

APRIL 1999

Hey Letter Carrier, Where Are My 10,000 Golf Balls?

It appears that trendsetters on Wall Street think that mathematics and investing may again become linked. As we watch the markets, we see early signs that the stock market is "broadening". Over the last year or so, the market has been "narrow" as investment returns have been generated by a small number of very large companies. In our view, any broadening of investor interest beyond the largest companies would be positive.

We see two issues at work in the current market which make us optimistic. One relates to Internet investing and the other to the subject of "Growth versus Value" investing.

First, we see subtle acknowledgement that Internet investing is nothing more than a game which combines the best aspects of chain letters with the potential payoff of Lotto.

The rules of the Internet investing game appear to us as follows:

1. Earn some money (or get your credit card out).
2. Sign on to the Internet and see how cool it is.
3. Become shrewd, yet conservative, by buying stock in just "the leaders" like AOL and Amazon.com.
4. Hope more people start Step #1, after you do.
5. Assume that all "pull backs" in stock prices are buying opportunities.
6. Play until you have no more chips.

Our cynicism knows no bounds on the Internet subject because we focus on investing in companies with proven strategies to produce cash via earnings per share. When AOL fell 24% in price during a recent week, we saw it drop from a price of 336 times expected earnings to 256 times expected earnings. These gargantuan multiples are in the face of a business plan wherein AOL charges customers over \$20/month, a price we believe will drop to \$6.00 or even be free at some point. In our view, the recent volatility in these shares means that we may be in between steps 5 and 6 above. We have emphasized this before and expect that any disenchantment with Internet stocks will lead to renewed interest in "established" companies.

Another phenomenon which, unlike Internet investing, relates specifically to the Blue Chip companies on our Buy List is the so-called "Growth versus Value" investment concept. At the risk of oversimplification, the nomenclature "Growth versus Value" really means high P/E stocks (Growth) versus low

P/E stocks (Value). In April of this year, we witnessed significant signals that the market is considering a shift in its recent preference for "Growth" in favor of "Value" holdings. The cause for this change may be investor confidence that the worst of Asia's problems may be over and global growth is about to resume.

A good example of this concept can be found in the price behavior of Merck (Growth) and Alcoa (Value) during April of this year. At its peak in April, Merck traded at \$83 per share or 30 times future earnings estimates. On the other hand, Alcoa (a classic "Value" company) began trading in April at \$40 per share or only 13 times earnings estimates. As the winds on Wall Street buffeted during April, Merck (and fellow drug stocks) pulled back 11%-12% in a matter of days while Alcoa rallied an impressive 34%.

A similar shift among sectors was witnessed with a temporary drop in technology and Internet companies in favor of oil stocks and other cyclical or value-oriented holdings. Moreover, during April, the value-oriented mutual funds on our Buy List outperformed growth funds in just the same way that Alcoa outperformed Merck.

We view the Merck/ Alcoa example as a potentially significant event. Although it is too early to tell (one month does not make a trend), we were pleased to watch Wall Street as it was reminded that fundamentals like price/earnings matter. Fortunately, our Buy List of 25 or so Blue Chip companies includes both Growth and Value.

The point of all this is not to give our clients and friends an update on stock performance during April, 1999. The emphasis here is that the "tea leaves" are telling us that something fundamental is changing on Wall Street. That change should be positive for our investors as we would expect a renewed focus on Value to benefit our diversified investment strategy.

As for the Internet, it remains a fascinating and wondrous benefit to mankind. However, we have seen chain letters promising that if one passes along a sleeve of golf balls to those on the list, one would someday receive 10,000 of the darn things. We're still waiting ...

Your comments and questions are always welcomed.

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Hamilton Point Investment Advisors, LLC is a fee-based investment advisory firm suitable for high net worth individuals, not-for-profits, retirement plans and corporations. We welcome comments or questions and can be reached at (877) 636-3765, or e-mail us at aburns@hamilton-point.com.

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