Investment Proposals (28.1.2003)

On timing, nobody has a perfect answer. We are now in a period of high anxiety, fear and lack of confidence. Prices are very low, but as always, they could go lower. Government bond yields are very low, but they could get even lower, too. One thing is clear today: Over a period of 5 to 10 years, equities are much more attractive than government bonds. While bonds are not so attractive, they provide safety and peace of mind.

For the indicated equity investments I would propose the following price targets. Please keep in mind that they could change, if the outlook for earnings or the economic outlook for the company changes. They are in my opinion quite attractive levels and should over time allow a considerable appreciation in price. Please note also, that they are close to the present market prices. Considering the volatile nature of the world I would advise a “wading into the market”, keeping some of the powder dry for a nasty downturn.

GE	$20 - 22
Loews	$40 – 44
Cheung Kong	H$45 – 51
P & G	below $80
Pargesa	CHF2’300-2'400
Renaissance Re	$36 – 38
Dexia	€10 – 11
Allianz	€70 – 75
Nestlé	CHF 270
Swiss Re	CHF 90
HSBC	£6 – 6.50
AIG	$49 - 52
Pfizer	$27 – 29

On the large Blue Chips there exist puts, discount certificates or reverse convertible bonds. Medium sized companies like Pargesa or Renaissance Re don’t have these instruments or if they have them, there isn’t much of a market for them.

The concept of investing in “Fallen Angels” or “Cigarette But” investing is being favored by contrarian investors. By definition, purchases are made at low levels, after prices have been knocked down. Economically minded people enjoy nothing more than getting an economic good at a price below its perceived true value. If I can get Coke at a promotion for 20% less than the normal price, I just feel good. The same is true for clothing. Waiting for a sale with discounts of 20 to 50% is standard procedure for many people and if they find the right stuff the again have a feeling of accomplishment.

The same is true for the contrarian investor: Finding a bargain is exhilarating. Some people get sick when the market keeps falling. Others to a certain degree don’t mind when prices get cheaper and cheaper, they start analyzing. Is the message of the market correct or is he being overwhelmed by negative feelings? Are there favorable developments on the horizon, which the market in its blindness oversees? Is the market too emotional, too fearful? The investor may see a glimmer of hope or he starts to disagree with the market opinion. He starts to invest in a company or a sovereign bond in a downtrend, usually slowly and cautiously. Often he is too early, but lower prices permit a down-averaging of cost prices. After a while, sometimes a long while, things turn for the better and profits start accumulating. Sometimes, the situation worsens and losses are inevitable.

We are presently in a market phase where fear is increasing, confidence is fading, negative points are emphasized and positive signs are mistrusted. This is an ideal starting point for contrarian investments. In 1966 to 1982, when I started out as an analyst, we had also such a period. The Dow Jones went back and forth between 1'000 in 1966 to 600 in 1973/74 and back up to 1'000 in 1982. One can live in such an environment and survive, although one misses an extended upswing. Successes are relatively small until the eventual break out occurs. Late, after 1982 we were overwhelmed by the waves of higher valuations.

Admittedly, just looking for the cheap investment, is not enough. The goal is always to find the toad that becomes a prince, to find the wonderful company that grows and multiplies several times in value over the years. But buying low, making out-of-favor investments against the market opinions, is a most important prerequisite for such an achievement.

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