

10 Things That I Will Not Miss About 2004

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The holiday and vacation season is upon us. As I did each of the last two years, I would like to share with you the 10 things that I will not miss about 2004 (and do not want to see ever or hear again). In no particular order:

1. Auto sales and any data point which includes auto sales. The domestic automobile manufacturers are just finance companies. Auto sales are just the enzyme that creates loans and leases. In fact, I believe that coverage for the auto companies should be assumed by the financial analysts. We own General Motors (GM) debt and preferred but see no reason to own the auto company stocks.
2. The weak US Dollar. The fact of the matter is that the real global problem is the inept European Central Bank (ECB). The USD is weak because the US has had to support most other economies including those in Europe. It is about time that the ECB take some lessons from the US Fed and stimulate domestic European growth rather than rely on exports and the generosity of the US consumer and taxpayer.
3. Those boring Sprint (FON) commercials. I like the Nextel (NXTL) commercials. How about this: NXTL takes over FON, if nothing else than to end those bad commercials.
4. Billionaires with reality TV shows. The Apprentice was well done and continues to entertain. We should end it there. NBC (wholly owned by General Electric (GE)) has a winner on their hands. The Branson and Cuban shows are unwatchable. What next? How about George Soros on the History Channel (a joint venture of NBC, ABC (DIS) and the Hearst Corporation) where contestants try to run a government in Eastern Europe.
5. Potential Mad Cow disease findings . This is the favorite Chicken Little story in the restaurant industry. We have more false positives from Bio-Rad (BIO) testing products than Carter has little pills. The investment strategy has always been very simple. Wait for the press to sound off about a potential mad cow finding and then go out and buy McDonald's stock (MCD). MCD is still undervalued and has managed to perform wonderfully in the face of adversity: the death of one CEO and the health induced retirement of another CEO in just one year. After being on the sideline with the restaurant group for a few months, I think we will see some good entry points again in early 2005.
6. Measured. I cringe when I hear "measured". I had a high school teacher whose voice would squeal in a high pitched tone when he said "measured." Why does the Fed have to use the term "measured" Why does the press have to repeat it constantly? I have bad high school flashbacks. From now on I suggest the Fed, as a public service to all of those people who are vocabulary impaired substitute another word (I will send them a Thesaurus at no charge) for

“measured” at every meeting. Here are some suggestions: deliberate; calculated; careful; considered; restrained.

7. Global oil shortage. The spike in crude oil prices was due to speculation and to a lesser extent the south eastern US hurricanes. This was not an Economics 101 supply and demand issue. Remember, OPEC members cheat on each other more than Tony Soprano does on Carmela. Not since the internet bubble have more speculators and nouveau hedge funds gone down in flames as with the great Jed Clampett Bubbling Crude Oil market of 2004. This was so reminiscent of when T Boone Pickens was selling deals 20 some odd years ago based on the notion that crude oil would soon (then) be 80 dollars per barrel. Did I mention that T. Boone Pickens resurfaced again in 2004? One good aftermath of the crude oil mania is that we are finally going to price oil companies – producers and service companies – at more reasonable valuations. Now if only the market would come to its senses about homebuilders (our favorite name remains Toll Brothers (TOL) and price that group in double digit P/Es, but to paraphrase Dennis Miller, I don't want to get off on a rant here.

8. The notion that volatility is too low and complacency has set in. My research indicates that only high spikes of market volatility are indicative of fear which leads to market rallies. The opposite is not true. Low levels of volatility do not necessarily lead to market declines. Individual stock volatility is all too often confused with overall market volatility. I think that the concept of market volatility is greatly over discussed and mostly understood.

9. I have to admit, I have a minor case of eczema on my arm. I have to further admit that I used some hydrocortisone ointment which I call “the clear” ointment on my arm which we had lying around in the medicine cabinet. In no way did I know that this was a steroidal product <http://www.nlm.nih.gov/medlineplus/druginfo/medmaster/a682206.html> which could affect my performance. I think my performance in this business and on this site stands on its own and was not as result of using “the clear” Maybe there are other steroid using investment advisors out there in the marketplace but don't throw me in with them. For what it is worth, the ointment we have is made by generic pharmaceutical companies. That's the way to go. I would not touch any big cap pharmaceuticals. Our favorite is TEVA (TEVA) but there are others we have an eye on or trade from time to time. Let's not forget that we also like the diabetic end of the business with Amylin (AMLN) on the top of our list.

10. This is a repeat from last year. The bears clinging onto the theme that we are in a bullish correction within a broader bear market. If that's the case then my retort is that the recent 3 year bear market (now 2 years removed) was just a bearish correction in a stock market going back 100 or so years. The bear market is behind us and we started a new bull market in the 4th quarter of 2002. Learn to live with it. We will have stocks and sectors that will have bearish tendencies but the major indices are in a bull market. The first step to portfolio recovery is recognizing that you have a problem. Myopic bearishness is a problem.

A happy and healthy holiday and New Year season to you and your families.

I hope our Market Insight team has made this year a profitable and enlightening one for our subscribers. Thank you for your personal notes and professional advice during the past year.

GM – long various preferred stock and debt; AMLN, GE, TEVA, TOL – long stock; MCD – long stock and calls