Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive KEN FISHER remains optimistic as he puts stockmarket doubts to rest and advises investors to see the beauty in a market that is coming to the end of its bear run

Casting off the bears to find real beauty

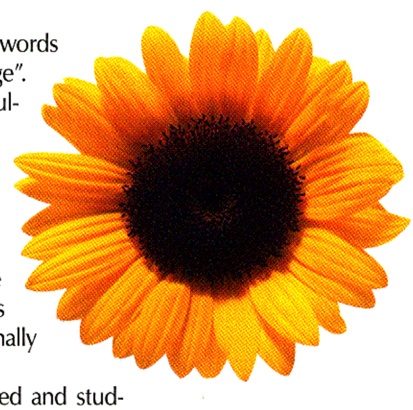
Stocks should do well because the world is so beautiful now. It is the most beautiful I've seen in a 30-year-long career. Of course, beauty is in the eye of the beholder. It just doesn't feel beautiful to everyone. How beautiful is it? Let me count the ways.

First, big is beautiful. Apart from between 1929 and 1932, whenever the US market has been down 50%, equity investors worldwide have had a beautiful time looking ahead 12, 24 and 36 months. If you think the world we're in now has any similarity to the period 1929 to 1932 your beauty-ometer is fantasy-full. This bear has been about as big and long as happens in America. And after bear markets come bull markets, which are beautiful.

As the US leads, the world will follow. This bear market has been as big as 1973 to 1974 and lasted longer, and was fully comparable to those monsters beginning in 1901, 1906, 1919, 1937 and 1940.

Second, antique pricing. The Morgan Stanley EAFE index, reflecting the total non-US market hit summer lows taking it back to 1989 levels. Pretty much any time you can buy anything other than electronic parts at 13-year-old prices, it is beauty to behold.

Third, so many folks disregard what I've just said because, supposedly and for a myriad of much-mouthed mythologies, "it's different this time". Those words, re-discovered by investors at every major market bottom (and top) are ones legendary investor Sir John Templeton once made infamous as, "the four most dangerous words in the English language". Ironically, and beautifully, this time Sir John himself says it is different as he calls for much lower lows and a bad market for many years. Pessimists see Sir John's comments as confirmation that it finally is different.



I've always respected and studied Sir John. Among other things we have our birthday in common. But a little known investment rule is that great investors at 50, 60, 70 and 80 always evolve into perma-bears in their 80s. Now, pressing 90, Sir John is simply living the rule. It isn't different.

Fourth, business leaders have shifted from giddy to seriously sombre. It is beautiful that they're all getting down to business. Executives of the US's 947 largest firms, representing over 70% of the US's total stockmarket value, have been forced by the Securities and Exchange Commission to take the, "oath", attesting to the accuracy of their financials. Three years ago, CEOs thought they were celebrities. Now they are back in the real world.

Fifth, and much the same thing, firms are fervently intent on cost-cutting. While profits keep falling because of massive write-offs (see last month's column), gross operating profit margins are improving, a fact no one notices yet. That is beautiful because, whenever profits go one way and gross profits go the reverse, investors should ignore profits and follow gross profits, which lead to a beautiful future.

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Finally, we are entering the US's political sweet spot. The third year of a president's term is beautiful – it has only been negative twice in the S&P 500's history, the last time being 1939, the onset of the Second World War, and then only down 0.4%. Presidents' fourth years are beautiful too (only three negative S&P 500 years ever). After November's elections are over, 2003 and 2004 will see US politicians kissing babies and making beautiful promises they won't ever keep (which is the most truly beautiful part).

So, buy stocks like Regency Centers, a US real estate investment trust owning commercial property spanning 21 US states. It's dividend yield is 6.8% and will grow modestly over the years giving a great total return.

Or Marathon Oil, a major vertically-integrated oil company recently split off from US Steel. It has $30bn (£20bn) in annual revenue, a mere $7bn market cap and a 3.4% dividend yield. Marathon will get acquired by a bigger major oil firm some time in the next few years – fully 50% above where it is. Beautiful.

One safe way is Safeway, America's third-largest food retailer with 1,700 supermarkets. It continues to gain market share, cut costs and improve profit margins. At 10 times earnings and six times cashflow the stock should do very nicely. BM

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