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# Steeplechase Investments

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If at first you don't succeed, CRY, CRY again. Yes indeed, it was a horrendous year for stocks. The market has indeed bottomed, yet there is a lot of pain in a bottom. In the sentiment cycle of the stock market, we are in the "disbelief" phase. There still is much distrust in the economy and the equities market. We stock market investors are akin to POWs that have been rescued. After being in captivity for so long (three years) we don't believe it when our rescuers tell us that everything is okay. The stock market moves a lot like a rubber band, it stretches only so far and then it comes back to its normal position. So, in 2000 that band was stretched so far out, it had to snap back to its original position (reversion to mean). The same thing happened from mid-2000 until the end of 2002. The rubber band stretched as far as it could go, this time to the down side. Now, it can't help but come back to its natural form. Realistically, we are in the process, or will be shortly, to have the rubber band go back to its original position.

People, regardless of what is being rumored and bandied about, almost incessantly, I might add, we are not Japan in the eighties, we are the US of A in 2003. We are not reliving 1973-74 with wage and price controls, hyperinflation and Watergate. We are the US of A in 2003. Nor are we in the 1920s, early 30s. We are the US of A in 2003. We have the most powerful economy, the most powerful stock market that has ever been conceived. So, while the gloom and doomers want to continue these fallacies, do yourself a favor, do not get caught up in the HYSTERIA! We are on the cusp of a new dawn; don't give into the crowd's fear.

Many times markets will move strictly on perceptions, whether they are ill conceived or not. Let me give you an example: three years ago the perception was you had to be in stocks and that risk premium usually built into stock prices have evaporated. It "felt" to many that was the proper, safe course of action. Bonds, on the other hand, were not worth owning because the 5-year treasuries were only yielding around 6%. Then, alas, fear was once again introduced to the market. Fast forward to 2003, what "feels" like the safe, proper course of action? The answer is bonds, even though money market funds are paying zilch and 5-year treasuries yields are at all time lows. And what about real estate? How many times in the last two years have you heard your formerly bullish friends say, "I moved my money out of stocks and into a safe place, REAL ESTATE. It certainly "feels" like that is the right course of action. NO WAY! The point is when the crowd is leaning one way it is very late in the game. Right now, we have top blue chip companies paying higher yields than 3-year treasuries. I can not imagine one's "bang for the buck" being in a better place than stocks right now. For instance, the dividend on Dow stocks is paying 35% more than any money market you can find. These companies have cut all the waste away; they are lean and mean.

We have not had a situation like this since the 1950s. With the miniscule returns on money markets, people will eventually "perceive" that they are in the wrong place.

In the dictionary, the word invest is defined as: to make use of, for future benefits or advantages. It doesn't say investing is "a get rich quick" phenomenon. Nobody, other than the financial new channels, ever

said investing was easy.

At market tops, it is very hard to find anything of value, no matter how hard you look. At market bottoms, values abound. Great companies, great stocks get thrown out with the daily garbage. Now, you are able to find numerous companies that are trading at price earnings ratios equal to or under their growth rate. Investments in these companies will be eventually profitable if not already. Let me cite a few examples. Citigroup at the top was trading at 24 times earnings and growing at around 15% annually with a dividend yield of under 1%. It is now trading at 12 times earnings and growing at around 19% and paying a dividend of 2%. Bank of America was trading at 24 times earnings, growing at 10% and paying you under 2% in dividends. It's now trading at 12 times earnings, still growing 10% annually and now yielding 3.4%. BB&T, a super regional bank, was trading at 24 times earnings, growing at 15% annually and paying a dividend of 1.5%. Now, it trades at 14 times earnings, growing at a 16% clip and pays a dividend of 3.1%. American International Group was trading at 40 times earnings, and growing at 15%. It now trades at 18 times earnings and still growing at 15%. Washington Mutual was trading at 29 times earnings and growing at an annual rate of 34%, and a dividend at 1.6%. Now, it is still growing at 24% annually, trading at 10 times earnings and paying you 3.2%

Let's saunter over to the technology arena. Dell Computer was trading at 106 times earnings and growing at 20% per year. It now trades at 39 times earnings and it growing at 17%. Microsoft at the top was trading at 75 times earnings and growing 22% yearly. It now trades at 28 times

earnings and is still growing at 22%. It also has no debt, and \$40 billion in cash. Nokia was trading at 90 times earnings and growing at 30% yearly. It now trades at 22 times earnings, earnings growth rate of 27% and now pays a dividend of 1.2%. Also, it has no debt on its books. In 1999, Storage Technology earned 27 cents for the year and made a high of 41. In the year must finished, it earned 82 cents and is trading at 24. Another company with no debt. Go figure!

How about the drug sector? At the top, Pfizer was trading at 71 times earnings and growing at 25% with a yield under 1%. Now, it trades at 22 times earnings, still growing at a splendid 25% annually and pays a dividend of 2%.

I think that gives you a nice little snapshot of the REALITY of what is going on in the economy, what is gone on in the stock market. I'll leave it up to the other geniuses to advise their flock on what is overvalued. None of the companies I have mentioned are "fly by nights" either. Just the contrary. In the last 6 months or so, we have been able to upgrade our holdings dramatically.

"We're moving' on up to the East. Side." Of our current 28 holdings, we own 19 dividend payers (we are buying them well before they become in vogue, by the way). 15 of the companies we own have had very large insider buying going on. Our stocks have an average price earnings ratio of 25-1, but that takes into account the cyclical stocks (techs, oils) that usually trade higher than the market P.E. Take them out of the equation and our average P.E. is just under 14-1.

When there is economic uncertainty, the threat of war and other miserable circumstances, demagoguery becomes the order of the day. Webster's defines a demagogue as a leader who makes use of popular prejudices, false claims, and promises to gain power. Sounds a little like the ever vocal

financial media, doesn't it? A demagogue's goal is never to lift the crowd to a higher plateau, but to bring it down to the depths. They thrive in times like this when there is so much emotionalism, so much fear and so little direction. As in Greek mythology, we have to bind ourselves to the boat, so the sirens don't tempt us to go with the "magnetic influence" of the mob.

When you think back to 1999-2000, it's absolutely stupefying that the herd was willing to pay gargantuan prices for mere "shell companies." and now today, they want nothing to do with the fabulous companies they have cast out just because the stock market is out of favor. This opportunity. I can't predict, nor can anyone else, what the mob will do next, their movements are more irregular than the ocean's tides. But, I can say, the more cocksure the crowd is about something, the more realistic it is that they will be wrong. This most recent downdraft in December reminds me very much of "horses running back into the barn when it is ablaze, galloping to their very certain demise." I do not believe there is safety in numbers (crowd) even though it sometimes "feels" that way.

Yes, it has been a tough couple of years. No one would every deny that. People are not so willing to talk about the long term anymore. When stocks were going up, that was what you always heard. Now, that things have gotten tougher, they want out at all costs. When they should be buying stocks, they are selling. But we are edging closer to the reward phase. I will state unequivocally that anybody who has been with Steeplechase from the start of the bear market in 2000 up to January, 2003 has not lost much money, if any. In 2000 the average account earned 20%. In 2001 the average account lost around 6%. and in 2002, obviously the worst year in our history, the average account lost around 14-15%. And, now after the first week of January, the average account is up+3%.

With the companies we have been able to purchase (top blue chips, one and all) I think we are poised to have a profitable year. To be good investors, we need to possess discipline, patience, perservance, and fortitude. And this bear market has tested us in all these areas. As we venture into 2003, I do not believe that the economy is going to fall off the cliff, nor do I believe that the stock market is overvalued. We could all use a nice, health dose of good luck this year. I did not mention Iraq, terrorism, or North Korea. I think you have probably digested enough of such misery. With any escalation in any of these situations, the lemmings will sell first, and ask questions later. The year will be filled with turbulence, but we will eventually venture into smoother air.

Good health to everybody. Keep a stiff upper lip.

Ed

*I do not believe in the collective wisdom of individual ignorance.*

—Thomas Carlyle