



Forbes Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher believes concerns the residential property market is a precarious bubble are unfounded as real bubbles aren't ever identified until after they have burst

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Property still bubbling along

Have you read in the media that residential property is a bubble ready to burst? Sure you have, which is why you need not worry about it. Real bubbles are never commonly called bubbles publicly until after they've burst. Never before.

Real bubbles are seen as basic. They are a misperceived but supposed new fundamental reality, firmly felt, leading to widespread bubble babble, reinforcing the new faith. Recall tech's top – then justified by "The New Economy" and "It's the Internet, Stupid".

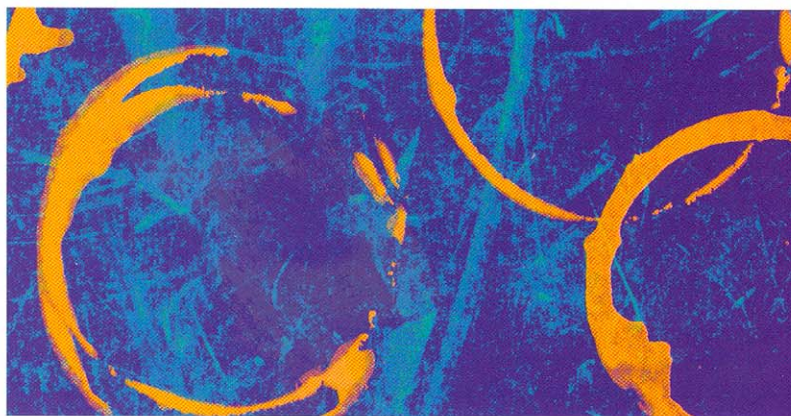
The very first references to tech as a bubble appeared in print just after it was peaking but were widely ridiculed as not understanding and accepting "the new paradigm." Before that, tech was widely regarded as a "new reality", feared by those in that "old economy" that tech might subsume, but just as real nonetheless.

With the early 1990s Japanese bubble, meanwhile, mythology proliferated that Japan was simply superior and would replace the US as the next generation world leader. America's best-selling novel in 1992 was Michael Crichton's *Rising Sun*, which was based on that notion. It spawned a major movie. Both seem simply silly now (unless you re-cast China in Japan's role).

Anything commonly labelled a bubble that hasn't burst means there is fear of falling prices. There is almost no rate of return fear with a real bubble. That fear, already priced in, reduces market risk relative to a real bubble's levels. Home prices could rise or fall from here. I don't know. But this isn't a bubble because it's been widely called one since 2003 in the UK, in the US and throughout the continent. It keeps bubbling along, so to speak.

Why? Long-term interest rates are down when most folks thought they would be up – so mortgage rates are lower, too. If mortgages stay benign, housing may stay strong. Still, since it isn't a bubble, you needn't fear it.

As 2004 and 2005 began, folks believed



long rates would rise markedly. But they were down both years throughout the world. The real bubble? The air hole in those brains that thought rates would rise. There is zero media discussion that long rates are down globally, much less why.

It's simple – global inflation is less than expected. Some prices up. Others down. Overall, globally, they are fairly flat. Expect long rates to remain more benign than the airheads can foresee. Last month I detailed how stocks with seemingly high price/earnings ratios (P/E's) could be taken over with free money at today's low long-term interest rates. Here are a few more to buy now.

Bermuda-based **Helen of Troy** could easily be acquired. Its brand-name hair care consumer products would complement any major consumer products firm broadening the acquirer's own franchise. It sells throughout the US and Europe, allowing for distribution synergies if acquired.

Yet it sells at nine times trailing and current earnings. Hence, its 11% earnings yield (inverse of the P/E) lets any other consumer products firm borrow long-term money at maybe 6%, acquire Helen and pick up the 5% spread-plus while boosting the buyer's earnings per share figure immediately.

Watson Wyatt in the US is a global leader in human resources services, such as actuarial and benefit plan consulting, for

major businesses and government agencies. Ageing populations make retirement issues more crucial, helping Watson.

At 16 times trailing earnings (6.25% earnings yield) the company either gets its P/E up or else someone is likely to acquire it hoping for growth. In the UK, it has offices in Bristol, Edinburgh, Leeds, London (of course), Manchester, Redhill, Reigate and Welwyn. There is too much capacity, too cheaply, not to be taken over.

Ageing demographics also makes Curacao-based **Orthofix International** a hot small growth firm. Its leading-edge surgical and post-surgical orthopaedic devices for spinal, knee, leg and joint reconstruction fit a naturally growing market.

Yet it sells for only 18 times 2005 earnings, which is still not too expensive to be acquired profitably by most borrowers. This is one of the smaller stocks I recommend with only £165m of 2005 sales. So perhaps you should only buy a little.

And do you believe China is set to grow big-time? If so, the country's second largest wireless provider at 17 times 2005 earnings is an easy decision. Hong Kong-based **China Unicom** has a 33% share in a market that should grow for decades. It's a simple buy and hold.

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