



Business

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D-2

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Market's downturn is a reminder that stocks aren't magic

Investing is sometimes more art than science. Keeping that in mind can make times like these more palatable for many investors.

People who have had their money in the stock market for the last 15 months are ready for the dark days to be over and brighter times to come. Yet because of the many conflicting signals out there, it is especially difficult to know where to turn and what to do today.

I think most people realize that the "easy money" days are over. Unlike the last 15 years, when most growth stocks and mutual funds went up, a likely scenario for the near future is that the stock market will keep going up and down, within a fairly narrow range.

You will have more opportunities for higher gains if you are interested in picking individual stocks than if you just follow the broad market averages.

ROB RIKOON



Real Money

Finding and choosing individual stocks depends largely on old-fashioned analysis that focuses on issues such as improved financial performance and determining which firms are gaining market share without giving up profitability.

I believe that small and mid-size companies in a wide range of industries will lead the market for some time to come.

Finding the right stocks requires digging through industry after industry, stock by stock, to find out which firms hold the greatest potential. The technology sector is a good example. Many stocks are at multi-year lows because they have been hurt by the dramatic slowdown in

corporate spending.

The companies that usually recover first are the semiconductor manufacturers, Intel for example.

Other industry giants, such as Microsoft, are hard to ignore. Microsoft has an upcoming release of new software, designed to control a wide variety of Internet transactions. It may have slower growth in the future but we feel it will still dominate the industry.

Financial companies are in an industry that is worth looking at closely. Lower interest rates, courtesy of the Federal Reserve, will help some finance companies whose profit margins are going up because they haven't passed on their lower costs to consumers. Pick stocks in this area carefully by reviewing the skill of their management teams and their operating results.

Demographics and the desire for quality of life bode well for the

health-care industry. Stock in most drug companies is very expensive, selling at extremely high premiums, so investors are looking to biotech stocks, which use new research to produce innovative drugs based on the extensive cataloging of the human genetic code. Because the risks and potential gains are high, biotech companies are expensive. One strategy to deal with the risky nature of these kinds of companies is to stick with established firms that already have drugs on the market and are turning a profit.

Competition abounds from genetic-drug makers, so there are added threats to the profitability of the major pharmaceutical companies. The relative safety of Pfizer, Merck and Johnson & Johnson may be preferable to some people over the more exciting but inherently more

Please see **RIKOON**, Page D-2

Continued from Page D-1

volatile biotech companies.

One of the most difficult areas to invest in is consumer products. Trying to figure out where Americans will spend their money has never been easy. The two basic building blocks of our economy — housing and autos — have held up fairly well so far, but they do face an uncertain future. With many people seeking new investment opportunities, consumer companies have attracted so much money during the first half of 2001 that they are no longer cheap.

Energy is one sector of the stock market that tends to move in a different direction than most other companies. Rising gas prices at the pumps and continued political turmoil in the Middle East have helped large oil companies hold up in the market decline. The prospect for continued high prices is diminishing, so many energy companies have recently taken a beating. The turmoil in California has cast a pall over energy brokering and transmission companies. We think Enron is worth looking at because it has been punished unreasonably severely because of its minor involvement in the West Coast power situation.

With interest rates having come down drastically, it is unlikely that the market will stay down for an extended period. Pent-up demand for share prices will be strongly felt by 2002 as corporate earnings start to catch up with an accelerating economy. As you do your analysis, look for companies that have steady earnings growth during both good and bad economic times. Being a talented stock picker, not a highly needed skill during the 1980s and 1990s, is returning as the cornerstone of successful investing. While some investors will be rushing in and out of the market, chasing last quarter's stellar fund or hot stock, you can sit quietly on top of your quality companies. Analyzing and buying stocks based on traditional criteria is not easy, but doing it will help you sleep at night.

Rob Rikoon is president and CEO of Rikoon-Carret Investment Advisors, New Mexico's largest independent money manager for individuals, families, and nonprofit organizations. He can be reached at rrikoon@aol.com or at 989-3581. Rikoon-Carret is hosting a series of free seminars on the stock and bond markets. The next will be 2 and 6 p.m. Aug. 29. Call Rikoon-Carret for reservations, which are required.