and their team's departure from Baird, the financial company sought a restraining order and injunction to prevent Red Granite and the partners from using Baird records and recruiting Baird clients.

Circuit Court Judge Patricia McMahon in

November 2006 ruled there was no proof of Baird's claims, but the case was still on track for a trial. Before that happened, Baird CEO Paul Purcell was quoted in January 2007 in an industry publication repeating the allegations. Red Granite sued in U.S. District Court for defamation and slander.

The parties agreed to a settlement after that. Baird has yet to recover from the loss of the now-Red Granite team. Baird Investment Management listed assets of \$617 million as of Sept. 30, compared with \$5.3 billion at the end of 2005, the last full year for the Vrabel-led team.

David Massart, president of Next Generation Wealth Management, Wauwatosa, first hired Red Granite in November 2007 and uses the firm as one of his investment managers.

"They've got a track record — regardless of the market year and the economic cycle — that has proved to be quite successful," Massart said.

Red Granite's investment philosophy is to "protect client assets in down periods," Bowman said.