



DISCOVERING VALUE

WHITNEY TILSON JOHN HEINS

Waiting to Pounce

Investing often conjures up images of bustling exchange floors and traders shouting orders into phones. But the successful practice of the craft is more often an exercise in patience. A more appropriate image might be a hungry lion lying in wait; even though plenty of gazelles may be running around, the lion can't go after them all,

so he waits until one is within easy reach. And when the opportunity presents itself, he springs.

The same is true of investing. The stock market rarely offers truly exceptional buying opportunities, so it pays to be prepared when one comes along. One way to do so is by maintaining a watch list of companies that you would love to own, or own more of, at the right price. Typically, a stock reaches that price when the company stumbles temporarily, its industry falls out of favor or, as is more likely the case today, the whole market swoons. When the stock hits the target, you strike (assuming that your assessment of the company is unchanged).

Templeton tactic. The discipline of maintaining a watch list is especially helpful in today's tempestuous market. By doing your long-term valuation work in advance, you can take some

of the emotion out of buy decisions when stocks get hammered. The late John Templeton, a legendary global investor, frequently placed firm buy orders on stocks he would be happy to own at, say, 40% below their then-current market prices. Many such orders went unfilled, of course, but Templeton was able to acquire many others at what he considered spectacular prices. By pre-committing to these stocks, Templeton also made it less likely that the negative short-term news that usually accompanies falling share prices would scare him away.

The companies on our watch list today are high-quality businesses with difficult-to-challenge franchises, high returns on invested capital and sturdy balance sheets. Shares of such businesses are rarely cheap enough to attract our attention. But because the bear market has mauled good and bad companies

alike, our target buy prices are in sight. The defensive nature of these businesses adds to their appeal. Although they are not entirely immune to the recession, they should be well prepared to weather the storm.

One company we're watching closely is **COSTCO (SYMBOL COST)**. The warehouse retailer has a remarkable long-term growth record, and it has built a strong competitive position by charging hard-to-beat prices and cultivating buyer loyalty. After seemingly operating above the economic fray, the company

tal. By growth from within as well as through acquisitions, the company has assembled a diversified portfolio of well-defended businesses. At our target price of \$54, just 10% below its early-February price of \$59, the stock would sell at 12 times the past year's earnings—an unfairly low price-earnings ratio for a company of this quality.

Coke's performance has lagged in recent years, particularly relative to its chief rival, PepsiCo. But the company retains one of the world's unassailable brand franchises and a nonpareil

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announced disappointing earnings in early February, sending the stock to a three-year low of about \$42. That's still a bit rich for our blood, but we'd be highly interested if it fell into the mid \$30s.

Two stocks now trading closer to our watch-list targets are **JOHNSON & JOHNSON (JNJ)** and **COCA-COLA (KO)**. J&J has a well-deserved reputation for excellence, both for its business operations and for the way it allocates capi-

distribution network that should serve it well as living standards rise around the globe. If the shares fell to \$39, or 15 times trailing earnings, they would be a bargain. The stock recently traded at \$43.

As the proverb goes, good things come to those who wait. Not a bad thing to keep in mind today. ■

COLUMNISTS WHITNEY TILSON AND JOHN HEINS CO-EDIT *VALUEINVESTOR INSIGHT* AND *SUPERINVESTOR INSIGHT*. FUNDS CO-MANAGED BY TILSON OWN SHARES OF JOHNSON & JOHNSON AND COCA-COLA.

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