



February 28, 2007 Edition > Section: [Business](#) > Printer-Friendly Version

## 'Time To Be A Bit Aggressive'

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A sell-off, but not the beginning of a serious market decline: That's basically Wall Street's reaction to yesterday's bloodbath in which the Dow was slammed by a decline of more than 3%, or 416.02 points, all part of a major global stock selloff. The Dow was down on the day as much as 546 points.

The decline was sparked by a 9.2% plunge in the Chinese market, a warning from a former Federal Reserve chief, Alan Greenspan, of a possible recession, and an unexpectedly sharp 7.8% drop in January durable goods orders.

It was a confluence of events that scared investors, but it's not suggestive of the beginning of a significant correction or a bear market, a strategist at regional brokerage D.A. Davidson & Co., E.M. Rhoades, maintains.

Ms. Rhoades says she thinks the wisest investment strategy right now is to watch the overseas markets for a few days to see if they stabilize. If so, she says, "then I would become a buyer of some high-quality American stocks, such as ExxonMobil, Procter & Gamble, Intel, and Illinois Tool Works," all of which her Great Falls, Mont.-based brokerage expects to outperform the market.

"The decline may well have provided some excellent buying opportunities that shouldn't be ignored," she says.

A liquidity tracker, Charles Biderman, who in Monday's New York Sun predicted an imminent and substantial decline in what he described as an overpriced Chinese market, agrees. "I think the American market will calm down shortly, but it could be nasty overseas for a while," he says.

Pointing to favorable trends here on both the economic and interest rate fronts, Mr. Biderman, president of TrimTabs Research in Santa Rosa, Calif., concurs that the sell-off here has provided an abundance of buying opportunities. "I wouldn't go to hell with myself, but this is a good time to be a bit aggressive," he says.

Money manager Leonard Mohr, the skipper of Los Angeles-based MCR Associates, takes a more cautious stance. "I'd let things shake out first before doing any bargainhunting," he says. "Why try to tiptoe through what might be a mine field?"

In any event, yesterday's sell-off suggests to some pros the need to be even more sensitive about what stocks you buy, as there are no guarantees that the decline might not be a prelude to a long-awaited correction of, say, 10% or so.

One safety net, it's thought, might be to focus on the kind of stocks Warren Buffett would buy. If you're about to say that's impossible because there's no way the Oracle of Omaha would disclose such information, you may be only half right, as Standard & Poor's might be able to clue you in.

How so? In an intriguing research exercise, S &P has made an effort to do the next best thing after talking to Mr. Buffett about his future purchases: It has compiled a list of those stocks that closely embrace the Oracle of Omaha's investment philosophy.

In brief, S&P examined the six most important investment criteria Mr. Buffett uses, factoring in his pursuit of superior earnings growth. It then ran a screen of the stocks it tracks, focusing in on its top-ranked companies, and found 18 that met Mr. Buffett's standards. The six criteria:

- Free cash flow of at least \$50 million.
- Net margins of at least 15%.
- Return on equity of at least 15% for each of the past three years and the most recently reported quarter.
- A dollar's worth of retained earnings generating at least a dollar of shareholder value for the past five years.
- Elimination of overpriced stocks by comparing estimated discounted future cash flow five years from now with the current price.
- Inclusion of stocks only with a minimum market capitalization of \$500 million.

Being a Buffett copycat, S&P found, is a winning market formula. For example, between mid-February of last year and January 31, the S&P screen showed an annualized return of 15.9% for Buffet-type stocks, more than 65% higher than the 9.6% yearly return for the S&P 500.

So, which of S&P's top-rated stocks currently meet Mr. Buffett's investment criteria?

Here's the list of its 18 companies S&P believes would meet them: Altria, ASML Holding, BJ Services, Brown & Brown, China Mobile, Coach, Cytoc, Devon Energy, Energen, Freeport McMoRan, Germin, Grace, Infosys Technologies, Novartis, TD Ameritrade, T. Rowe Price, Varian Medical Systems, and Willis Group Holdings.

What about the Chinese market, which more than doubled last year?

"Sure there will be ups and downs, but the long-term bull market there remains intact," money manager Lou Gerken insists. Blaming the decline on overvaluations and heavy profit taking, Mr. Gerken, who heads up San Francisco-based Gerken Capital Associates, contends the longterm underlying values and trends remain positive for China and the other emerging markets.

He points in particular to continued strong annual GDP growth for the emerging markets of between 7% and 8%, currency appreciation of 3% a year versus the dollar, domestic savings of close to \$1 trillion, and a population of about 1.5 billion people, many of whom are turning from buyers to savers.

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