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Marion, Herbert Sandler, Pay Consultant's Ideal: Graef Crystal

Commentary by Graef Crystal - June 14, 2006 00:14 EDT

June 14 (Bloomberg) -- The worst corporate chief executive officers collect lavish pay and give their shareholders losses. By reverse logic, the husband and wife team of Marion and Herbert Sandler, the co-CEOs of Golden West Financial Corp., rank among the best.

The couple is in the news because they have agreed to the sale of the Oakland, California-based savings bank they founded more than 40 years ago to banking giant, Wachovia Corp.

When the smoke clears, the two Sandlers will be the recipients of more than $2 billion in cash and Wachovia stock.

A number of analysts have faulted Wachovia's timing. They think that Golden West is about to go into a down cycle in its bread-and-butter business of making home loans. The reason, of course, is rising interest rates.

Yet the Sandlers have been riding the swift currents of the home mortgage business for decades and with all the skill of world champions.

When I was teaching at the University of California-Berkeley in the 1980s, I met the Sandlers at that city's famed restaurant, Chez Panisse. I was introduced by my next door neighbor, who was then the restaurant critic of the San Francisco Chronicle. After we met, my neighbor told me: “You really ought to consider putting some money into their company.”

My Regrets

So did I? Unfortunately, I didn't.

My Bloomberg terminal carries stock price history back to July 28, 1980. Starting from that date and extending to June 9, Golden West's total return has placed it higher than all but 3 percent of the companies that comprised the Standard & Poor's 500 Index during that period of almost 26 years.

But measuring returns on what is fundamentally a point-to-point basis doesn't speak to the fact that the company's shareholders not only fared marvelously but had a terrifically-smooth ride doing so.

Here, in 25 narrowing time windows, stretching between Dec. 31, 1980, and Dec. 31, 2005, are the cumulative total returns of Golden West and the S&P 500 Index.

From	To	Golden West	S&P 500	Difference
12/31/80	12/31/05	9732%	1787%	7945%
12/31/81	12/31/05	17084%	1885%	15199%
12/31/82	12/31/05	8561%	1533%	7028%
12/31/83	12/31/05	6016%	1233%	4784%
12/31/84	12/31/05	5548%	1154%	4394%
12/31/85	12/31/05	2767%	852%	1916%
12/31/86	12/31/05	2437%	702%	1735%
12/31/87	12/31/05	3416%	662%	2754%
12/31/88	12/31/05	2678%	554%	2124%
12/31/89	12/31/05	1512%	397%	1115%
12/31/90	12/31/05	1649%	413%	1236%
12/31/91	12/31/05	882%	293%	589%
12/31/92	12/31/05	882%	265%	617%
12/31/93	12/31/05	985%	232%	753%
12/31/94	12/31/05	1091%	228%	864%
12/31/95	12/31/05	654%	138%	516%
12/31/96	12/31/05	556%	94%	462%
12/31/97	12/31/05	321%	45%	275%
12/31/98	12/31/05	346%	13%	333%
12/31/99	12/31/05	305%	-7%	311%
12/31/00	12/31/05	100%	3%	97%
12/31/01	12/31/05	128%	17%	111%
12/31/02	12/31/05	86%	50%	36%
12/31/03	12/31/05	29%	16%	13%
12/31/04	12/31/05	8%	5%	3%

The reader can see that there is no time window -- not one of the 25 time windows -- in which Golden West did not outperform the S&P 500 Index. That's the equivalent of hitting 25 home runs in 25 consecutive times at bat.

Now there are CEOs in the banking industry who have done well for their shareholders, but who have done far better for themselves by collecting enormous pay packages. Former Citigroup Inc. head Sandy Weill comes immediately to mind.

Weill seems to me the embodiment of what capitalist America is all about. Perform well for your shareholders and you get a ton of money. Indeed, is it not the ton of money that motivates you to perform well for your shareholders?

Maybe that was so in Weill's case. But it's decidedly not so in the case of the Sandlers.

<u>Bargain CEO</u>

Given that they are both co-CEOs, it would seem at first glance appropriate to add up their virtually identical pay packages and to consider that sum the cost to shareholders of being CEO. But Golden West has no non-executive chairman, and it has no chief operating officer. So from that standpoint, I think a better approach is to look at just one of the two Sandlers' pay.

In 2005, Marion Sandler received a pay package totaling $1.5 million.

That pay package, in a study I just conducted of 492 CEOs running companies with market caps of $3 billion or more, positioned her 79 percent below a competitive level of pay determined by controlling for differences in company size, in 2005 total return levels and in the relative risk of the pay package (as measured by the ratio of stock option present values to total pay, stock options being the most risky form of pay.)

So the notion that to get good performance, you must offer huge pay may apply to some CEOs. But it certainly doesn't apply to the Sandlers. They were content to hold on to their company stock, work for peanuts and look to the long term.

My only regret is why -- why didn't I call my broker the night after I met them?

(Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

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