

MONDAY, NOVEMBER 3, 2008

BARRON'S COVER

A Sunnier Season

By JACK WILLOUGHBY

Barron's latest Big Money poll reveals unrelenting bullishness among many money managers, despite their pronostications for a "contagious" recession and punk profits through 2009.

IT MUST REALLY TAKE A LOT TO SCARE AMERICA'S money managers. The Dow Jones Industrial Average is down by 30%. Credit is near-impossible to get. A global recession looms, and the cost to clean up Wall Street's mess is climbing into the trillions. And yet, against these odds, 50% of the investment pros responding to our latest Big Money poll say they're bullish or very bullish about the stock market's prospects through the middle of next year.



Scott Pollack for Barron's

20% for all of 2008.

Like the rest of us, the Big Money managers have been chastened by the market's selloff this year, though they no doubt are cheering its spirited rally last week. Nor do they have heroic expectations for the Dow and its beaten-down brethren. But they expect the tide to turn for stocks -- and sentiment -- in coming months, as governments around the world mount a coordinated effort to end the financial crisis and get lending back on track. Besides, bargains abound in almost every sector. The Big Money bulls see the Dow ending the year at 10,642, which implies a gain of 1,317 points, or 14%, from current levels. While that forecast seems optimistic, it still would leave the blue chips down about

Our respondents -- a cross-section of the nation's institutional investors -- see similarly elastic moves for the S&P 500 and the Nasdaq Composite. They predict the S&P will rebound to 1141 by year end, up 18% from here, but end the year down 22%. The Nasdaq Composite could rally to 2013, up 17% in the next two months, but post a 25% loss for the full year.

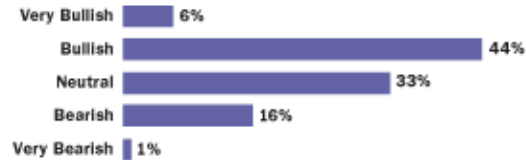
NOW THAT STOCKS HAVE tumbled to five-year lows, 62% of Big Money respondents say they're undervalued, up from 55% last spring. A scant 7% think equities are overvalued at today's levels. Almost 70% say stocks will be the best-performing asset class in 2009, compared with 13% who favor cash, and 11% who prefer bonds.

Fall 2008

Big Money Poll Results

Listed below are the consensus responses to survey questions.

Describe your investment outlook through June 2009.



Predict the value of these market measures at year-end 2008 and at midyear 2009.

	Bulls Dec.'08	Bears Dec.'08
DJIA	10,642	9516
S&P 500	1141	1015
NASDAQ	2013	1769
	Bulls mid '09	Bears mid '09
DJIA	11,621	9379
S&P 500	1248	1452
NASDAQ	2231	1747

Predictions

	Dec. '08	June '09
GDP Growth Rate	-0.15%	0.49%
S&P 500 Profit Growth	-9.50%	0.31%
P/E Multiple (S&P 500)	13.5	14.0
U.S. Inflation Rate (CPI)	3.28%	3.02%
Yield on 90-day T-bills	1.01%	1.53%
Yield on 10-year T-notes	3.66%	4.05%
Oil (Nymex bbl)	\$87.64	\$92.51
Gold (troy ounce)	\$861.07	\$841.07

Pick industry leaders and laggards for the next 6-12 months.

	Leaders	Laggards
Basic Materials	4%	19%
Capital Goods	4	11
Consumer Cyclical	1	26
Consumer Staples	11	6
Energy	17	7
Financial	21	16
Healthcare	17	4
Technology	14	0
Transportation	4	9
Utilities	4	3

Are you bullish, bearish or neutral about the following assets?

	Bullish	Neutral	Bearish
U.S. Treasuries	9%	40%	52%
Corporate Bonds	53	28	19
U.S. Dollar	47	34	19
Oil	22	42	36
Real Estate	10	30	60
European Stocks	14	49	38
Asian Stocks	23	42	35
Latin American Stocks	22	40	39
Gold	25	34	41
Cash	28	57	15

Name your favorite stocks.

Berkshire Hathaway, General Electric, Research in Motion, Wells Fargo

Which stock do you consider most overvalued?

Google, Wells Fargo, Goldman Sachs, Apple, SunTrust Banks, Wal-Mart Stores

The managers plan to tread cautiously: Half describe their investment stance as defensive, compared with 20% who are aggressive. Some 37% say improved credit conditions would induce them to become more bullish about stocks in the next six months, while 25% say they first want to see a better outlook for corporate profits. Still, there is no mistaking the optimism in their 2009 market forecasts. The Big Money bulls expect the industrials to advance almost 9% in next year's first half, to 11,621, while the S&P could rally to 1247 and the Nasdaq to 2231.

"We could have a huge rally," says David Corbin, chief investment officer of Corbin & Co. in Fort Worth, Texas, which manages about \$75 million. "The Fed is pumping up liquidity, and sooner or later some of this is going to find its way into the market. I feel like a kid in a candy store. My biggest problem now is in deciding what to buy."

Corbin thinks the Dow will hit 11,000 by year end, and rise to 11,800 by mid-2009. He expects the S&P 500 to finish the year at 1200, climbing to 1270 by June, while the Nasdaq could rally to 2200 from a 2008 close of 2100. Dividend yields on stocks are "getting astronomical" relative to money yields, he notes, asking, "Why earn 1.56% on a deposit for two years when you can earn 6% [on stocks]?"

Other indicators, like the buildup of cash, also point to the likelihood of a bounce for

equities. Money-market fund assets totaled \$3.4 trillion as of Sept. 30, versus \$13.3 trillion of stock-market valuation, leaving the ratio of liquidity to market value at a near-record 25%. That's comparable to the ratio in the early 1980s, when money funds yielded double digits. According to Ned Davis Research, since late 1980, the market almost always rises at least 12% whenever money-fund balances reach about 11% of market value.

"A lot of money is on the sidelines," says David C. Hartzell, founder of Cornell Capital Management in Buffalo, N.Y., which handles about \$50 million. "But if you're a money manager, you can't afford to be out of the market, because you might miss the comeback."

John Fox, a portfolio manager at Fenimore Asset Management in Cobleskill, N.Y., which manages \$1.5 billion, makes a similar point. "We're seeing a lot of forced liquidation," he says. "For a lot of people, just being able to stand pat gives them an advantage."

Based on the market's 50% decline between 2000 and 2002, and its 48% drop in the 1973-'75 bear market, Fox wagers "we're most of the way through" today's downturn. With the S&P 500 trading at 12 times trailing earnings, he maintains "valuations are the best we've seen in almost 20 years." (For more on the earnings outlook, [The Banks to Bank on Now.](#))

Fox thinks the Dow could reach 10,000 by year end, pushing onward to 10,500 by the middle of 2009. He's got a year-end forecast of 1200 for the S&P, and a mid-'09 target of 1250. "We look for small- to mid-cap companies with the balance sheets and free cash flow to ride out the credit crunch," he says. "We also pay close attention to low operating expenses. This gives companies the ability to self-finance, pay down debt and operate independently of the credit markets for a year."

Fox sees bargains in several debt-free companies, including Vernon Hills, Ill.-based [Zebra Technologies](#) (ticker: ZBRA), a maker of specialty printers, which trades around \$20 a share. The company has \$4 a share of cash, and is expected to earn \$1.73 a share this year. Phoenix-based trucking outfit [Knight Transportation](#) (KNX) is another favorite; it trades for \$15, and is expected to earn 64 cents in '08.

THE BIG MONEY POLL is produced twice yearly by *Barron's*, in the spring and fall, with the help of Beta Research in Syosset, N.Y. About 70 money managers from across the U.S. responded to our latest survey. Some are sole proprietors, while others manage billions for pension funds, mutual funds and hedge funds. The poll was e-mailed to investors in late September, when the Dow was around 11,015, the S&P 500 was at 1207 and the Nasdaq was at 2,179. Ballots were still coming in through late October, with the averages at much lower levels.

Notwithstanding their diverse investment forecasts, the managers are in virtual agreement about this year's presidential race. Eighty-six percent predict Senator Barack Obama, the Democratic contender, will be the next president of the United States, trumping Republican Senator John McCain at the polls tomorrow. Unfortunately, 60% think a McCain administration would be better for the economy and the stock market.

Among other things, Obama is expected to raise taxes on investment income. Half of our respondents think the next administration will boost taxes on dividends and long-term capital gains to 20% from today's 15%, while 28% think dividends will be taxed at ordinary-income rates, as they were before the Bush tax cuts were enacted.

Seventeen percent of poll participants say they are bearish or very bearish about stocks

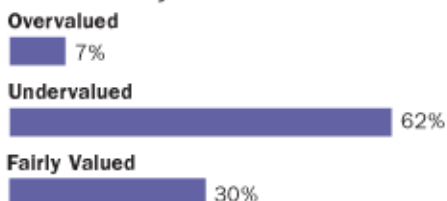
these days, up from 12% last spring. Those on the fence have lost some company, with 33% of managers now neutral, down from 38% in the spring. The bears expect the Dow to finish this year at 9516 before falling to 9379 by the middle of 2009. They see the S&P at 1015 in December and 1452 in June, and the Nasdaq at 1769, before dropping to 1747.

It's comforting, however, to know that even the biggest bears don't see huge downside from here. Only three managers expect the Dow to end the year below Monday's close of 8175, while just one thinks the blue chips will be trading below 8000 next June.

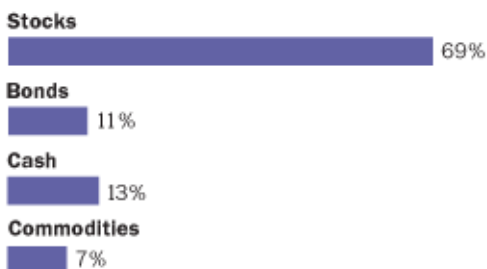
Bryan Sadoff, of Sadoff Investment Management in Milwaukee, is sticking to the sidelines for now, with 75% of the firm's assets of \$375 million in cash. Sadoff started pulling in his horns last summer, when retailers' same-store sales started to slow. "Portfolio values are declining, home values are declining, the unemployment rate is going up and consumer confidence is waning," he says. "While the market has fallen 40%, so have earnings."

The Market

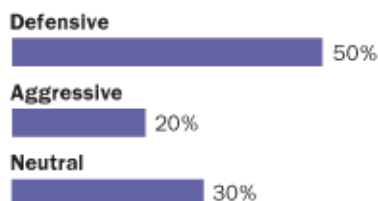
• Is the U.S. stock market overvalued, undervalued or fairly valued at current levels?



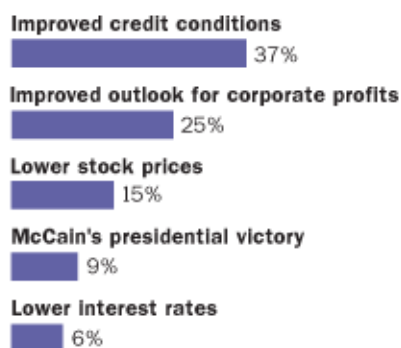
• What will be the best-performing asset class in 2009?



• Please describe your current investment stance:



• What would induce you to become more bullish on stocks in the next six months?



Indeed, the Big Money managers expect S&P operating profits to fall 9.5% this year and show little to no growth in 2009. Sadoff is banking on a recession that's "longer and deeper" than many expect. "We're not going back to the old highs anytime soon," he says.

JON FISHER, A PORTFOLIO MANAGER at Cincinnati-based Fifth Third Asset Management, which oversees \$22 billion, agrees. "After the tech bubble burst we had three down years [for stocks]," he says. "Two thirds of the economy -- namely, consumer spending -- is down, so it's hard to grow earnings, and that's bound to put downward pressure on share prices. It's hard to find much to be bullish about."

Fisher expects the Dow to finish 2008 at 9800, then rally to about 10,250, before losing

ground again in 2009. "It's better to put money into a cash account than to blindly put it in the stock market in the hope of a rally," he says. "After the Federal Reserve and the government have used up all their ammo and stepped aside, the markets will repair themselves. Individuals and institutions that are credit worthy will be able to access the credit markets through the remaining reputable lenders. Those that aren't will continue to be shut out of the market. That's how the market is supposed to function. Wall Street forgot that somewhere along the way in 2004-2006."

The Big Money poll began circulating just as Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke were taking to Congress their \$700 billion plan to buy up financial companies' bad assets, in the hope of securing swift passage and an equally swift end to the crisis. Congress acted in due course, after larding the resultant bill with all sorts of other goodies, but the thaw in the credit markets has been painfully slow.

Seventy percent of our respondents indicated they approve of the so-called Wall Street bailout plan, although just 60% think it will work to stabilize the financial markets and get credit flowing again. "Something had to be done to address liquidity issues so the banks feel comfortable lending again," one poll participant wrote. "Moreover, the government will profit from this, just as it did from the Mexican bailout" in 1995.

The Economy

• Do you expect a recession in the U.S. in the next 6-12 months?



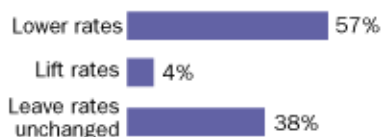
• How long would the recession last?



• Would a U.S. recession lead to a global recession?



• Should the Federal Reserve raise interest rates, lower rates or leave rates unchanged in the next 6 months?



• What will the Fed do?



• When will the U.S. housing market start showing signs of recovery?



• Will the dollar strengthen or weaken in the next 12 months versus...



• Will commodities prices rise or fall in the next 6 months?



Others object, however, to the fact that the bill doesn't "doesn't address the real problem, which is a crisis of confidence," while many voiced concerns about "too much pork." No surprise, then, that while 70% of the Big Money men and women give Paulson and Bernanke a grade of A or B in dealing with the crisis, 60% give Congress an F.

Most managers expect "normalcy" to return to the credit markets in the next six to 12 months. But those who see a longer workout might agree with the written comments of one of our most skeptical correspondents: "Japan had the same issue and slashed rates [to half a percentage point] and bought up the banks' bad debts. But the banks didn't start lending. It will take time for bad debts to get liquidated, balance sheets restored and confidence regained."

WITH FEW EXCEPTIONS, the Big Money mavens expect the U.S. to be slammed by an economic recession in the next six to 12 months. Sixty percent think the downturn could last a year to 18 months, and prove "contagious" around the globe. "The rest of the world is either struggling with its own credit crisis or tremendously reliant on the U.S. economy for export-driven growth," one manager wrote.

Almost 60% of our respondents thought the Fed should lower interest rates this fall, while 38% said the central bank should leave rates unchanged. Yet more than 90% expected Bernanke & Co. to wield the ax anyway, as they did Wednesday, chopping the federal-funds rate by half a percentage point, to a meager 1%. The Dow rallied almost 900 points Tuesday in anticipation of such a move, but the market mostly yawned when the deed was done.

"The Federal Reserve is pretty impotent in these situations, but they have to fire the bullets they've got," said David Corbin of Corbin & Co. "Lowering rates doesn't mean credit will come unstuck or people will be able to pay their mortgages."

Ironically many Big Money managers think financial stocks, though battered and bruised, will lead the market higher in the next six months. Other potential pace-setters include energy stocks, which remain attractively priced even though oil has fallen, and health-care shares, which have gotten little attention in the past year or two.

Tim Call, a portfolio manager with Capital Management in Richmond, Va., sees promise in various financial groups, including insurance. He also likes [Principal Financial Group](#) (PFG), a Des Moines-based leader in servicing small and mid-range 401K retirement plans. The company trades for only four times 2009 expected earnings. "Don't look for banks," he says, noting insurers are "in better shape and just as oversold."

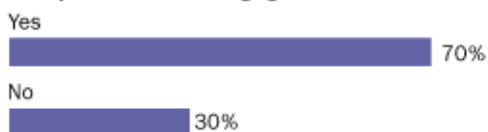
The weakest performers in coming months are likely to be consumer-cyclical stocks, a view consistent with the managers' recession forecast. Basic-materials shares also could struggle as commodity prices come down. Sixty-two percent of poll respondents expect commodities to fall in the next six months -- or fall further, in view of the price drops that many already have suffered.

WHEN IT COMES TO INDIVIDUAL stocks, the managers gave their biggest votes of confidence to Warren Buffett's [Berkshire Hathaway](#) (BRKA) and [General Electric](#) (GE), to which the Great One recently gave a \$3 billion helping hand. The managers also cast their votes for BlackBerry maker [Research In Motion](#) (RIMM), whose shares have been decimated this year, and [Wells Fargo](#) (WFC), a much-admired survivor among the nation's biggest banks.

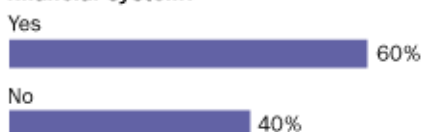
Capital Management's Tim Call likes [Transocean](#) (RIG), a deepwater driller, because of its cheap valuation and solid growth prospects. At around \$78 the stock trades for five times estimated 2009 earnings of \$16.14 a share. Morgan Stanley has a \$150 price target on Transocean, and expects the well-capitalized driller will be able to expand capacity in a tight credit environment.

The Credit Crisis

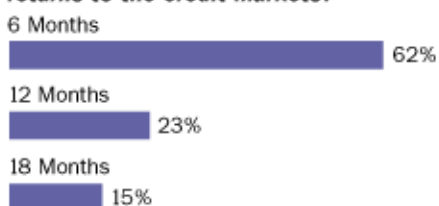
- Do you approve of the U.S. government's \$700 billion plan to buy up financial companies' bad mortgage assets?



- Will it succeed in stabilizing the U.S. financial system?

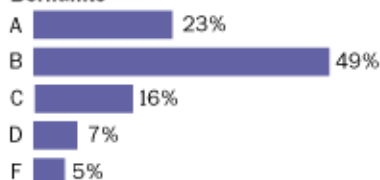


- How long will it take before "normalcy" returns to the credit markets?

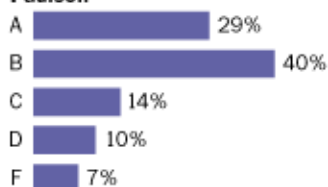


- Please grade the performance of Federal Reserve Chairman Ben Bernanke, U.S. Treasury Secretary Henry Paulson, and the U.S. Congress in handling this year's financial crisis

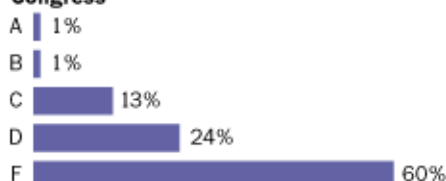
Bernanke



Paulson



Congress



The managers still consider [Google](#) (GOOG) one of the market's most overvalued issues, even though the search-engine giant's shares have dropped to 355 from a 52-week high of 747. Google now trades for 16 times 2009 consensus estimates of \$22.67 a share. Other stocks, some of them well liked, were considered too pricey: Wells Fargo, Goldman Sachs (GS), [Apple](#) (AAPL), [SunTrust Banks](#) (STI), which last week cut its dividend by 30%, and [Wal-Mart Stores](#) (WMT). Wal-Mart has held up better than many retail issues; at a recent \$54 it trades near the midpoint of its 52-week range of \$42.50 to \$63.85, and yields 1.7%.

The Big Money managers have restrained expectations for U.S. economic growth. They expect GDP, or gross domestic product, to slip 0.15% this year, and rise just 0.49% in 2009. The government reported Thursday that GDP fell at a 0.3% percent annual rate in the three months ended September, the worst showing since the third quarter of 2001, but a better performance than expected.

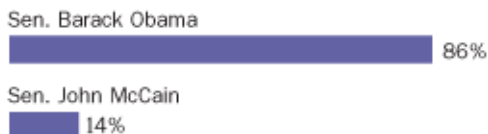
Nor do the managers worry about runaway inflation. They see prices rising by 3.28% this year, but by a lesser 3.02% in 2009.

How have the nation's money managers positioned themselves and their clients in this volatile market? For one, they've pared their equity exposure to an average of 67% of assets from an already low 71% in the spring, even though they expect 12% returns from stocks in the coming years. Bonds account for 16% of their current holdings, and cash 15% -- both outsized proportions by historical standards.

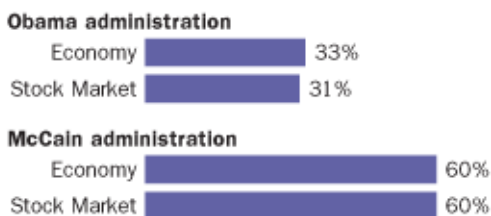
Within 12 months, however, our respondents expect stocks to account for more than 75% of assets under management; bonds will drop to 14%, and cash to 6%, with the remainder

The Election

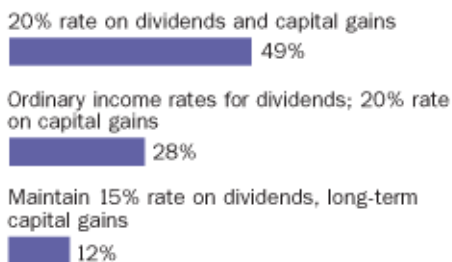
- **Who will win this year's presidential election?**



- **Would an Obama administration or a McCain administration be better for the economy? The stock market?**



- **How will the next administration tax investments?**



to 11,500 by year end, and trading up to 13,000 by the middle of next year. The S&P could return to 1,200, and then 1,400, and the Nasdaq could reclaim 2,000 before rising to 2,400 by June, he predicts.

invested in alternative assets.

EVEN THOUGH SOME studies suggest small-caps perform best coming out of a recession, most Big Money folks are sticking with big-caps. "Equity investors will become more risk averse and likely focus on high quality, [buying] 'blue chip' stocks [of companies] that are able to grow their earnings regardless of the economic environment," one respondent wrote. "Plus, many of these companies have and will pay a growing dividend. The new 'Nifty 50' will be back with a vengeance!"

Most money managers are neutral to bearish on Treasuries, now that prices have risen and yields fallen in a massive flight-to-quality trade. But they are intrigued by corporate bonds, in particular high-yield issues, or junk bonds, which recently were yielding a record 1,500 basis points over comparable Treasury rates. (A basis point is one one-hundredth of a percentage point.)

"The last time spreads peaked, in late 2002, our opportunistic high-yield style returned about 41%," says Eric Green, director of research at Penn Capital in Cherry Hill, N.J., which manages \$3.5 billion.

So far as stocks are concerned, today's ultra-wide credit spreads are a clear sign fear is overdone, he says. Green sees the Dow industrials bouncing back

Chris Towle, a fixed-income portfolio manager at Lord Abbett, also sees historic opportunities in the high-yield market. "The traditional buyers have gone, and the mechanics for bringing debt to the market are shattered," he says. "We're witnessing the mother of all credit crunches.

But unless you're convinced it's going to be gold, shotguns and canned goods, there's no way that defaults are likely to come anywhere near implied rates."

Towle says Lord Abbett, which manages \$10 billion in bonds, recently purchased HCA 9.125% second-lien bonds for about 80 cents on the dollar. Until a few months ago, they were trading for 105. Recently, [PepsiCo](#) (PEP) issued \$2 billion of bonds paying 7.9% due 2018, for an effective yield of 8%. This amounts to a spread of 4.2 percentage points over Treasuries. As early as May, PepsiCo issued debt at only 1.25 points over Treasuries.

THE BIG MONEY PROS are bullish on the dollar these days; 76% think the greenback will continue to rally against the euro, though just 43% think it will rise against the yen. They're cool to real estate as an investment asset, and neutral to bearish on foreign stocks, which have suffered even steeper declines than U.S. issues.

To judge from their views on gold, this is not a doomsday bunch. Most of the managers are neutral to bearish on the yellow metal, whose price they expect will average \$861 an ounce this year, and \$841 in 2009.

Even in this ugly year, 83% of our respondents say they're beating the S&P 500 in client accounts -- reason enough to parse their market views. Alas, they're not doing quite as well with their own money; 73% say they're outperforming the S&P in their personal accounts.

Rarely, in the course of our polling, has the market whipsawed as it has done in recent weeks. It's a dangerous time for investors, but also one with rich with opportunities, as the Big Money managers' bullish bent suggests.

Your Portfolio

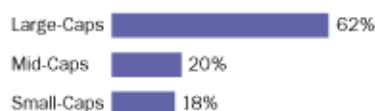
• Have you been a net buyer or seller of equities over the past...



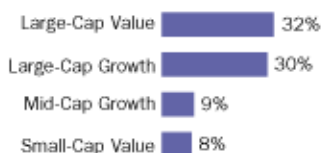
• Specify your current and projected asset allocations

	Current	Months	
		Six	Twelve
Equity	67 %	73 %	76 %
Fixed Income	16	14	14
Cash	15	10	8

• What percentage of your equity portfolio is invested in:



• What is your favorite equity class for the next 6-12 months?



• Are you beating the S&P 500 this year... Professionally?



Personally?



E-mail comments to mail@barrons.com