

Beyond the Numbers: Dean Morris on Markets, Mentors, and Meaning

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Introduction

For more than four decades, Dean Morris has brought a rare combination of intellectual rigor, steady discipline, and unwavering character to the world of public equity investing. As Director of Research at Cornerstone, Dean has not only weathered every type of market environment—from the dot-com bubble to today’s rapid-fire volatility—but has done so with a clarity of purpose and humility that set him apart. Over the decades we’ve had the privilege to work alongside him, we’ve seen firsthand the deep wisdom he brings to both investment decisions and team leadership. His impact extends well beyond numbers and performance metrics; Dean has shaped the culture, mentored a generation of investors, and fostered an environment of trust and shared purpose. In this conversation, he reflects on his professional journey, the evolution of the markets, and the principles that continue to guide his enduring success.

What do you enjoy most about Cornerstone?

First, let's talk about the business of public equity investing. If you are an intellectually curious person, an analytical person, AND a competitive person, this is the best business in the world. In a certain way, you are trying to solve a problem that has no one right answer. For some people who try their hand at the business, this can be overwhelming, and they fail. The fundamental investor's world, whether as a portfolio manager or securities analyst, is one where you are presented each day with an examination, and you don't have any say in what the questions of the day will be. In fact, you don't know when the market will grade the answers you provide to the questions. Short-term grading and longer-term grading often differ. Your job is to identify what is required of the question or problem and make an intelligent, well-reasoned, risk-adjusted response to it in an environment of partial and imperfect information to achieve the best grade in the long term.

To succeed, you need an enduring investment philosophy, rigorous fundamental analytical skills, accumulated institutional knowledge, patience, and a high energy level. People who like to solve math problems, do crossword puzzles, or read mystery novels generally have the right level of curiosity and temperament to do well in this business as success can be both a relative and sporadic phenomenon. We know that if you are right 52% to 55% of the time, you will win big over time. That means that you have to be able to accept that you are going to be wrong 45% to 48% of the time, even when you are doing well. This is hard for a lot of intelligent and competitive people to accept. They might look at us and say, "Wow what low ambition! I know I will be right 70% of the time and deliver better results!" Of course, that perspective leads to overconfidence and sometimes downright arrogance, with the result that they do not factor in the risks of being wrong sufficiently when allocating capital—the outcome of which is usually poor results. People who are not humble when they enter this business generally do not stay that way or they quickly look for something else to do. Indeed, the market has a tremendous way of humbling all of us at various times.

Second, but most important, relating solely to Cornerstone, are the team and culture that we have built. Considering our investment team, of which I am a senior member, we are a high performing team. Today, we are more focused and committed than ever, and our intra-team trust has never been stronger. We could "parachute" every member of our team in front of a qualified audience and be confident they would do a banner job of representing our firm and investment process. This confidence comes from sharing a singular vision, mutually agreed upon, paired with collective action. This dynamic has spread through our operations, sales, and client service functions as well. All this creates the most pleasant and productive TEAM environment you could ever want. Everyone we have in place in the firm is both very good at doing their job and a cheerful person.

Let me mention the role of TRUST in a high performing team. As I mentioned, the market is constantly changing the questions it asks of investors, so investors must always improve. This means our team must improve, but a team cannot improve unless there is a high degree of trust between the members. Trust facilitates frictionless communication. Frictionless communication creates constructive conversations that lead to constant improvement as a team and as individuals.

Finally, at this stage of my career, I take enormous joy in working with the four younger members of our investment team. We have all worked together for more than a decade now, and they are now all approaching mid-career. To see the way that they have all grown and are flourishing is wonderful. To think I have had some small part in their development is deeply gratifying. I am a better investor for having worked with them; I am a better person for having known them.

How has your educational background helped shape your investment approach?

I received my undergraduate degree from Williams College in economics. Of the six members of our investment team, four of us have liberal arts backgrounds. That is a great perspective for operating in an environment of inquiry and curiosity, because the liberal arts expose you to many important fields of thought and teach you to think expansively and creatively. You also learn to write and communicate well. My father was a physicist, and I think he was somewhat disappointed that none of his three sons went into a scientific endeavor. He attached great importance to being an educated person to be a productive and responsible citizen of this country. When I went off to college, he said “Son, there are many things you must learn and know to be considered an educated person. If you pay attention and apply yourself, Williams will do a more than adequate job of teaching you the rest.”

I earned my MBA at the University of Chicago which is ground zero for the advent of academic research in securities and financial markets. The investments, economics, and accounting classes there provided a great foundation that I still carry with me till this day. In my 2nd year I took a class called “Special Topics in Finance” with Jim Lorie who was a legendary professor at the GSB (now called Booth.) He founded the Center for Research in Security Prices and got Merrill Lynch to fund it. He was also instrumental in establishing the Chicago Board Options Exchange. He was nearing the end of his teaching career, but his encouragement solidified my career choice.

What did you learn from your experience managing equity portfolios during the dot com bubble?

It was the first real market bubble that I experienced for an extended time period. The first thing is that, when something appears to require a suspension of disbelief to continue, it is probably a bubble that will likely pop in due course. The most foolish thing I ever heard from a Wall Street pundit came during that period. An internet stock analyst from a reputable firm told me that there was no price too high to pay for infinite growth. I told him that his statement was theoretically true but couldn't possibly last for an infinite time period. Secondly, I learned the danger of one of the most alluring fallacies of growth investing – blindly following price momentum and estimate revision. They can be valuable to a degree, and you should not ignore them. As a bubble progresses, it represents a real danger for value managers, as even broad-based equity indices become dominated by large companies trading at extended valuations. For the growth manager, they become dangerous when suddenly companies start missing earnings estimates, and they have a long way to fall. Devotees of estimate revision have to be careful that they do not get hit with a double whammy, selling those stocks whose revision scores have fallen and putting the proceeds into stocks whose estimate revision may still look positive, only to have them turn negative in relatively short order, sending their stocks down. This is the investment equivalent of jumping from land mine to land mine, enduring multiple hits along the way.

The key takeaway is to continue to follow a disciplined approach and keep executing the strategy that the client hired you to do. This requires close communication with the client about the overheated market environment and setting reasonable return expectations.

How attractive is the current environment for value-oriented investing?

The current environment is very attractive, but it depends how you define value. There are always overvalued stocks to avoid and undervalued stocks that offer significant upside opportunity. The key is not to define value as “cheap stocks” which I contrast with undervalued stocks. Index sponsors commonly divide their indices into Growth and Value segments by easily observable measures such as price-to-earnings ratio, price-to-book ratio, or expected earnings growth. They are fine for defining index inclusion over a broad swath of stocks, but they are of limited use in evaluating an individual security. Sir John Templeton used to speak of such simple measures as “yardsticks of value,” useful in identifying undervalued stocks. They are useful as a first cut, but you have to pair them with the ability of the company to generate value in the future vs. its current metrics, which are readily observable to anyone. You need to assess the durability of a company’s business model, the growth prospects of the industry it is in, its position in that industry, and its management’s strategic focus, its demonstrated ability to add value, and its acumen for funding its business and allocating capital, among a host of other factors. Otherwise, your yardsticks of value are likely to become Procrustean beds that impair your ability to outperform. If you own a company that has a demonstrated ability to add value and has better than average odds of continuing to do so, you run the risk of selling your winners too soon and throwing out the right-hand tail (the positive one) of the return distribution. Conversely, if you overpopulate your portfolio with the stocks that do not reliably increase their earnings or cash flows simply because they trade cheaply, you are likely allocating capital to companies whose best days may be behind them and are unlikely to grow value in the future.

How have the markets changed over the course of your career?

Information flows faster, and the volume continues to grow seemingly geometrically. Correlations among equity markets and all financial markets appear to be growing tighter. Markets move at a faster pace and with more day-to-day volatility than they used to. Companies with large market caps benefit from large monthly flows from 401(K) plans irrespective of their valuation. Large mutual fund companies and other large, long-only investors used to be the marginal investors in setting near-term equilibrium share prices. Now, the multi-manager hedge fund platforms, which are largely unregulated, are the primary marginal investors. Their very business models promote volatility. The higher volatility presents an opportunity in addition to representing higher risk. You need to stay disciplined in your investment process and have an appropriate investment horizon to do well in the current environment.

Who has had the greatest influence on your career?

I have already mentioned Jim Lorie, one of my U of C business school professors. I have had a lot of great bosses both in the investment management business and before. The good ones all shared a few common qualities. They all recognized that I had a certain level of ability. They all believed in, trusted, and empowered their people. This made them the sort of people that you never wanted to disappoint. They also created a strong team environment, so you never wanted to let down your teammates. Those are all very powerful motivators. My early days at Invesco were chock full of people who had an outsized positive influence. While Invesco has gone public and created many other investment companies, I was fortunate to be with the original unit, Invesco Capital Management (“ICM”), and work with many of the founding and early partners. ICM was still run very much like a private firm. I hesitate to name names because I could easily name two dozen. But here are a few. Tom Shields was a great investor and mentor. He taught me more about the impact of human behavior and its impact on investing than you can imagine. Frank Bishop was the President at the time who set an incredible example of how to lead and run a company. He always said that no one should aspire to be the managing partner of a money management firm; it is a role that everyone should fill at some point out of service to their partners. Wendell Starke was the original Chief Investment Officer- I learned a ton from him. Ed Mitchell, of course, was instrumental in getting Cornerstone going after he retired from Invesco. Our deceased partner, Fred Wetzels, was an enormous influence, as he was to all of us. Courage is the rarest of the virtues; gratitude is the second rarest. I am fortunate to have had a career where I have so many people to whom I am grateful.

What do you enjoy outside of public equity investing?

I enjoy playing golf and tennis. I am lucky enough to be married to a woman who does both. I enjoy cooking for friends and family and reading about a wide variety of subjects. My wife’s and my greatest joy remains spending time with our children, both of whom are now young professionals.

We encourage you to reach out to us if you would like to learn more about our investment process. Please contact Paul Slakter, Partner and Head of Business Development, at Slakter@cornerstone-ip.com or 813-240-6191. We have built a unique approach to equity investing with strong near and long-term performance that speaks for itself, and our investment team values every opportunity to share our story.

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