

"It is important to assess companies from a bottom-up view"

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1. Global economic outlook for 2002.

The crisis in the last two years arises from problems that are different from the usual ones. This is due to an excess in production supply that we do not believe can be solved by cutting interest rates; we believe that the recovery will be slower and take longer than the six months that the market expects.

2. Outlook for the Spanish stock market in 2002.

We do not believe 2002 will be a good year for the domestic market. The Spanish blue chips, which are the ones that really set the pace of the stock market, are still overvalued despite having come off sharply since reaching all-time highs in March 2002 during the tech bubble. What's more, as we said, the global economic environment is not propitious for corporate earnings to improve enough to have a noticeable impact on share prices. Therefore, we would not be surprised if the stock market ended 2002 down between 5% and 10%.

3. Distribution proposal by sectors and geographical areas.

When it comes down to building up a stock portfolio, we believe a bottom-up approach (i.e. studying companies one-by-one) is much more interesting than a top-down approach (i.e. predetermining a geographical or sector distribution). This way, you can choose those companies which are trading at the highest possible discount vs. their real economic value. That said, taking into account the current situation of the global markets, we do recommend investing a small percentage of the portfolio in Japan, which is trading at 18-year lows.

4. Given the current situation, what advice can we give the investor?

Despite the poor economic situation and the overvaluation of the stocks with the target index weightings, investors planning to invest with the aim of saving in the medium/long-term should not overweight fixed-income relative to equities. We recommend investing in stocks as long as there are companies whose economic or enterprise value (measured by their assets, debt, profits, etc.) are clearly higher than market value. This way you avoid the risk associated with a long-term investment and can achieve a far higher return than on fixed income. We think it is easier to find this type of company among the small and mid caps; e.g in Spain companies such as Corporación Mapfre, Cortefiel, Aldeasa or CAF look interesting.