MELODY HOBSON, THE PRESIDENT OF ARIEL CAPITAL MANAGEMENT IN CHICAGO, IS used by ABC News to give financial advice to its viewers and those who visit its Web site, ABCNews.com. On July 12, she was on “Good Morning America,” with a small group of people who had suffered severe losses in their 401(k) plans as a result of the decline in the stock market. She advised them to stick with stocks because investing in the stock market has been proven to be the best way of accumulating wealth. She told the group of devastated investors, “Historically, bull markets always follow bear markets. The S&P is down again this year and is threatening a third down year in a row. The last time this happened was in 1939 at the start of World War II. It logically follows that the odds of a fourth losing year are slim.”

SINCE MS. HOBSON’S FIRM MANAGES MUTUAL FUNDS, IT IS UNDERSTANDABLE THAT SHE takes an optimistic view of the market. She is in the business of selling shares, and that raises a conflict of interest question. Going to ABCNews.com, we found that she is giving the same advice now that she gave last March. That advice is that those under the age of 30 should be 100 percent invested in stocks, those in their 40s should be 80 percent in stocks and 20 percent in bonds, those in their 60s should be 70 percent in stocks and even those over 70 should be 50 percent in stocks and the rest in bonds. Ms. Hobson is young, and apparently the fact that it took 25 years for the Dow Jones index to reach and surpass its 1929 peak seems to have escaped her attention. Her assertion that even the elderly should invest heavily in stocks is called into question by the fact that investors in her three stock funds all suffered losses from Jan. 1 to July 11. One of them was down 22.8 percent. On the other hand, her bond fund was up 4.4 percent.

BY CHANCE, I SAW MELODY HOBSON GIVING HER ADVICE ON “GOOD MORNING America” the morning after I had a telephone conversation with Walter J. Schloss, a long-time supporter of Accuracy in Media and an investor with an outstanding record over the past 46 years. At 85, he is in the process of liquidating the highly successful limited partnership he has managed, together with his son, Edwin. Over those 46 years, his partnership has yielded an annual average of 21 percent compounded gross, mostly in long-term capital gains. The limited partners have earned an annual average of 15.7 percent on their investment. Walter Schloss and Warren Buffett learned about value investing working together for Benjamin Graham, the author of “The Intelligent Investor,” the value investor’s Bible. [It is still in print.] Buffett, one of the world’s richest men, has publicly recognized Schloss as one of America’s outstanding investors.

SCHLOSS SAYS, “THE MARKET HAS BEEN HIT BY THE BURSTING OF THE GREATEST BUBBLE in history but many stocks are still overvalued.” He points out that as of June 30, the Dow Jones industrials were selling at over 25 times earnings and the S&P industrials were selling at 60 times earnings. He notes that the market value of the Dow Jones industrials is seven times the book value and that for the S&P industrials the market value is 5.5 times the book value. He stuck with his strategy of finding undervalued stocks while the great bubble was growing. He says, “The mania that brought it about was a result of the fading of the memories of the crash of 1929.” It took many years for the wounds caused by that crash to heal and many more for its lessons to be forgotten. The disasters of the dot.coms, Enron, Global Crossing, Tyco, WorldCom and many others will not be forgotten soon. In the meantime, investors, especially senior citizens, would be wise to ignore advice like Melody Hobson’s and rely on secure compound interest rather than spectacular capital gains to see them through old age. We have written to David Westin, the president of ABC News, suggesting that Melody’s tune is not what ABC’s viewers need to hear.

IN ADDITION TO MELODY HOBSON, MY LETTER TO WESTIN CALLED HIS ATTENTION TO A statement made by ABC correspondent Arnold Diaz on July 12, when he was discussing automobiles with John Stossel, a correspondent for ABC NewsMagazine Programs. Stossel asked Diaz where a car buyer should go to find out what car is the most reliable. Diaz said that the best bet would be “Consumer Reports Car Buying Guide
or the Ultimate Car Book.” This was soon after the Ninth Circuit Court of Appeals ruled that the Suzuki Motors suit against Consumers Union, the publisher of Consumer Reports, should be tried by a jury. We wrote about this in the Notes for the last AIM Report. Suzuki charged that CU rigged tests to show that the Suzuki Samurai was prone to tip over so they could give it an “unacceptable” rating. Suzuki Motors had videotapes and testimony by a former CU employee that showed that they rigged the tests. This had a disastrous effect on Samurai sales. Suzuki charges that CU did this to get a sensational story that would boost their circulation. This was in 1988, but CU revisited the story in 1996, boasting of their great achievement in doing in the Samurai.

SUCH EGREGIOUS BEHAVIOR CASTS A CLOUD OVER THE INTEGRITY OF ALL CU RECOMMENDATIONS. CU had a leftist tinge that had made its evaluations somewhat suspect to me for many years. This became full-blown distrust when they sided with “60 Minutes” in 1989 in falsely charging that Alar, a growth regulator used on apples, was a dangerous carcinogen. The letter that CU sent out to AIM members who sent them postcards and letters about rigging the Suzuki tests was carefully crafted to give the impression that the AIM Report criticizing what they did to Suzuki was inaccurate, but they provided no proof to back it up. This is why I almost fell off my chair when I heard Arnold Diaz recommend the Consumer Reports Car Buying Guide as a source of information on the reliability of cars. ABC News didn’t report the latest development in the Suzuki suit. In 1992, David Westin was an ABC lawyer responsible for reviewing Prime Time Live stories before they aired. He is probably sensitive about stories involving rigging. They did one on Food Lion and were sued in 1992.

THESE NOTES ARE BEING WRITTEN ON THE SIXTH ANNIVERSARY OF THE CRASH OF TWA Flight 800. A memorial to the victims has been built on Long Island in a park that is in the area closest to the crash site. It features a wall inscribed with the names of those who died and an attractive garden. It is said to have cost $1.5 million. That is fine, but the memorial we would like to see is one that tells the truth about what caused the plane to crash and apologizes for six years of lies told by the FBI, NTSB, CIA and the Department of Justice. They were told to discredit hundreds of eyewitnesses and cover up what really happened. Tom Kelly Jr. has sent me an e-mail giving three questions that he says have been asked by all TWA employees but have never been answered. 1- Why is only the right side of the aircraft shown? [He says all the shots the public saw of the mock-up in the Calverton hangar showed only the right side.] 2- What happened to the large piece of the LH side of the aircraft that was taken away by the FBI? [It has no doubt been destroyed along with all other evidence of missile strikes.] 3- Why did the government get so involved with this incident? Never happened before. [Probably because we never before shot down one of our own airliners.]

AND HERE IS A MESSAGE FROM STAN, WHO KNOWS A LOT ABOUT TWA 800. HE BEGINS with a poll taken by WNEP-TV in Scranton, PA. QUESTION: After watching Bob Reynolds’ Special Report, What do you believe brought down TWA 800? A faulty fuel-tank: 316 votes = 22% A missile: 1096 votes = 78%. Stan says, “AIM must be credited with keeping everyone aware of this cover-up 6 years later. I’m very impressed with WNEP’s TWA 800 effort and Bob Reynolds…. Perhaps my concern is higher than the single issue of the TWA 800 cover-up. The only way wrongdoing can be uncovered anymore, it seems to me, is by dissent, courageous informants, whistleblowers. And we’re losing this method of assuring justice because we cannot or will not protect these whistleblowers. There’s not even anywhere a whistleblower can go to blow his whistle. 60 Minutes? Ask [Jim] Sanders. I am convinced we persecute those trying to do the right thing when we should be rewarding them.”

THAT IS THE SAD TRUTH. THERE ARE HUNDREDS, MAYBE THOUSANDS, OF PEOPLE IN THE government who know for a fact that the crash of TWA 800 was not initiated by a fuel-tank explosion. How many of them are willing to say so publicly? Not one! Why? Because, as Stan says, they are afraid they will be punished for telling the truth. But what about those who have left the government, taking jobs elsewhere or retiring on a federal pension? They can’t be proud of the fact that they helped perpetuate a lie. One of them is George Stephanopoulos, who is slated to fill what years ago was David Brinkley’s job as the sole host of ABC’s “This Week.” That is quite an honor for a young man who happily lied for Bill Clinton for six years. Filling airtime with Peter Jennings on 9/11, he blurted out there had been a meeting in the White House secret situation room in the aftermath of “the bombing of TWA 800.” His bosses and colleagues at ABC News have not demanded that he explain the “bombing” and the secret meeting. Cover-ups are rewarded. Exposing them brings retribution.