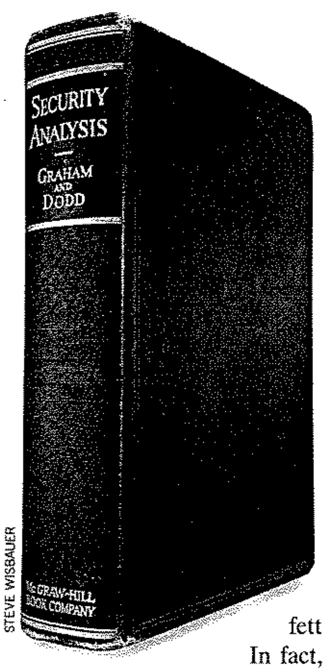
"YOU CAN ONLY WORK WITH MIRRORS FOR SO LONG"

Does Anyone Still Care About Value?

BY HERB GREENBERG ■ I've been feeling increasingly irrelevant lately, and can you blame me? I attempt to write a regular column based on traditional fundamentals in a world in which traditional fundamentals no longer appear to apply.

Take the time I received two urgent e-mails, two hours before the market opened, from some guy desperate for the stock symbol of a private company I had just mentioned on CNBC's *Today's Business*. (Never mind that private companies don't have symbols; if fundamentals mattered, this guy wouldn't have been in such a rush to buy a stock he'd just heard of.) Then there was the time I noted that an analyst had raised questions about Dell Computer's revenue growth, only to be inundated by an avalanche of e-mail that sent my Hostile React-O-Meter spinning out of control. (If fundamentals mattered, those e-mailers, rather than blasting me, would've been trying to figure out exactly why that analyst was so skeptical—especially because a few weeks later he was proved right.) And I'm still trying to shake the time I was accused of "touting" a small cap to help a money manager out of a losing position, only because I mentioned a company he had recommended that Wall Street had long ago forgotten. (If fundamentals mattered, my accusers would've dusted off the company's public filings to see for themselves what this manager knew—a lot, it turned out, since the company's profits subsequently soared.)



STEVE WISBAUER

"Investing has become a hobby," says Brian Salerno, co-manager of the Munder NetNet fund. Heck, his mother calls him several times a week looking for companies to buy. Jack Broughton, a finance professor at Chapman College in Southern California, has students who brag to him about the thousands of dollars they make day trading. (Of course, they don't so readily disclose how much they lose.) Even the always sensible Hugh Johnson, First Albany's strategist, caught me by surprise when he said there's so much pressure to overperform "that there are times you have to violate your investment principles, or else you lose clients."

Are we witnessing the death of fundamentals? If Graham and Dodd wrote *Security Analysis*—the industry bible—today, would they be laughed into hiding? I always thought value investing made the most sense: You buy out-of-favor companies with strong fundamentals and wait until they're recognized by everybody else. But with stocks now doubling and tripling in days and weeks—while most value funds have lagged the S&P 500 for three years—who other than Warren Buffett wants to wait for years?

In fact, I can't believe how many value investors are holding firm. Take Bob Olstein, who runs the Olstein Financial Alert fund. I told Olstein that nobody cares about his style of investing anymore. He shot back: "Nobody cares now because a bull market dulls people's senses. But you can only work with mirrors for so long, and eventually the reality hits."

Terry Diamond, who runs the Chicago Trust Talon fund, sometimes has doubts about his investing style. But if he switched styles, he figures he'd probably do it at exactly the wrong time. "You've got to stay consistent with your discipline," he says, "because just when you start thinking those guys are right, it turns around." Adds Wally Weitz, manager of the Weitz Series Value Portfolio: "I really do believe that it's the business that counts, and the business has to do well over time for the stock to do well. When the two are disconnected for a long time, it gets tempting to say either that someone knows something I don't know, or that this time it's really different. But eventually it comes back around."

In other words, the only difference this time is that traditional fundamentals don't matter—until they do. And when they do, it'll be too late for those who thought they didn't. And folks who do what I do will just have to settle for being irrelevant—until we're not.

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i2 Learns What *Not* to Say When Talking to Analysts

Sanjiv Sidhu, founder and CEO of **i2 Technologies**, was announcing another quarter of record earnings last July, and he thought it would be wise to keep investors' expectations from getting out of hand. After all, his 11-year-old company, based in Irving, Texas, is the leading vendor of supply-chain management software. (It helps manufacturers monitor their processes and streamline inventory.) He has powerhouse clients like Dell Computer and Amazon.com. (Amazon uses i2 software to cope with the surge in orders after Oprah Winfrey recommends a book.) But with the stock trading at a multiple of 160 times trailing 12-month earnings—about $41—Sidhu purposely sounded only mildly optimistic in an analysts' conference call, saying, "The quantity of pipeline continues to be large. But we are less than bullish about the quality of the pipeline for this quarter, especially when compared to the large Street expectations."

In a market where expectations are everything, Sidhu's cautious tone spooked investors. "[i2] just meant to rein in expectations, but people interpreted it to mean the sky was really falling," explains