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# Strategic says 'bull' to Wall Street bull:

Only positive sign remains abundance of cheap stocks

By: Randall Abramson

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James Cramer of thestreet.com fame, and a celebrity Wall Street hedge fund manager, wrote an article in earlier this month offering up ten reasons for his intense bullishness. I reread the article a few times and still found myself disagreeing with all of his bullish points. In fact, he omitted the only bullish argument we cling to -- the fact that there are so many cheap stocks.

The Value Line index which weights 1,700 North American stocks, and is trading at 14 times earnings, which puts the index near the lower end of its historical range, less than half the market multiple of the cap weighted indices and way below the Nasdaq's tech nosebleeders.

Mr. Cramer made these points:

Cramer:

Underperforming money managers will be forced to jump into "the winners" like Nortel, Sun and Intel, pushing these stocks even higher. Tech is shaping up great for the fourth quarter.

Abramson and Strategic Advisors: We simply do not believe that there are any managers left to capitulate into buying the techs. Our clients do not even want to discuss the run-of-the-mill stocks. Mention anything other than a tech and nobody's interested. The feeding frenzy that has already taken place is to blame for the extreme valuations of Nortel (NT/TSE), Sun (SUNW/NASDAQ), Cisco (CSCO/NASDAQ), and Oracle (ORCL/NASDAQ) which are three times their true worth. These are wonderful companies but are trading at values where it will take four years, maintaining the current outstanding growth rates, just to sustain existing share price levels. If these companies hiccup, look out below. Witness the recent charts of Lucent and Microsoft.

Cramer: We have a genuine, full speed ahead cycle happening in aerospace.

Strategic: We're not even sure what a full speed ahead cycle is; however, we do know that Boeing (BA/NYSE) and GE (GE/NYSE) are at valuation highs. These companies have enjoyed tremendous runs and are closer to the end of their cycle. Boeing is priced where it typically peaks at cycle tops. GE , a stalwart, is a 12% grower masquerading as a 20% grower. It is firing on all cylinders including the use of pension gains which are contributing to its recent outsized growth rate. GE trades at twice its true value and has recently given a sell signal by our analysis.

Cramer: The net has settled into a winner-take-all situation and AOL (AOL/NYSE) and Yahoo! (YHOO/NASDAQ) are the two winners.

Strategic: So far there hasn't been much to take. Profits from the net have been limited to infrastructure providers, online gambling and porn sites. Both AOL and Yahoo have business models that can continue to capitalize on the Internet to produce rare actual profits, but not enough any time soon to justify current valuations. Yahoo shares peaked at 70 times book value and still trades at 33 times. These valuation levels, without the extraordinary, long-term profitability of a Coca Cola (KO/NYSE) profitability is unsustainable. We believe AOL is worth one-third of its current value and Yahoo one-fifth.

Cramer: Oil which is up huge, could, shockingly, go down, which would take away one of the big bear cases.

Strategic: Does anyone ever remember the price of natural gas being this high and at this time of year? Storage levels are precariously low and a merely normal weather winter could dramatically escalate prices further. We're now in such a dangerous situation that heads of major companies are speaking out to warn of potential gas shortages in North America. Oil and gas stock prices are moving up and not giving any signs of weakening even as OPEC pushes up production and talks the oil price down. Commodity shortages like this don't end overnight.

Cramer: Things have cooled enough that we don't have to sit on the sidelines waiting for the Federal Reserve to send the all-clear signal.

Strategic: The economy is cooling which means that ever-optimistic earnings expectations are in serious jeopardy. Moreover, profit margins could be walloped. The CRB continues to hit highs. This is spooking the Fed. Doesn't anyone remember stagflation? If the stock market goes up the Fed won't be inclined to relax. T-Bill rates, where the Fed has the most influence, have been trending up, not down. Certainly, rates are unlikely to come tumbling down any time soon. And, in any event, valuations of the tech gorillas are so high that even substantially lower rates cannot justify present stock prices.

Cramer: A couple of sleeping giants seem to be awakening, namely IBM and AT&T.

Strategic: In our work AT&T still looks lower. IBM is reasonably valued yet its upside based on our assessment of its intrinsic value and prospects is not stellar. Like a number of other large cap companies, upside is limited as valuations remain too rich given the existing fundamentals.

Cramer: The banks and the brokers. This group is hot, hot, hot ...When these stocks go up, they create a healthy hue that forces bears to capitulate.

Strategic: Can the environment get any better for the financials? Not unless they're acquired. That's exactly what has got them going recently, after both Paine Webber, DLJ and J.P. Morgan received offers. Companies like JP Morgan, Merrill Lynch and Citigroup are trading at all time valuation highs and at least 50% above their intrinsic values. Unless someone pays a hefty multiple on what would seem to be peak of cycle earnings, these stocks are very vulnerable. The new issues market has definitely seen its top and trading volumes are beginning to sag. Expenses are mounting as wages have risen in a job market in financial services which is the tightest in twenty years. The onslaught of online brokers, with their negligible commission rates, will hurt everyone particularly as the IPO profit surge abates and as banking fees decline. A 40% rise in margin lending in the last year has also created considerable risk going forward.

*Note: Randall Abramson, CFA, is a Toronto-based portfolio manager with Strategic Capital Partners Inc. and Strategic Advisors Corp.*