



BusinessWeek

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Investing

What's Inside Pimco?

Pimco Total Return Fund is the world's biggest mutual fund. What's in its portfolio?

Is the Fed Creating New Bubbles?

Its easy-money policy has Asia worried. But Bernanke says fears of a speculative surge are overblown

Vital Signs: Plenty of Support for Housing

On deck: existing home sales, GDP, home price indexes, consumer confidence, durable goods orders, personal income, consumer sentiment, new home sales, FOMC Minutes

Business Outlook: A Lifeline of Credit for the Recovery

Lending remains tight, but overall bank standards are relaxing, and that will make it possible for businesses to expand as demand picks up

Stocks Slip on Dell Earnings

A disappointing report from Dell, along with a bigger than expected loss at homebuilder D.R. Horton, weighed on equity indexes Friday

Picks of the Week: Intel, RIM, Wells Fargo

Wall Street analysts give their buy, sell, or hold views on various stocks in the news this week

Stock Picks: Dell, Gap

Plus Wall Street analyst opinions on RealNetworks and Dress Barn

Cable, Seeds, Medical Technology

What Gene Marcial's Wall Street sources are saying about Cablevision, Monsanto, and Stereotaxis

Stocks Fall on Stronger Dollar, Weak Techs

A bearish outlook on chipmakers from BofA Merrill Lynch sparked equity losses Thursday

Philips Stock

BusinessWeek's Kerry Capell on investing in European giant Philips and the outlook for the conglomerate

Lending Is Back Just in Time

Fewer banks are tightening their lending standards, funds are flowing more freely through the financial markets, and strong corporate profits are reducing the need to borrow

Stock Picks: Intel, Texas Instruments

Plus Wall Street analyst opinions on LSI, National Semiconductor, Marvell, NetApp, and Dick's Sporting Goods

Cadbury Bid May Be Sticky Business for Hershey

Hershey would love to link up with Cadbury and block Kraft's bid for the British candy and chocolate maker. But putting a deal together will be difficult

Technology

Dell Stock Gains May Slacken

The rally that's lifted the computer maker's shares 55% this year may lose steam after a report indicated corporate demand for PCs isn't as robust as hoped

Is MySpace Buying Imeem?

The expected purchase price of just \$10 million bodes ill for ad-supported online music services

Can Adobe Beat Back the Hackers?

As its software becomes a major means of attack, security experts wonder if it can fight hard enough

Cisco's Extreme Ambitions

CEO John Chambers is now chasing market share in 30 different categories—and making powerful enemies

The King of the Cloud

Salesforce.com CEO Marc Benioff's book is a fun, user-friendly guide for entrepreneurs and spectators

Mobile Shopping's First Christmas

Retail technology expert Paula Rosenblum explains why smartphones will play a significant role this holiday season and beyond

Salesforce's Chatter Joins a Growing Social Media Field

With the release of Chatter, a social networking tool to help businesses keep better tabs on sales and customer service, Salesforce is joining a crowded market

Top News

A Big Loophole in Cap and Trade

The proposed cap-and-trade legislation in Congress could reward some companies for green projects they already had under development

Wiring America Up to Green Power

These Men Could Kill SarbOx

Two tenacious Washington lawyers have the Sarbanes-Oxley Act in their sights

Wall Street Plays Hardball

This Year's Holiday Hit Toy: Zhu Zhu Pets

Battery-powered hamsters that scoot around a track are flying off store shelves, giving recession-wracked retailers a needed boost

Archives: Toys 'R' Us Gets Wound Up Again

The Best E-Commerce Sites for the Holidays

Abercrombie & Fitch Bargains for a Rebound

The clothing retailer hung tough on prices, and teens took a hike. Now the paragon of preppy coolness is frantically trying to woo them back

Wal-Mart's Online Optimism

Calix Files IPO. Will Cyan Be Mike Hatfield's Next Big Hit?

After years of rumors, Calix Inc. finally filed to go public today.

My whereabouts

To confirm the rumors: I was not offered a position by Bloomberg.

Healing Chile's Malaise

Despite decades of economic growth, average citizens are dissatisfied—and want better schools and more opportunities

Picks of the Week: Intel, RIM, Wells Fargo

Wall Street analysts give their buy, sell, or hold views on various stocks in the news this week

DT to Seek U.S. Partners for T-Mobile USA

T-Mobile USA's parent Deutsche Telekom is looking for U.S. partners to help fund the U.S. wireless carrier's network build-out, according to a report from Reuters and a German newspaper. Potential partners may include Clearwire, MetroPCS or Leap, according to the report.

Sony's Hirai Talks About An i-Tunes-like Store

Sony's Kazuo Hirai has a lot of ideas about what he would do if it had an iTunes-like online store. The company wouldn't just sell digital music, movies and books for Sony products, said Hirai, executive vice-president for networked products and services. It would also try to connect users with ...

U.S. Ambassador: China-U.S. Ties are World's Most Important

A day after President Obama left Asia after an 8-day visit, Jon Huntsman, the American ambassador in Beijing, tried to counter the spin in the media that his boss's China visit didn't go so well. Speaking at a BusinessWeek conference on Friday morning, the former GOP governor of Utah pointed to ...

Is MySpace Buying Imeem?

The expected purchase price of just \$10 million bodes ill for other ad-supported online music services

Investing Insights

A Rocky Recovery for Home Depot

Wall Street is hoping for a strong economic recovery, but again and again investors are disappointed by signs that American consumers remain cautious and careful about opening their wallets. The latest evidence arrived Nov. 17, when Home Depot (HD) reported earnings.

Home Depot's profits actually beat expectations, but what worried Wall Street was the picture executives painted of their customers' moods. "There is still a great deal of pressure in the housing and home improvement markets, though there are some positive signs of stabilization," Frank Blake, Home Depot's chairman and chief executive said in a statement.

There are at least a few reasons for Home Depot to be upbeat. Many sales measures did improve from the second quarter to the third.

According to comments to analysts by Blake and other executives, Home Depot customers are happy to spend on simple home remodeling projects. Basic maintenance -- plumbing repairs, for example -- is still being done. Customers are also launching do-it-yourself projects, including boosting the energy efficiency of their homes. Finally, customers are updating the decor with new coats of paint or new carpet, or sprucing up their yards with better gardens.

What Americans aren't doing, however, is launching major remodeling or expansion projects. Executives said lumber, hardware, electrical and mill work sales all underperformed. The average customer's sales ticket was down, a sign contractors are still spending a lot less at Home Depot, the world's largest home improvement chain.

The caution from Home Depot on the consumer environment echoed comments from rival Lowe's (LOW) when it reported earnings on Nov. 16. Lowe's chairman and chief executive Robert Niblock said in a statement:

The broad-based pressures of the macro environment are clearly evident in our sales as consumers continue to delay large purchases until they feel better about the economic outlook.

Home Depot's gloomy outlook sent share tumbling more than 3% lower by midday on Nov. 17. Lowe's shares also slipped.

But focusing on one day's stock performance might overstate the significance of current pessimism about the U.S. consumer. Home Depot shares are still up 7% in November, while Lowe's shares have risen almost 10%. Third quarter results may discourage unrealistic investor expectations, but they don't mean the U.S. consumer is hopeless in 2010 and beyond.

And, analysts praised Home Depot's ability to cut costs. Morgan Stanley (MS) analyst Matthew McGinley wrote:

To the extent that it is sustainable, this [cost-cutting] reflects the potential to expand margins dramatically in a sales upturn. ... [Home Depot] management deserves an award for cost control in 2009, but the stock may pause unless we see confirming evidence that 2010 [sales trends] will be positive.

"While the stock should give back some of its recent gains," JPMorgan (JPM) analyst Christopher Horvers noted, sales and profit margins should improve. "We believe a longer view is appropriate."

Robert W. Baird analyst Peter S. Benedict also saw the glass as half full. "Bottom line," he wrote: "More signs of stabilization here, and we see improved trends going forward."

The big question for Lowe's and Home Depot is how long the U.S. consumer continues to put off major home improvement projects. Many Americans may be contemplating major addition to their houses or the construction of a new deck or garage. But they can't be expected to make such major expenditures until their confidence -- in their jobs and in their investments -- truly returns.

Munis: Does AMBAC's Plight Boost Risk?

Although municipal bond insurers have been on life support for almost two years, Ambac Financial Group's (ABK) revelation in a Nov. 9 filing to the U.S. Securities and Exchange Commission that it might have to file for bankruptcy protection in mid 2011 should serve to remind muni investors of the need to be especially careful with what they buy.

Until early 2008, cities, towns and states across the U.S. were able to offer muni bonds at a nice premium if they were insured by Ambac, MBIA (MBI) or a handful of other companies. Now that it's understood how insurance, once limited to munis, has been spread thinly across many riskier assets, the market has no illusions about insurers' ability to cover losses in the event of another perfect financial storm, says Bill Larkin, a portfolio manager for fixed income at Cabot Money Management in Salem, Mass.

Despite the strong possibility that after June 2011, Ambac may not be able to fulfill its obligations, muni investors don't have much reason for worry: bond prices have already factored in the increased risk of default, since investors no longer depend on insurance, say some bond fund managers. While it's bound to be painful, municipal governments have no choice but to bring their spending in line with lower revenues, says Larkin. "States can raise fees, levy fees, auction off properties, lay [city workers] off. They can do some uncomfortable things, but the bond holders get paid."

Cash Just Kept On Piling Up, But It Looks Like The Spending Has Started

Cash and equivalent, an item that is always near and dear to my heart, for the S&P old Industrials, which is the S&P 500 less Financials, Utilities, and Transportation issues, is running 9.8% ahead of the record setting second quarter value of \$773 billion. Information Technology, lead by Oracle which increased \$7.9 billion in the quarter, Microsoft which added another \$3.6 billion, and Google which has \$2.6 billion more, as a sector now has over 13% of it's market value sitting in cash, which can't be making much money, and the sector account for 35% of all the cash in the Industrials. Health Care, lead by Merck's additional \$5.2 billion, UnitedHealth's \$2.3 billion gain and Amgen's \$2 billion increase, now has over 17% of it's market value in cash, and accounts for 28% of the cash. Nine of the ten sectors are up, with Energy being flat, which since Exxon has \$3.1 billion less in cash this quarter, but trust me I wouldn't be passing the plate around for them at this point, means that the rest of the Energy sector was up. Overall, 67% of the issues increased their cash position in the third quarter, mostly due to cost cutting, lower dividends and much lower buybacks, although both dividends and buybacks do appear to have hit the bottom, with dividends actually turning the corner. The cash build up has been occurring over the last year, as companies pulled back after the Lehman credit crunch to insure their own ability to finance their business, and ride their way through the recession.

But it appears that Q3 may be the height of that cash mountain, as companies start to spend some of that money. The expenditures won't be on CapX, unless we get an accelerated depreciation bill from congress, or jobs, especially since we believe we will be testing the Dec,'82 10.8% unemployment high, nor is it on plant expansion. Shock and dismay, its M&A, and its back and alive in the market place, as well as the pockets of investment bankers. Both Pfizer and Merck have closed fourth quarter deals, with their cash component being over \$61 billion. That alone should insure that cash levels decline. Hewlett-Packard announced it will buy 3Com for \$3 billion, and United Technology is buying a unit from GE for \$1.8 billion. As we progress in the recovery we believe M&A will increase, as companies try to buy market share, bottom fish those companies that remain in poor condition, and recapture a returning consumer, who is now significantly more attuned to the cost factor. Let me put it this way, companies now have more cash then they ever made

in any one year period. And if you add that cash to the value of treasury shares, it's 23% of market value, that's a lot of assets sitting on the side, especially when the risk-reward trade off now appears to be bending more towards risk. So the question is can Monday Morning Merger Mania be fare behind?

Are Viacom Investors Too Focused on MTV?

Sure, Lady Gaga, Chris Brown and Jay Z make headlines, but are Viacom (VIA) investors too focused on MTV?

The folks at Ariel Investments think so. MTV accounts for just 13% of Ariel's estimate of Viacom's value, according to Ariel's analysis of Viacom , released on Nov. 13. (Viacom is a holding in the Ariel Appreciation Fund.)

And Viacom's filmed entertainment business "also receives a disproportionate amount of attention," Ariel says. That unit, which includes DVDs, generates 40% of the company's revenues, but it accounts for only 4% of profits because of its low margins. "Investors focus on the near-term headwinds of declining DVD sales and a crowded film production industry, because the output of this segment—glamorous movies—is very visible, even though not highly profitable," Ariel says.

Ariel says it started buying Viacom in mid-July at \$20.83.

Despite the stock's increase, we believe the stock still has substantial upside opportunity. As of September 30, 2009, shares traded at \$28.04, a 22% discount to our private market value of \$35.76

Now Viacom is trading around \$32. Do you think it still has room to rock and roll?

Can the Low-Quality Stock Rally Continue?

Stock strategists these days seem obsessed with the concept of quality.

As I wrote as early as June, the March-to-October rally was driven largely by "junk stocks." Leading the way were smaller firms with more debt, less cash, low stock prices and falling sales. These stocks were rebounding from terrible 2008's and their rise reflected investors' relief that worst-case scenarios had not occurred.

But, now, market prognosticators are watching closely to see if the low-quality rally might be over. Or at least waning.

Three different views on this topic:

1. The rally may have further to run, Robert W. Baird strategist William Delwiche noted Nov. 5. But, he says, trends will moderate and not all stocks will participate. He writes of recent activity:

Small-caps have moved into a lagging position relative to large-caps, failing to match gains on the upside and leading the way lower on pullbacks.

Financial stocks look weaker to Delwiche, while energy, consumer staples and utilities are looking stronger.

2. Commentators at Bank of America Merrill Lynch, led by chief U.S. equity strategist David Bianco, focused on the concept of beta, a measure of volatility, in a Nov. 9 note:

We expect higher beta stocks in general to outperform lower beta stocks as the market grinds higher. We expect higher quality stocks to outperform lower quality stocks of equivalent beta.

But beta and quality aren't the same things, and disentangling the two concepts can be difficult, they warn.

3. If you think the market rally has run out of steam, it may be time to move into so-called defensive stocks, firms that will hold value even if the market sinks or moves sideways.

Barclays Capital portfolio strategist Barry Knapp believes it may be too early to make any drastic moves. But, he wrote Nov. 6, "we have reached a turning point in the Fed liquidity-driven, highly-correlated rally across all asset classes." He adds:

While it's probably too early in the cycle to be playing defense, the valuation opportunities present in the space compel us to take a small step in that direction.

He proposes buying more defensive stocks but still favoring more economically sensitive stocks overall. For example, he believes tech, industrials and energy "should continue to outperform."

No matter what happens, many high-quality stocks seem to be trading at prices that could be attractive to long-term investors.

In the meantime, much will depend on corporate profits in the last three months of 2009. After a long recession and financial crisis, two of the weakest sectors are consumer discretionary and financials. Both are predicted to report huge boosts in earnings early next year.

If they do so -- if retailers have a better-than-expected holiday season and banks repair their balance sheets significantly -- the low-quality rally just might continue.

Tradition, a Feeling of Accomplishment

This was my ninth New York Yankees World Series parade and my sons first. There are no more \$5 hats (\$35 for the 'official' ones and \$10 for the 'others'), most of the windows don't open, Broadway was closed-off by 11AM (start time), and there is no more tape, just purchased shredded paper. But I've waited nine years to pass on the tradition that my mother first taught to me in 1961 (my father had taken me to the last game of the regular season that year, in which Maris hit 61, breaking Ruth's record). My mother was a Yankee fan, she lived a few blocks from the stadium, and dated her games back to the early 30s. Her parents were both immigrants and there was no better way back then to show your new pride than being a baseball fan, especially if you lived in the Bronx. Her big item was being at the stadium on July 4, 1939, when Lou Gehrig made his final speech; her father brought her a souvenir ball that day with Gehrig's name on it. Many years ago I stole that ball from my mother, and joked that it would pay for my kids' first years' tuition. Two years ago, my son, who attended his first NYY parade today, as well as the first game at the new Yankee Stadium, stole that ball from me. It sits in a case, in his room, on a mantel. However, unknown to him, behind the case there are two notes. The first is from my mother, saying that the ball is now his. The second, I wrote, and is dated July 4, 2039, and addressed to "David's child". It says that I stole the ball from my mother, that their father stole it from me, and that today, July 4, 2039, on the 100 year anniversary of Gehrig's speech, they need to steal it from their farther, my son. I don't know, or care, if my grandchildren will be Yankee fans, but I sure hope they will understand tradition; it took me a lot of years to get there, thanks mom.

Whole Foods' Warning About 2010

Shares of Whole Foods Market (WFMI) took a nosedive on Nov. 5, dropping 15.5% to 27.10.

What scared Whole Foods shareholders should concern all investors, especially those in consumer-focused stocks: The outlook for next year.

Like many other retailers, Whole Foods gets praised for navigating through the recession relatively well. Investors worried about Whole Foods' sales trends and debt load dumped shares in 2008, and shares fell to as low as \$7. Since the beginning of 2009, however, Whole Foods' stock is up 187%.

Announced the evening of Nov. 4, last quarter's results didn't contradict the thesis that the food retailer's business has stabilized. In fact, fourth-quarter earnings of 23 cents per share beat Wall Street expectations by 2 cents.

Sales trends weren't bad. Chairman and chief executive John Mackey told analysts: "We believe our sales have stabilized and officially turned the corner."

After five quarters of declines, comparable store sales figures rose 1.6%. Total sales for the quarter rose 2.3% to \$1.8 billion.

With results that good, why are investors bailing on the stock? One problem, which I noted back in August, is the high expectations built into Whole Foods' stock price. Because it is a growing firm, investors are willing to pay far more for Whole Foods than other grocery chains. Before earnings were released, on Oct. 30, J.P. Morgan (JPM) analyst Charles Grom noted that Whole Foods traded at 27.6 times his 2010 earnings prediction. Rival supermarket chain Kroger (KR), meanwhile, trades at a price-to-earnings ratio of 11.2. That "seems a bit excessive," he wrote.

But even if you believe Whole Foods deserves a premium stock valuation, you should be worried that 2010 sales and profits will disappoint. And that's the warning investors received from Mackey.

Mackey said he sees "no anticipated positive change in the economy over the short-term." Whole Foods, like many other retailers, has already slashed its expenses, and further cuts will be harder to find. "We will have difficult expense comparisons due to the cost savings realized in 2009," Mackey said.

Credit Suisse (CS) analyst Edward J. Kelly noted:

The company is making progress in addressing some of its issues (slowing growth, downsizing its stores, exiting bad leases in development, and cutting its bloated expense structure), [but] this catalyst seems to be more than price in [its stock.]

The recession forced Whole Foods -- and many other companies -- to become more efficient and make tough choices. However, investors already have reaped most of the benefit of these changes.

In 2010, investors will need robust consumer spending to drive results. And, with the job market weak, that might be too much to hope for.

Technical Analysis: Are Stocks Headed For a Fall?

When the S&P 500 opened at 1047.30 on Nov. 5 and quickly rallied 1.65% to 1063, investors could be pardoned for feeling a sense of déjà. Just yesterday, the S&P 500 opened at 1047.14 and barreled its way up to 1061. But stocks gave back most of their gains after the FOMC meeting, and closed at 1046.50. Will today's trading end on a happier note?

Technical analysts see some indications that it could. For starters, the market is pushing strongly against its near-term resistance, which is around the 1060 to 1066 level. Yesterday, it hit those levels and fell back. But short term sentiment, as measured by the percentage of stocks trading at 10-day lows, is bearish, says technical analysts at institutional brokerage Concept Capital. That indicates an oversold condition and could point the way higher for stocks.

Still, there are signs that the market is poised to roll over. On Nov. 4, more stocks moved down than up, a bad sign after the S&P 500 spent so much of the day in the green. And despite the oversold conditions, the market hasn't been able to put together any positive momentum, Concept Capital says.

More worrisome is the 60-day average correlation of individual stocks to the S&P 500. Right now, that number is 62% -- it would have to trade above 70% to be problematic. But if it keeps rising, it could be a sign of long-term weakness to come. Says Concept Capital: "A prolonged rise in correlation could indicate that a more significant period of market weakness is starting to develop."

Stocks are Overpriced!

Equities are expensive, says High Frequency Economics chief economist Carl B. Weinberg. But before you start dumping all the stocks in your portfolio, pay heed – it's Europe, Japan and England – not the U.S. – you need to worry about.

During the past two quarters, U.S. investors have become accustomed to companies beating earnings estimates. Sure, much of that has been done with cost cutting, but a beat is a beat. In Europe and Japan, however, third quarter corporate earnings have been coming in below expectations. That's impacted valuations across the board. The Japanese Nikkei 225 has a trailing p-e of 37.58, the Xetra DAX 100 has a p-e of 43.95 and England's FTSE 100 has a p-e of 21.15. The S&P 500, in contrast, has a p-e of just 21.15.

The difference, Weinberg says, stems from labor market differences. In the U.S., job cuts have been deep and painful, but they've also been quick. Costs have quickly been realigned and that's helped keep price-to-earnings ratios near "historical norms," Weinberg says. European and Japanese lack the flexibility to cut wages or lay workers off to match falling demand. That's good for workers but bad for valuations. Says Weinberg: "This will be a bad season for [Japanese, Euroland and London] stocks."

Schwab unveils “game changing” ETF platform

The first Charles Schwab-branded exchange-traded funds launch tomorrow, Nov. 3, and Schwab is offering free, uncapped trading to its customers who buy in online—essentially creating a platform that enables retail investors to dollar cost average with ETFs.

At a press conference in New York today, Schwab chief executive officer Walter W. Bettinger II described the move as “game-changing.” Previously, investing a fixed dollar amount at regular intervals into ETFs would have incurred steep trading costs: Investors who execute fewer than 120 trades per year pay a hefty \$12.95 per trade.

The four ETFs that debut tomorrow are designed to track the following broad indexes: Dow Jones U.S. Broad Stock Market Index, Dow Jones U.S. Large-Cap Total Stock Market Index, Dow Jones U.S. Small-Cap Total Stock Market Index, and FTSE Developed ex-U.S. Index. Schwab also said it will launch four additional ETFs—tracking U.S. large-cap growth and value stocks, international small-cap stocks, and emerging markets stocks—later this year. The stated expense ratios for all but the emerging markets ETF are below those for comparable funds from the three biggest players in the ETF market: Vanguard, Barclays Global Investors, and SSGA.

Vanguard spokesperson John Woerth told BusinessWeek that Vanguard will continue to introduce new ETFs, including seven new bond funds over the coming new weeks, but “has no plans to offer commission-free ETFs.” Woerth did note that investors should evaluate the “all-in” costs of any product, which would include a fund's expense ratio, trading fees, and other expenses.

For more information about the new Schwab ETFs, click [here](#).

Earnings and Sales Continue Ahead of Expectation – Everything is Beautiful

With over half of the S&P 500 earnings reported (report) the numbers are coming in ahead of expectation, which considering two thirds of the issues historically beat their estimates, doesn't say that much. Specifically 65% of the issues beat their operating estimate, with 44% beating last year's earnings; 68% beat their sales, with just 29% beating their last year's sales and 45% of the companies beat their As Reported number from last year. So far there have been few items and fewer major charges, as evident by the fact that the bottom line for both Operating and As Reported, at least so far, are the same. Several companies however have announced plans to do layoffs, which will result in those infamous year-end write-offs creating a GAAP between the Operating and As Reported earnings. Last year was a banner year for write-offs, write-downs and provisions, resulting in the only negative quarter for earnings in index history – both on Operating and As Reported basis. Based on the reported data the stats are improving, but they need to be viewed against the guidance, the easy comparatives from last year, and more importantly, measured against the perceived stage of the recovery.

The real story is in the cost cutting and the sales. This year companies have cut their way to the bottom line. While sales have dropped by a double digit number, which normally would devastate the bottom line, but aggressive cost cutting, prior layoffs and a lack of corporate spending has managed to limit the damage. The result is that margins have been improved. The concept is that eventual higher sales will produce much higher earnings; the reality is that we are paying 28 times current earnings for the belief in that concept. Q3 is giving a sign that support the concept. Sales for this quarter are coming in 3.65% ahead of estimates, with earnings ahead 7.60%, resulting in an above average margin of 8.17%. And while year over year sales are expected to decline 10%, that is significantly better than the 19.9% decline in Q2 or the 16.5% drop in Q1 – less worse is better has come to sales.

So the \$1.5 trillion question is, \$1.5 trillion is how much sales have declined over the past year, where will the sales come from? A smaller part will come from increased consumer and corporate spending, inspired by a more optimistic outlook and by the need to replace outdated items that can't be put off any longer; a potential Accelerated Depreciation bill is on the table, but not the Floor yet would also help. The larger part however may come from M&A. In this case companies

have plenty of cash and shares, and the market seems ready to get back into the groove for Monday Morning Merger Mania.

Should Bond Powerhouse Pimco Jump into Stocks?

News reports from Bloomberg and Pensions & Investments say that fixed-income giant Pacific Investment Management Co. is considering a move into equity investing.

Pimco may hire an existing management team with a track record, according to unidentified sources. But this isn't exactly new news: In September, Kiplinger's ran a profile of Pimco, in which Pimco's bond guru Bill Gross as well as Pimco CEO Mohamed El-Erian talk about potential expansion into equities.

Expect to see Pimco introduce more stock, or quasi-stock, mutual funds. "We're currently interviewing stock-fund managers from various firms -- looking to start from square one with a new product and apply our philosophy to new areas," Gross says.

The firm won't say whether it plans to start offering funds for which managers buy stocks, a move that would mark a profound shift. "I would be nervous if Pimco hired managers" to pick stocks, says Morningstar analyst Lawrence Jones. "That would be departing from their long-standing traditions and approaches." El-Erian says the new stock funds would indeed differ from existing Pimco stock funds, which purchase options and futures contracts on stock indexes but stash the bulk of their assets in bonds.

Pimco Total Return, Pimco's flagship fund, is the biggest mutual fund of all, with more than \$186 billion in assets. So why would Pimco, arguably the most powerful of all fixed-income shops, branch out into stocks? And why should you care? I posed these and other questions to Russ Kinnel, director of research at Morningstar, the Chicago fundtracker. Here are his thoughts.

According to Morningstar's data, Pimco has just 5% of its assets in equities. Why do you think Pimco would expand into equities?

Pimco's parent company, Allianz, does have some equity expertise already. Its RCM unit offers some terrific stock funds. (Morningstar recommends the Allianz RCM Technology fund.)

Pimco also has some stock-plus strategies, essentially letting a bond manager run a stock fund. The basic idea is that you buy futures in a stock index and combine them with a short-term bond strategy overlay.

It may be they are picking up mortgages or short-term high quality bonds instead of Treasuries. If they beat Treasuries, the funds will beat the stock index. It's their way of running equity funds without equity expertise.

An Allianz unit, incidentally, got in trouble with the market timing scandal a few years ago. Pimco was unhappy because their name was slapped on a mutual fund. So you can be sure that if Pimco does branch out into stock funds, it will be part of the Pimco operation as opposed to some branding campaign.

Another thing is that Pimco seems to be very aggressive about growing. Just look at how many new fund launches they are doing—it seems like they are coming out with a new fund every couple of weeks. They keep finding a new wrinkle on bonds or asset allocation. Some of these funds are cool, but it seems like there is an aggressive goal there.

Is this a good time to be launching stock funds?

Pimco has done a pretty good job of sticking to what they do well, so I see that as a positive for investors. Given the massive inflows they are having, they could be buyers of equity teams when others are forced to be sellers. We've seen some fund shops sold or cutting staff recently. And very few places are hiring. It's a decent time to be hiring equity managers, or a doing a boutique lift out. The wrong time to do that is when the market is raging, and you have pay obscene prices for every analyst and manager.

One criticism I've seen of Pimco is that its fund are expensive.

We give Pimco good ratings as a fund family, but it's true that Pimco funds are expensive. Now, they offer a reasonable value in institutional shares, as well as funds they subadvise for Harbor and other places.

But the retail share classes, such as Class A shares, are pricey. That's partly the fault of Pimco and partly the fact that you have to pay up to have distribution in fund supermarkets and through brokerage channels. If you look at the Schwab or Fidelity supermarkets and pull up bond funds, the only good low price bond funds you'll see are the proprietary funds from Fidelity and Schwab who don't have to shell out a lot for to get onto their own platforms. Pimco is not giving retail investors a lot (of deals), other than the funds they subadvise.

Pimco Total Return, which is a bond fund, is the top-selling fund so far this year. Do you think the firm can grab equity investors, too?

Pimco is taking in a lot of money this year, so it seems to make sense that the business plan would call for branching out into stock funds. Pimco

has massive, massive amounts of inflows, but most of that money is going into the institutional share classes of Pimco Total Return. Some of the Pimco asset allocation funds run by Rob Arnott are doing well. Overall, it's stunning how much money Pimco is taking in.

Pfizer Loses Its Triple-A Credit Rating

The Triple-A credit rating is disappearing before our eyes. On Oct. 16, Standard & Poor's yanked drug maker Pfizer's (PFE) AAA-rating, the best rating the agency can give out to credit-worthy companies.

The move was no surprise. Pfizer sealed its fate when it launched its \$66.9 billion acquisition of rival pharmaceutical firm Wyeth, a deal that was completed on Oct. 15. Buying Wyeth required borrowing \$22.5 billion.

S&P credit analyst David Lugg said in a statement that Pfizer's new, lower "AA" rating reflects:

... the challenge to realize earnings and cash flow benefits in light of pending patent expirations in the midst of a currently difficult market as well as the significant additional borrowings needed to fund the [Wyeth] acquisition.

As S&P's managing direction Nicholas Riccio told me in March, the AAA credit rating is "almost extinct at this point in Corporate America."

General Electric (GE) lost its triple-A rating in March. Only four firms still have S&P's top credit rating: ExxonMobil (XOM), Johnson & Johnson (JNJ), Automatic Data Processing (ADP) and Microsoft (MSFT). In late 1994, 14 compaines had triple-A ratings.

It's easy to blame the disappearance of the top rating on economic hard times. But it also reflects shifting priorities for CEOs, corporate boards and investors. Pfizer execs knew the Wyeth deal would hurt its sterling credit reputation, but they completed the deal anyway -- obviously for strategic reasons they see as more important than the recommendation of the credit rating agencies.

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Things are looking up for Cerberus Capital Management

Things are looking up for Cerberus: After being dogged by investor jitters and false rumors that its hedge fund was about to default, Cerberus Capital Management is taking several of its portfolio companies public.

Soon, the firm plans to file for an initial public offering of its fire arms manufacturer Freedom Group Inc., according to people familiar with the matter. Freedom Group, with an estimated \$474 million in sales, is one of the largest manufacturers in the world of fire arms and ammunition for the hunting, shooting sports, law enforcement, and military markets. Its brands include Remington, Marlin, Bushmaster, Harrington & Richardson. Cerberus declined to comment.

The decision to take the company public comes on the heels of the wildly successful listing of Cerberus' Talecris Biotherapeutics Holdings - -a former Bayer maker of plasma-derived protein therapies that the firm bought in 2005. Cerberus raised \$950 million when it took the biotech company public on Sept. 30, making it the fourth-largest public offering this year, according to Renaissance Capital.

Dow 10K: Why One Pro Thinks It's Important

The Dow Jones Industrial average closed above 10,000 today for the first time since October 2008. After having watched the blue-chip benchmark cross the magical five-digit figure numerous times in both directions over the past 10 years, the predominant reaction from market watchers has been a collective shrug.

Barron's urged its readers to "Tune Out Dow 10,000 Maniacs." The Wall Street Journal spent its time focusing on an impending Standard & Poor's 500-stock index milestone. Even BusinessWeek has asked if Dow 10,000 is just another number.

They're right to be skeptical. Too much is made of the psychological impact of round numbers, whether its Dow 10,000 or S&P 500 1100. Technical analysts rarely focus on the Dow -- with only 30 stocks, it's too narrow to be of much use. And when they do, they focus on trends (the Barron's article focuses on when long-term and short-term trends in the Dow clash) or levels of support and resistance.

But to dismiss Dow 10,000 outright is mistake, says Blaze Tankersley, senior managing director at BayCrest Partners, an independent brokerage. He notes that when the Dow has traded near 10,000, it's stayed there for months, sometimes years. Starting in 1999, the Dow spent nearly three years stuck in a range with 10,000 as its base, before crashing through in 2001. On the way back up, it traded around 10,000 for around two years before trading up to 14,000.

"Anyone who thinks this is irrelevant is likely a fool," says Tankersley. "[Dow 10,000] magnetizes prices towards it for many months if not years to come once [it's breached]."

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