

June 2005 Commentary

Highlights of Selected Investment Manager Views

"I have opinions of my own - strong opinions - but I don't always agree with them." - George H. W. Bush (Sr.)

It has been over five years since the stock market's peak and uncertainty still dominates the investment climate. As in any field, guidance from experts can help lead the way, so this month we turn to some top investment managers for their views on the current investment climate. While these managers have all delivered excellent long-term investment results, they all offer differing views. Who is right? Quite possibly none of them. The good news for investors is that future investment results do not require these managers to be exactly right. What is required is a consistent application of their investment discipline over time.

Bill Miller, the manager of the Legg Mason Value Trust, which has outperformed the S&P 500 Index for 14 consecutive years and has outpaced the S&P 500 Index by an average of 2.75% per year over the last 23 years, discusses his positive view:

"The experience of the past five years, where the major stock indices have made no progress, has eliminated the exuberance arising from 17 years of 17% per year returns beginning in 1982. Investors have learned to be risk averse when it comes to equities, after being risk seeking for most the 1990's. The safety and relative performance of bonds since early 2000 has led to a crowding in effect in that market, with very low real rates, low nominal rates, and low spreads. Investors appear to be suffering a bout of cognitive dissonance, becoming risk seeking in low return bonds, and risk averse in higher return stocks. People always seem to buy today what they should have bought about 5 years earlier: they hated tech stocks in 1994 when prices were low and loved them in 1999 when prices were high, they hated bonds in 1999 when prices were low and love them now when prices are high, they hated oil in 1999 at \$12 a barrel but love it now at \$55. Our views also remain the same. We like what is out of favor and unloved. We are bullish on the out of favor asset class: US equities." (April 24, 2005)



James Gipson, a manager of the Clipper Fund, which has outperformed the S&P 500 Index by an average of 2.2% per year over the last 21 years*, discusses his negative outlook:

"Cash is not a four letter word. Your cash position has been creeping up. In general, this reflects the generous prices accorded equities in today's market. In particular, it reflects our sale of stocks in your portfolio as their prices rose to our estimates of their intrinsic values. It also reflects the shortage of new cheap stocks to buy. Less obviously, the choice of cash reflects the realization that investors are living in a golden age that may not last forever. The problem with cash is patience. There are times, and this is one of them, that building cash is a rational course of action until really good opportunities present themselves. That may take an uncomfortably long period. In the meantime, the temptation for investors is the same as for proverbially drunken sailors. If the cash is there, the compulsion to spend it is there too. We will do our best to remain sober in our actions with your assets, but we do admit to more than a little impatience." (April 7, 2005)

"It is hard enough to remember my opinions, without also remembering my reasons for them." - Friedrich Nietzsche

***NOTE:** All performance results are as of March 31, 2005

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"I'm not sure I want popular opinion on my side - I've noticed those with the most opinions often have the fewest facts." - Bethania McKenstry

At this point, gambling might look like an appealing option, but **Bill Nygren** sets us straight. Nygren is the manager of the Oakmark Fund, outperforming the S&P 500 Index by 5.52% per year since its inception in 1991*:

(From a speech at the Louis Rukeyser Investment Conference)

"I enjoy being in Las Vegas casinos, but it still seems ironic to me to have an investment conference here! All of you are here looking for investment ideas in which the odds are in your favor; yet we are gathered in a city that bombards us with opportunities to risk our money at unfavorable odds. If any of you have heard me speak before, you know that from a young age, I've been fascinated with the comparison between gambling and investing. Both involve risking your capital for an uncertain return. Of course the problem with gambling is that the expected return is never quite as much as the amount of capital at risk. If a game has two outcomes - doubling your money or losing it - the probability of doubling is always a little less than fifty percent. That's why, given enough time, almost every gambler in a casino ends up losing money. So, if you're headed to the casino tonight, go for entertainment value because the economic value is negative. An investor, like a gambler doesn't know in advance whether a specific investment will make or lose money. But, unlike gambling, investing has expected returns that are positive. Unlike the average gambler, give an average investor enough time, and he or she will usually make a profit. One of the challenges in investing is to prevent acting emotionally and reducing those expected gains." (March 31, 2005)



Ron Baron, the manager of the Baron Asset Fund, which has outperformed the S&P 500 Index by 2.48% per year since its inception in 1987*, explains his optimism:

"Our society is just changing so fast! And, in the process, creating so many opportunities. So, the next time an analyst or investor tells you that he or she "can't find anything to buy," think about the changes that are going on around you and the long term opportunities they present to businesses... and, how opportunities to take advantage of those trends are just beginning, not ending. And, if an opportunity will last for years and is only now becoming evident, how can there not be businesses with growth prospects that have not yet been reflected in their stock prices?" (March 31, 2005)



Certainly there is growth outside the United States too, but the managers at the **Tweedy, Browne** Global Value Fund, who have outpaced the MSCI EAFE benchmark by 6.64% since the fund's inception in 1993*, offer a caution about investing in China:

"Another question that has been raised in the past year has been whether we have any plans to invest in Chinese companies. We have investigated this issue in the past, and, so far, have decided to take a pass. The obvious allure is that China is one of the fastest growing countries in the world. Unfortunately, it is still a Communist dictatorship with virtually no shareholder rights protection. Some companies are listed on Chinese stock exchanges such as in Shanghai. Observing the trading patterns of stocks on these exchanges brings the word "manipulation" to mind. Others are listed on the Hong Kong exchange, which does have rules. However, many of these "red chips" are controlled by the Chinese Communist government, which possesses and has exercised the power of a controlling shareholder. The public is just along for the ride with no recourse to object to any actions taken by the government. Valuations would have to be a fraction of where they are now for us to assume that risk."