



May 2000

"There's Something Happening Here, What It Is Ain't Exactly Clear"

In recent months, some of the country's top money managers have been fired, quit or been hidden. In the brokerage world, this has taken the form of silencing market strategists who have dared to be anything other than bullish and encouraging. The cautious Gail Dudack was "fired" (by e-mail!) as an "elf" from the television show *Wall Street Week*. (On the show, the elves provide a referendum on expert market opinion). The show's moderator, a perennial optimist, has chosen to eradicate any opinion different from his own. What this means for the efficacy of the elves as an indicator is akin to asking a bunch of Amway salesmen about what they think is the best brand of soap.

***"There's nothing so disturbing to
one's well being and judgment
as to see a friend get rich"
-- Charles Kindleberger***

In the investment industry, managers demonstrating any caution are fired by consultants or suffer redemptions from their mutual funds. Since growth investments have dominated over the past couple of years, value managers have been under the gun to either buy growth stocks or be fired. One of our favorite international managers had a record so superior that he was selected as manager of the year by Morningstar in 1996. In a "what have you done for me lately" move, however, he was just fired by his fund family and replaced by a manager more oriented to growth stocks. Other leading value managers have been replaced in recent months, generally with someone tilting away from traditional value-oriented investing. The best performing value managers are "cheating" -- the top four portfolio holdings of the current most highly touted "value" manager are AOL (over 12 percent of assets), Gateway, Dell and Nextel, not exactly traditional value names.

So maybe one thing *is* clear -- what's happening here is that marketing types, not the investment departments, are running the show at investment firms. The easiest way to market an investment product is to sell whatever has performed the best recently. In our primary mutual fund database, there are now 134 mutual funds specializing in the technology industry. Five years ago, there were 29. Have 105 superior technology sector investment managers sprung fully formed from Zeus's head in the last five years?

Vanguard's Explorer was a very aggressive mutual fund that capitalized on the technology boom of the early 1980's. In February 1990, after the technology sector had underperformed the market for more than six years, Vanguard reworked the drearily lagging fund to reduce the focus on the technology sector that had typically accounted for between 60 and 70 percent of the fund's assets. By the end of 1993, the managers were bragging that technology only accounted for 20 percent of the fund's assets. The fund has severely lagged its tech-heavy

peer group in recent years. Nobody accuses Vanguard of being sales driven, and if it feels the pressure to chase performance, you can imagine what gave rise to 105 new technology funds.

***Would you feel confident at
the poker table calling
Warren Buffett's bluff?***

Many are now dancing on what they think are the graves of fabled investors who have run into a rough patch. A few years ago, the shelves in the business section of the bookstore were covered with books lauding Warren Buffett. Recently, hardly a week has passed without an article describing Buffett as stuck in the old economy, not being "with it" enough to make money in the Internet era. Other notable flameouts recently include hedge funds run by the fabled George Soros (and his chief lieutenant, Stanley Druckenmiller) and Julian Robertson. The logic of this criticism seems muddled -- Buffett and Robertson are criticized for ignoring the so-called new economy, while Soros/Druckenmiller's bad performance resulted from embracing the new economy. So what should we conclude from their difficulties? The answer by the grave-dancers is that these legendary investors have gotten old. (Full disclosure: both of Sigma's principals are the same age as Stanley Druckenmiller, a depressing thought when comparing our accomplishments. When Mozart was our age, he was already dead.) This brings to mind the 1960's motto "never trust anybody over 30." Of course the baby boomers who said that with some seriousness a few decades ago (in another new era, right before a 50 percent decline in the value of the stock market, adjusted for inflation) are now fuming with envy about the slackers getting dot com rich.

One of the reasons it is so easy to lose money in the stock market is that you aren't looking into the eyes of the person on the other side of your trade. If you were aggressively buying a stock and discovered it was Peter Lynch or Warren Buffett selling, you might think twice about what you were doing. At least in poker, you know your opponent and can figure out whether you are the patsy. The new era investors have concluded that their poker buddies Warren, George, Stanley and Julian are just old and stupid. Well, maybe....

Some accused us of pretension for quoting the Roman poet Horace in last month's newsletter. (For what it's worth, we are doing penance this month by quoting Buffalo Springfield instead.) When George Soros was announcing the restructuring of his operations, he indicated he was changing the name of his primary hedge fund because it's long term record was so good it would allow its history to stand as "a monument more lasting than bronze." The media checked the source of the quote, and it was...Horace. Maybe they should put his stuff in the business section at the bookstore. Since George isn't taking any new clients now, contact us.