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Stocks Managers Are Buying

Top Value Managers Name Latest Picks

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With stocks well above their early-October 2002 lows, you might think that bargain-hunters haven't had a lot to choose from lately. Think again.

To be sure, many value managers remain reluctant to delve into the tech sector, which enjoyed a tremendous run in 2002's fourth quarter and continues to post gains in the early days of 2003. Instead, some of them have turned to companies that have been tinged by scandal but are working to get their houses in order and have a good shot at turning things around. Another popular target is firms whose growth prospects have dimmed somewhat yet still have a solid, profitable business in place.

So what have prominent value managers been buying lately? Recently, we spoke with two of the best value managers in the business, **T. Rowe Price Equity-Income's** PRFDX Brian Rogers, and Michael Sandler, who is part of the five-person team that runs **Clipper Fund** CFIMX. Below you'll find some of their latest picks.

T. Rowe Price Equity Income's Brian Rogers

Rogers looks for stocks that have fallen far from their highs, emphasizing companies that pay healthy dividends. That approach led him to downtrodden growth stocks in 2001 and early 2002, including **Merck** MRK, **AOL Time Warner** AOL, and **Verizon Communications** VZ, a tack that paid off handsomely in 2002's fourth quarter.

Late in the fourth quarter, Rogers has homed in on **Home Depot**, a company whose growth prospects have slowed recently. Trading around 15 times earnings, he says it's reasonably priced, especially given its low-debt, high-quality balance sheet. Rogers acknowledges the company doesn't pay a hefty yield, but he notes it has a history of increasing dividends, including a 25% hike in the fourth quarter. Should President Bush's plan to end taxation of dividends come to fruition, he thinks Home Depot's payout could grow even larger. Rogers places Home Depot's per-share worth in the mid-$30s.

Rogers has also been scooping up shares of **McDonald's** MCD in early 2003, which he likes for its inexpensive price tag, solid balance sheet, and the global strength of its brand. Given its low valuation, he thinks the biggest risk of owning the stock isn't losing money but that it might languish over the next several years.

The Clipper Team

Even next to their cheapskate large-value rivals, the managers at Clipper look like misers. The group only buys stocks trading at a 30% discount to its estimates of intrinsic value, a high hurdle few stocks meet. When they can't find bargains, they're willing to move into cash or bonds instead. While the fund owned big cash stakes in the late 1990s and in much of the 2000s, the managers have whittled it down to just 6% recently.

The managers went on a shopping spree in 2002, buying several beaten-down drug stocks, including **Pfizer** PFE, Merck, and **Johnson & Johnson** JNJ (they recently sold J&J). They also added several scandal-plagued holdings to the portfolio. Earlier in 2002, they picked up **Tyco International** TYC, for instance. The team bought several other controversial names, including AOL Time Warner, **EDS** EDS, and **El Paso** EP. In the fourth quarter, they bought a stake in yet another massively out-of-favor company, **Tenet Healthcare** THC. Tenet's share price had tumbled amid an investigation of whether two of its doctors had performed unnecessary procedures to increase billings, and questions surrounding its high level of so-called outlier billing. Comanager Michael Sandler notes that even with all those problems, the team thinks the stock is cheap.

Sandler isn't alone in his thinking. Renowned manager Bill Miller, who runs Legg Mason Value LMVTX, also bought shares of Tenet in the fourth quarter.

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