Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and **Fisher Investments** chief executive KEN FISHER says many experts have not noticed how the economies of countries who expressed opposition to war in Iraq have suffered significantly in the wake of recent events

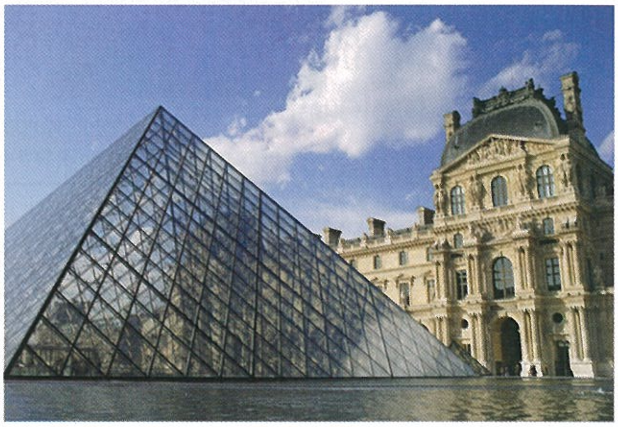
Anti-war economies endure the consequences of dissent

There is a lesson in Iraq no one notices. As a disclaimer, I'm no expert in military matters. But markets matter and they are saying something. Despite all the emotion felt about Iraq, from many different viewpoints, it is clear when all is said and done it will be what it will be. Markets handle reality better than most of us. The debate is three sided: the US, Iraq and the French/German view. Some notice Iraq's stockmarket doing well, discounting a pro-US outcome.

What isn't noticed is how much worse those allied with France have fared since 11 September 2001 than countries allied with the US – and consistently. Drastically! Yes, the market is down. But countries opposed to the war – including Germany, France, Switzerland and the Netherlands – are down more than twice as much as a group as are those supporting the US, such as Australia, Japan, Spain, Italy and the UK. This year, too.

Amazingly, Germany's stockmarket is now worth less in total than Canada's. The German and French markets together are worth less than the US's four biggest stocks or the UK's 12 biggest. Like it or not, as far as the market is concerned, country spreads tell you the US is on the right side of this issue.

This is a subset of a bigger principle: that the market is a discounter of all known information, meaning that what everyone worries about is priced into markets and, making decisions on those things, you can't make excess return other than by luck. To put it another way, when everyone is worrying about something, don't bother yourself – they're doing it for you.



Again, I'm no military expert. Clearly, President Bush is leading in a way western leaders haven't before. He clearly deems obsolete traditional notions of what is needed to declare war. Traditionalist western leaders and most Europeans clearly object. Bush claims, between the lines, that the concepts western nations followed since World War I are now obsolete – that the UN and Nato are obsolete, as is the role France and Germany have played in global decisions since World War II.

He is saying those structures, created to deal with a bi-polar confrontation between communist interests led by the Soviets versus US-led capitalist interests, are now defunct and better replaced by the US leading directly, with good intent. He envisages the US as a global police force unencumbered by the need for a vote by committee before forward movement. He is saying the US is benevolent and should be accepted by the world as such to play this role because of its longstanding benevolence. Is he right? How the heck would or should I know?

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But I don't think you can tell either. History will. Great leaders lead nations, often in ways we don't appreciate. That's why it's called leadership. We hate spineless politicians who only govern by the polls but we get confused when a leader leads. If Bush succeeds, not in Iraq alone but in his greater agenda, he will be seen as a great leader. If he fails he will be toast. All this Iraq noise will pass before long. When the dust settles, from it emerges the future. Regardless of origin, stocks of strong firms that are too cheap will do fine.

So, maybe it's time for a few beaten-down European stocks. Germany's Allianz has lost 80% of its value since 2000. Dominant in German property and casualty insurance, it is also a major global financial services provider in life insurance, money management and banking (it owns Dresdner). At 20% of revenue and 60% of book value it has vast potential.

A similar drubbing makes Dutch-based financial services giant Aegon too cheap. The irony here is most of its business is in the US. France's Thomson has been similarly whacked. Strong in consumer electronics, it sells for less than 40% of revenue and a bit more than book value and soon pays its first dividend. The stock is down while Thomson continues to gain market share and profitability.

France's L'Oreal has a long list of classic consumer brand names in healthcare, beauty products and fashion, but sells at 30% of its $11bn (£7.1bn) in revenue, 70% of book value and four times cash flow. Too cheap! BM

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