

OPINIONS



Ringin' the Register
Go Shorty, It's Your Birthday!

By Tsachy Mishal

The animal spirits of investors around the world were unleashed last week as the Dow roared to its largest weekly gain in 21 years. Conventional wisdom, that war is positive for the stock market, became a self-fulfilling prophecy as a buying panic ensued. When investors panic it is usually profitable to take the other side of the trade. I believe this will prove to be another bear market rally and a tremendous selling/shorting opportunity.

I would first like to debunk the myth that war is good for the stock market. In the months leading up to the Gulf War investors fled the stock market in droves. There was widespread fear that the Gulf War was going to become another Vietnam. Fear and panic, not the war itself, made the beginning of the Gulf War a great entry point to the stock market. As Warren Buffet says, "Be fearful when others are greedy, and greedy when others are fearful." In sharp contrast, there is little or no doubt that the U.S. would easily defeat Iraq this time around. A "war rally" has been going on for months. In addition, at the time of the Gulf War the S&P had a forward P/E of 10 while the current forward P/E is 19 (based on extremely rosy estimates and a second half economic recovery).

Iraq was not the cause of this bear market and it will not be the cure. An equity and debt bubble that engrossed the entire U.S. economy is what ails the economy. Consumers, corporations and the U.S. government are awash in debt. The excess capacity from the bubble years has not been shed. The U.S.

consumer is faced with rising unemployment, a mountain of debt and dwindling savings. The economy will not recover if the US consumer does not spend. Is it possible that I am wrong and this is the beginning of a new bull market? Yes, but that is not the way I am betting.

Portfolio Update

McDonalds (ticker symbol: MCD) – I recently recommended purchasing McDonalds at 13.57. At its current price of 14.65, I would recommend selling the stock. Besides the fact I believe the entire stock market is due for a large fall, I am especially scared of owning large American multinationals. The world is almost entirely against this war and anti-Americanism grows with every bomb that is dropped on Baghdad. The most likely targets for boycotts of American goods are well known brand names like Coca-Cola and McDonalds. I still believe that, in the long-term, McDonalds will be a good investment. I just believe there will be a chance to pick it up at lower prices.

Harley-Davidson (ticker symbol: HDI) – I first recommended shorting Harley-Davidson at around \$51. It currently trades at \$41. I would recommend doubling down on that short. Lost in all the war news was the fact that a motorcycle industry group reported that motorcycle sales were down 13% in February after a 12% decline in January. A year ago motorcycle sales were growing at that pace. Harley-Davidson maintains estimates for unit growth of over ten percent and profit growth of 20%. I will be

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We've Got Mail!

[Editor's Note: the letter below was originally sent directly to Prof. Greenwald in response to an interview in the Bottom Line's Uncovered: article run on 3/27. We have reprinted it with the author's consent]

Dear Professor,

I was surprised and offended by your comment about the French in this week's Bottom Line. In your interview, you said that your favorite saying is "whenever you find yourself on the same side as the French you know you are in deep moral trouble." Honestly, it reminded me of a watered down editorial in Rupert Murdoch's New York Post! I can barely imagine what an uproar such a comment would have engendered among any other community in the Business School... It's part of the French culture to welcome controversy (the famous "esprit critique")

provided the parties involved agree that, in a healthy debate, sweeping generalizations should be avoided.

Your comment seems to refer to the ongoing controversy between France and the United States about the war in Iraq. Currently, France's image in the United States is indeed in "deep trouble" because the French government, supported by the majority of the French people, has vehemently opposed the Bush administration on its strategy in Iraq. Some people, including some Americans, do think that preemptive action in Iraq is morally wrong and that a conflict followed by occupation of Iraq will fuel more hatred among Muslims towards the West. You may disagree with this point of view but using this debate as a platform to

make a broad moral judgment about the French is inappropriate, self-righteous and somewhat arrogant.

As a matter of fact, the ideas that gave birth to the twin revolutions at the end of the eighteenth century were largely developed by French philosophers, the moral rectitude of whom cannot be denied. Indeed, the ideas of Rousseau, Voltaire and other prominent philosophers from France (and England) inspired the ideals of freedom and democracy that have been uniting America and France for more than two centuries. Besides, as a mathematician, I suppose that you feel comfortable siding with Descartes and Fermat from a scientific standpoint without feeling in "deep moral trouble", non?

Best regards,

Christophe Comoy, MBA'04

Heilbrunn Center for Graham & Dodd

INVESTING

PROFILES IN INVESTING

Mario Gabelli, The King of Value

By Eli Rabinowich

Welcome to "Profiles in Investing", brought to you by *The Bottom Line* and **The Heilbrunn Center for Graham & Dodd Investing**. Every week we will profile a leading investor and get an inside look into their investment philosophy.

Up next, Mario Gabelli.

Vital Statistics

- Chairman, Chief Executive Officer and Chief Investment Officer of Gabelli Asset Management Inc
- Governor of the American Stock Exchange
- Member of The Board of



- Overseers of Columbia University Graduate School of Business
- Member of the Board of Trustees of Fairfield University

- Member of the Board of Trustees of Roger Williams University
- Member of the Board of Directors of the Bruce Museum
- Trustee of the Winston Churchill Foundation of the United States
- MBA, Columbia Business School
- *Summa cum laude*, Fordham University

Mario Gabelli graduated from Columbia Business School on a Friday in 1967 and started working on Wall Street the following Monday. Says Gabelli, "I knew I wanted to go to Wall Street, but I didn't know

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Columbia Business School Students Do Honshu, Fuji, Sushi

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to request my veggies and rice or noodles.

Tokyo was nothing like I expected and I felt completely comfortable from the beginning. I had always been told that one could not get around in Tokyo if one didn't speak Japanese, but that's not at all the case. Street signs, subway maps, even some subway announcements are made in English. Advertisements on television, billboards and in stores, as well as store names are in English, often without any Japanese translation! No need to feel uncomfortable, as I do in Europe, wearing sneakers, looking at maps and taking pictures. I knew the Japanese are the ultimate tourists internationally, but the same is true within Japan. Most of the touristy sites we visited were filled with more Japanese tourists than Americans or other westerners.

We spent a day wandering around Tokyo. The Shibuya district is a hybrid of the young, hip stores in Soho and the noise and general chaos of Times Square. Talking billboards bring *Bladerunner* and *Minority Report* to mind. Harjuku is the hot shopping district for pre-teens. The Ginza district is where the most upscale shopping is, similar to 5th Avenue in New York. You cannot actually see the Imperial Palace, but our stroll around the gardens was rewarded with the view of one cherry tree in blossom.

(Cherry blossom season really began a week or two after we left). The Meiji shrine was unbelievably peaceful. We walked through the gardens, past a large offering of sake casks to the main buildings of the shrine, where a ceremony was taking place in silence. On sale were many different types of charms: one for passing entrance exams, one for good health, etc. Amidst these, a pencil set was also for sale.

Some people visited the fish market at 5:00 a.m. our first morning. I didn't go and nobody who did wanted to write about it, but this is what I heard: Fish are auctioned to the highest bidder. A single fish can cost \$100,000. Some fish are very large. Sushi at the fish market is the best, but some people didn't want to eat it so early in the morning.

Three days were spent visiting Kikkoman, Shinsei Bank, Bank of Japan, Nissan and G1 advertising, but you can read about that in the other article, "Soy Sauce, Money and Cars." The Columbia alumni in Tokyo graciously hosted dinner and cocktails for us, with wine generously provided by Kikkoman. The next night, we met up with students from the Keio University Business School. It is my sad duty to announce that Columbia Business School was trounced in a boat race with KBS. In a shocking display of disloyalty, Devin was kicked off the Columbia team and replaced by Elina's boyfriend

Jordan, only to be trounced again in a rematch.

One has always heard rumors about Japanese karaoke rooms, but nothing prepared us for our two nights of crooning in Tokyo. In our first foray into the land of song, we were treated to a simple room with couches and beer, until Taro showed up. Upon his entrance in a clown costume, we discovered the costume rack and emerged as a monkey, a cow with udders, a frog, a cheerleader, the statue of liberty and our loyal Japanese leader. In a truly American night, songs ranged from Bon Jovi to the Monkees to Hiroshi's American Idol version of the Carpenter's "Superstar." Some friendly competition resulted in the monkey beating the frog and the cow seeking vengeance with his udders. Night number two of karaoke added some new additions to the group. With group in tow we ventured into a karaoke parlor famous for its "theme rooms." Our fearless leaders chose a room with a swing, a slide, and a table to replicate a pool. It would have been nice if someone had informed our other leader that the table was glass before he chose to walk across it. In this evening we were introduced to Tad's incessant cheesy love songs and Devin and Jeff's heart wrenching rendition of "Ebony and Ivory." A word to the wise: in Japan, the title of Madonna's song is "Like a Virgin" and one must lift their

arm on the beat to wirgin.

Hakone

After leaving Tokyo, we went to Hakone, a resort town with hot springs. Despite Taro's promises of warm weather when he sold us on the trip back in New York, it was snowing as we arrived. The boys rushed down to the baths immediately upon arrival, then came to dinner in their robes. The girls were happy that Taro had reminded everyone to wear underwear. As Tad's robe fell off, Hiro performed cartwheels and other acrobatics, and none of the boys could manage to sit modestly. The girls were reluctant, but eventually nearly everyone was convinced to relax outside in the hot springs. By morning, the sun was out, the weather was warm and we had a walk in the beautiful snow-covered gardens.

Kyoto

We went by bullet train to Kyoto, arriving in a beautiful, gigantic, modern train station, which we subsequently spent hours getting lost in. We saw beautiful temples and shopped for lots of pottery, kimonos, and other typically Japanese souvenirs. A group of us wandering around looking for a place for dinner happened upon a terrific restaurant. We took off our shoes and sat on the floor to enjoy huge bowls of udon noodles. None of us are as young as we once were and we all had trouble standing up afterwards.

After dinner, certain mem-

bers of our group tried to convince another member to relieve himself in an alleyway. Thankfully, he chickened out only seconds before two cops rode by on bicycles. We then spent some time wandering through quiet back streets filled with tiny teahouse after teahouse. All the while, Mamta was talking about *Memoirs of a Geisha*, squealing, "This is just what it would have been like for her! This is the river she talked about!"

Some people went to see a sumo match in Osaka on our last day. I saw one on TV and read about them in my guidebook. Sumo takes place only during six weeks each year. Enormously fat men wearing little more thongs push each other around a ring. Many of these men are lusted after by young women, just like movie stars. Go figure.

We all had a terrific time on the Japan Study Trip. A huge thank you to our faithful trip leaders, Taro, Hiro, Tad and Kazu, for doing such a terrific job organizing the trip. And thanks to all of the other students for being such terrific traveling companions. Philippe says friendships forged on the trip are like summer camp friendships and we'll never see each other again, but I know we'll catch up at a sake and Pocky reunion party soon.

Mario Gabelli Shares Secrets on Choosing the Best Values

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what I wanted to do... I wasn't going to be an investment banker since I wasn't a 42 long." Shortly after joining Wall Street he became an auto parts analyst.

His first major break as an investor came while he was researching Earl Scheib, a leading auto-painting and body repair service provider. Gabelli noticed that all the repair facilities were located in downtown locations. These repair facilities were owned by the company, but the real value of the real estate holdings was not recorded on the company's financial statements. Gabelli recognized that the stock price did not accurately reflect the true value of the company's assets, and saw the stock as severely under-

priced.

In 1976, Gabelli started his own firm "with one employee - myself." At the time, no one was interested in joining a start-up. In fact, Gabelli was repeatedly told he had little chance of success. Now, Gabelli Asset Management (NYSE: GBL) manages over \$22 billion and generated over \$220 million in revenues in 2002. Perhaps this is why Gabelli told me he sees "'No,' as the beginning of 'yes.'"

Gabelli has successfully made money for his clients by continuously finding unappreciated stocks and by identifying broad macro trends. Currently, Gabelli says, the best trends to take advantage of are the migration of people to the South, the growing Hispanic population, the increased physical

activity level of baby boomers, and the aging of the car population.

As an example of how to play one of these trends, Gabelli suggest buying companies which supply and distribute parts for older cars. Over the next five years, the number of cars that are 6-10 years will grow by 15%. Companies which are poised to take advantage of the positive aftermarket fundamentals include Dana Corp (DCN), Genuine Parts (GPC) and PepBoys (PBY).

Over the next ten years Gabelli sees the stock market returning an average of 10% annually. To beat these returns, investors will need to increasingly rely on active managers. More interestingly though, Gabelli believes, "This is the best time for net-nets since the

1970's." [*Value Investing* by Professor Bruce Greenwald defines "Net-net" as the opportunity to purchase a stock for below the reproduction costs of its current assets, after all liabilities have been paid.] Of course, there is no guarantee that active managers can continuously beat out the market. But, Gabelli adds, "You don't have to be right all the time. Even Ted Williams struck out three out of five times."

Gabelli is also a passionate advocate for corporate governance reform. He strongly believes there is a need to eliminate the poison pill, which is in anti-takeover device that allows a prospective acquirer to purchase shares at the market. Doing so will restore some of the

checks and balances to the boardroom. Along these lines, Gabelli strongly favors the dividend tax cut, which he asserts will encourage managers to return funds to shareholders, and by extension will reduce corporate malfeasance. In general, Gabelli says he would like to see "management's decisions put in to a fishbowl." Prominently noting management's decisions in annual reports will force managers to expose their key decisions to the public.

As parting words, Gabelli had this to say: "The next generation of Warren Buffets and Bill Gates is the Columbia Business School class of 2003."

Please email comments and suggestion to ERabinowich04@gsb.columbia.edu