



Forbes Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher says a dour mood among equity investors means there are a lot of cheap stocks to be found in the markets right now

Free money — buy now

I expect a huge 2005 for global equities — up more than 20% as measured by the MSCI World Index. What are my reasons? First, as I explained in this space last November, equities are both historically and theoretically cheap when measured correctly while everyone incorrectly thinks exactly the reverse.

Second, as discussed in my October column, investors are much too dour. Third (and this one we covered two months back) the first year of a re-elected President's term is always huge if it isn't negative — there's nothing in between — and I don't think it will be negative, partly for the reasons above, partly as my December column detailed. Finally, the bears' arguments are either blatantly ridiculous or too old to matter.

It isn't that something terrible can't come along and knock the market — that could always happen — but that what the bears are growling over is all much too discussed, for much too long, to have power over markets that discount all known information quickly.

It all must have been digested into hibernation long ago. For example, it is almost universally held that long-term interest rates must rise — as it was all of 2004, which never happened. It is illogical that it should happen now except so many believe it will. The more monopolist central banks raise short-term rates now, the less likely it is free market, long-term rates will rise later.

Americans are lightly dour, the British more so while, on the continent today, most investors need serious dosages of anti-depressants. Professionals are more dour than individuals and journalists even more so. All in all, this is the stuff of big up-

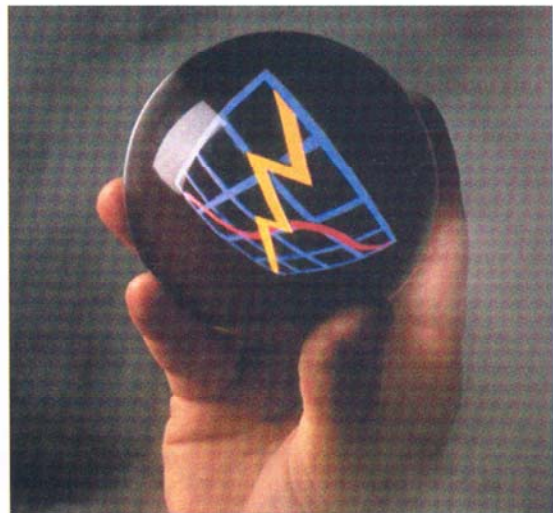
moves. Upside surprise potential is nearly universal. None of these groups expects more than small single-digit stock returns at best this year — which is all the more reason to expect them.

I won't repeat my November details on why the market is cheap although investors don't realise it is — however, I will state them another way. The average quality US corporation today can borrow 10-year money at less than 6%. So, if they borrow and take over companies from the 40% of the market that has price/earnings ratios less than 16, meaning an immediate earnings yield greater than 6%, they receive free money, increasing both earnings per share and net worth immediately. Since getting free money is so easy to do, it will be done and, in the process, stocks will be bought up and bid up. You should buy before they do and, on the way, try stocks such as the following.

First up is Germany's **Fresenius Medical Care**, a leader in all parts of kidney dialysis from treatment to equipment to supplies. As folks get older the demand keeps growing, hence Fresenius has a basic growth business, hence investors can pay a little more for it than for the average stock. But a little more is all it costs at a trailing price/earnings ratio of 20 — an earnings yield of 5%. With £3bn in turnover and 120,000 patients in 1,500 clinics in 24 countries, there is a lot to this global niche leader.

Flowserve in the US is a capital goods manufacturer making pumps and valves for hard-to-handle fluids, such as corrosives, and selling them to a wide array of industries. It's had its share of recent problems but has them largely in hand now. That's why I expect current depressed levels of

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profitability to bounce back heavily in the next 12 to 18 months, at which time Flowserve could easily be selling at 15 times trailing earnings. Meanwhile, if the stock doesn't rise I expect the firm to be taken over for its market position.

Dutch group **Equant** provides customised telecom network design and integration for thousands of businesses across every big country. It has a very strong position in seamless broadband, an area with big potential. But corporate expenditures in this area have been miserly, which has hurt the stock and provides you with an opportunity. The stock is dirt cheap at 50% of annual turnover and one times book value — rare for a technology company.

Italian eyewear designer and maker **De Rigo** is set to take its brand name fashion sunglasses and prescription frames through a regionally tailored distribution system that should ignite sales. Any boost goes a long way with the stock since it sells at 30% of annual turnover, 1.1 times book value and 10 times trailing earnings.

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