

Bargain hunting revives blue chips

Money manager says opportunities best since 1990; Nasdaq hits another record.

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Blue chip shares continued to bounce back Tuesday as investors, such as Atlanta money manager James F. Barksdale, went shopping for perceived bargains.

"Our purchase opportunities today are the best we've seen since the invasion of Kuwait in 1990, or the stock market crash of 1987," said Barksdale, who is president of Equity Investment Corp., which manages portfolios for both individual and institutional investors.

"The market's decline has been broad and significant."

Barksdale noted that 75 percent of the 3,000 stocks in his firm's investment universe — companies that have been around for more than five years with sales greater than \$100 million — are trading below their 1997 highs.

"And so while it appears that the indexes over the past three years have risen, in actuality most stocks have declined by a lot," Barksdale said.

On Tuesday, the Dow Jones industrial average climbed almost 90 points, or 0.89 percent, to finish at 10,128.31. The Dow average is still down almost 12 percent so far this year.

The Standard & Poor's 500-stock index rose 18.37 points, or 1.4 percent, to 1,366.42. It's down 7 percent in 2000.

The Nasdaq composite set another high-water mark, on record volume of 2.08 billion shares. The Nasdaq jumped 118.84 points, or 2.6 percent, to 4,696.69. It's up more than 15 percent year-to-date.

One reason for that superior performance is that many technology issues are traded on Nasdaq.

Investors have been flocking to technology stocks on the belief they have brighter earnings growth prospects. To buy those shares, they have been selling other stocks, such as those of retailers.

Shares of Wal-Mart Stores, for example, have tumbled 29.5 percent this year.

The current market environment "is a value manager's heaven and a value manager's hell," Barksdale said.

"It's heaven because there are so many great companies to buy because they're cheap," he said. "It's hell because they keep going down as investors abandon the broader market to put money into technology stocks."

Barksdale, whose firm has offices at 3007 Piedmont Road in Buckhead, admits some of his clients are uneasy as some of the stocks he has purchased have continued to slide.

"You can't be looking at today and yesterday," Barksdale said. "You have to be looking at tomorrow and the future."

He noted, for example, the best time to buy real estate in Atlanta was in 1992, when the market was depressed. "It was the right time to buy because you did extremely well going forward," Barksdale said. "That's the way with value stocks right now."

Having said that, Barksdale concedes there are dangers in buying beaten-down stocks.

"I try to avoid buying purely because the price is down because it's like catching a falling knife," Barksdale said.

To reduce risk, he looks to buy shares of companies whose sales and earnings growth remain intact.

"I would avoid companies that are struggling to get sales and earnings up," Barksdale said. "I found that earnings problems are usually more long-lived than you expect, and it's best to wait until you see the inflection point where sales and earnings momentum are beginning to rise."

About Barksdale

James F. Barksdale, 46, who runs Atlanta's Equity Investment Corp., focuses on stocks that are cheap on a valuation basis but that have records of



strong earnings growth. A native Atlantan, Barksdale founded the company in 1986 after returning from Connecticut, where he was portfolio manager for an investment firm. He has a master's degree in business administration from the Wharton School of Finance at the University of Pennsylvania. He and his wife, Suzanne, also a native Atlantan, have two children.

"You won't get the stock at the bottom, that's true," Barksdale added. "But you avoid the opportunity cost of sitting with something that is struggling with problems. And you also decrease the risk of being wrong and losing money."

He also likes to buy stocks that are reasonably priced relative to growth prospects.

"My point here is that the market has gotten so high in certain sectors that even when some companies come down in price, they still aren't bargains."

Also, when looking for bargains, "you need to make sure it's a company you know something about and understand," Barksdale said. In the technology sector, for example, a stock can tumble when its technology is obsolete.

Where is Barksdale putting his clients' money?

In financial stocks such as Raymond James Financial and Wachovia; and food and beverage issues such as ConAgra, the maker of Healthy Choice food products, and Brown-Forman, the maker of Jack Daniels whiskey.

The Raymond James securities firm, for example, is trading at about half its peak price of two years ago, Barksdale observed.

"The long-term growth rate is the real story here," he said. "This is an extremely well-managed, marketing-focused company with a long-term growth rate of 16 percent per year. Yet it's selling at nine times earnings."