

## Star Fund Managers Can't Agree on Market

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04/21/08 - 11:26 AM EDT

Even the savviest money wizards can't seem to agree on the best next bet on the investing horizon.

Maybe it's a symptom of the now-it's-up, now-it's-down malaise on Wall Street.

Last Wednesday, a group of eight fund managers -- all of whom lead funds defined by mutual fund rating service [Lipper](#) as "Lipper Leaders" -- met in midtown Manhattan to share their thoughts on investments.

While there was near-universal agreement on the blessings of having avoided exposure to financial stocks recently, there seemed to be little overlap regarding investing ideas going forward.

The eight, who represented a subset of the funds granted Lipper Leader status (which is given to top performers), were:

- Stephen Goddard, portfolio manager of the approximately \$81 million **AFBA 5 Star Balanced Fund**([AFSAX Quote](#))
- Dan Chung, portfolio manager of the \$2 billion **Alger Mid Cap Growth Institutional Fund**([ALMRX Quote](#))
- Arie Coll, portfolio manager of the roughly \$90 million **Eaton Vance Tax-Managed Multi-Cap Growth Fund**([EACPX Quote](#)) in Boston
- Todd McAllister, portfolio manager of the approximately \$1.7 billion **Heritage Mid Cap Stock Fund**([HMCAX Quote](#))
- Patrick Gundlach, co-manager of the approximately \$300 million **Marshall Small Cap Growth Fund**([MRSCX Quote](#))
- Brian Placzek, portfolio manager of the \$1.5 billion **Principal High Yield Fund** ([CPHYX Quote](#))
- Jeff Knight, portfolio manager of the \$2.4 billion **Putnam Asset Allocation Growth Portfolio**([PAEAX Quote](#))
- Jeff Markunas, portfolio manager of the approximately \$1.3 billion **RidgeWorth Large Cap Core Equity Fund**([CRVAX Quote](#))

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Eaton Vance's Coll is perhaps the most surprising of the group in his view that now might be a suitable time to [take a nibble at the financial sector](#), despite the seemingly constant dribble of news of more bad debts at the big banks.

He points to **Annaly Capital**([NLY Quote](#)), a firm which makes its money by investing in mortgage-backed securities, as a particularly appealing play.

Because the **Federal Reserve** has lowered the cost of borrowing so dramatically, Coll says the firm now makes a much bigger spread on the difference between its cost of funds and the yield on the securities it buys.

What that means is likely big profits over the coming quarters, and because the firm is a real estate investment trust, by law it has to pay out 95% of its earnings in dividends. That could mean a dividend yield of over 17% later this year, assuming a \$3 per share payout and the current share price around \$17, he says.

Coll also believes the bear market in stocks ended March 17, which coincided with news of the **Bear Stearns**([BSC Quote](#)) bailout.

That's also the date gold prices, a barometer of all things bad financially, reached their [all-time intraday high](#) around \$1,030 an ounce before retreating over \$100 over the past month or so.

"It's not an accident that the market rallies after a crisis," says Coll. "It's because of all the things the government does, like lowering interest rates and making cash available."

He points to a multidecade history of stock-market rebounds following financial-company meltdowns as evidence of the repeating pattern of stock behavior.

ABFA's Goddard takes the opposite tack. He says that pretty much everything other than financials is looking healthy.

"Most companies have too much capital and don't know what to do with it," he says. "They should be much more aggressively buying back shares, or paying dividends."

He says **IBM**([IBM Quote](#)) has been "ahead of the curve" in returning cash to shareholders through such methods.

The aging Baby Boomers should make dividends attractive to investors seeking steady income through their retirement. That should make dividend-paying shares more attractive relative to those showing massive growth in earnings that is not matched by increases in cash payouts.

RidgeWorth's Markunas likes another recently out-of-favor group: technology stocks.

"I think people have gotten scared off by the [lack of] growth after the dot-com bubble burst," Markunas says. "The valuations have become compressed, which means either people don't believe the growth prospects or are suspicious."

That means expectations are now so low that the big names in the sector, such as **Hewlett-Packard** ([HPQ Quote](#)), **Oracle**([ORCL Quote](#)), **Intel**([INTC Quote](#)) and **Nokia**([NOK Quote](#)), stand a high chance of beating consensus estimates, he says.

He points to robust cash flow and balance sheets, partly from sales to hot overseas markets, as the key drivers for choosing a relatively high 20% weighting for the sector.

Marshall's Gundlach says looking overseas for growth prospects still makes a lot of sense, especially in the fast-growing economies of eastern Europe.

That's at least part of the reason he likes vodka distributor **Central European Distribution**([CEDC Quote](#)).

The firm has been consolidating the previously fragmented and inefficient system of distributing hard liquor in Poland and is now starting to venture into Russia.

He's hoping the firm can replicate a similar strategy in Russia, a much larger -- and faster-growing -- marketplace for vodka.

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