

Global Investment Strategy

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Companies mentioned and disclosures p. 14

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Turn, Turn, Turn

Deconstructing Earnings Growth

- EPS growth is determined by return on equity (ROE) and the retention rate of earnings. Since dividend policy is at least sticky in the near term and set at the discretion of the board (as opposed to management) and retention rates are unlikely to rise, in order to increase the growth rate of EPS managements must focus on boosting ROE.
- There are three drivers of ROE:
 - *Margins.* Restructuring in the early 1990s led to a *structural* shift towards higher margins. This led to the remarkable EPS growth of the 1990s.
 - *Leverage.* Financial leverage is high by historical standards although low interest rates have kept interest costs as a percentage of sales in check.
 - *Asset Turns.* Asset turns have been declining for the past quarter century. In the new economy, inventories and receivables are managed better, as is plant, property, and equipment. This frees up capital for other uses. However, in lieu of bricks and mortar, companies have invested a tremendous amount in intangibles and other assets, including purchased technology. Evidence suggests that these assets have yet to “pull their own weight.”
- In the “Tepid 00s,” characterized by constrained consumers, conservative corporations and tired technologies, earnings growth will likely be harder to come by than in the 1990s. Margins could still rise from here but are unlikely to repeat the performance of the late 1990s, while leverage is unlikely to increase significantly given already-low interest rates and increased vigilance on the part of ratings agencies. Thus, asset turns become increasingly important in the effort to deliver earnings growth.
- The healthcare and utilities sectors have improved asset turns in recent years, while aerospace, consumer cyclicals, energy, and retailing have held asset turns relatively steady. Not coincidentally, the three sectors with the heaviest M&A activity—tech, media, and telecom—also experienced the most dramatic declines in asset turns.
- Asset turns and ROE must be considered together; it is easy to rev up sales at the expense of margins. Healthcare is the only sector in which better asset turns have contributed to higher ROE, but there is a broad relationship: Sectors with the worst declines in asset turns also exhibited the steepest declines in ROE.
- In a slow-growth environment, firms with asset turns above the sector average—an indication management focuses on allocating capital to projects that deliver additional sales—tend to exhibit higher ROE as well.
- Identify 38 S&P 500 Buy- or Strong Buy-rated companies with asset turnover and ROE superior to the sector average over the past three years. Top ten: Dow Jones, Dell, 3M, New York Times, Liz Claiborne, McGraw-Hill, WW Grainger, Lexmark, Knight-Ridder and Stanley Works.

Turn, Turn, Turn

In a Low-Growth Environment

As we wrote recently in *Midyear 2002 Global Outlook* (30 June 2002), “With disinflation over and inflation (and deflation) highly unlikely, we continue to believe this is likely to be a ‘decade of normal’” where long-term earnings growth dictates the rate of stock price appreciation. The problem is that in the “Tepid 00s,” characterized by constrained consumers, conservative corporations, and tired technologies, earnings growth could be significantly weaker than in the 1990s (see *Less*, 18 August 2002). So, in today’s environment of low inflation and low nominal GDP growth, how are companies going to create the earnings growth that investors demand?

Deconstructing Earnings Growth

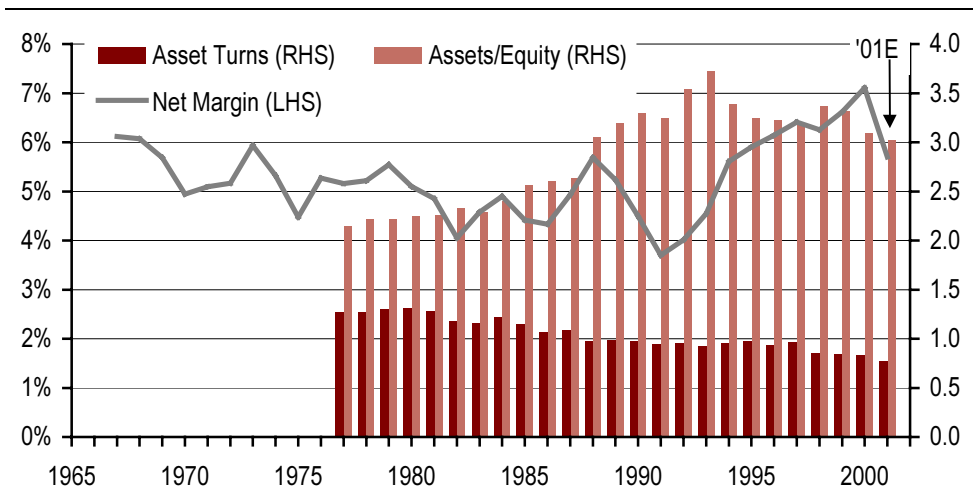
In the simplest analysis, EPS growth is determined by two variables: return on equity and the retention rate for earnings. Since dividend policy is at least sticky in the near term and generally set at the discretion of the board of directors (as opposed to management) and retention rates are unlikely to rise (see *Less*), in order to increase the growth rate of EPS, management must focus on boosting return on equity. Although margins have tended to hog the spotlight in recent years, there are three drivers of ROE: margins, asset turns, and leverage. This deconstruction of ROE is known as DuPont analysis. Recall that the equation for return on equity is:

$$ROE = \frac{NetIncome}{Equity} = \frac{NetIncome}{Sales} \times \frac{Sales}{Assets} \times \frac{Assets}{Equity}$$

$$= Net\ Margin \times Asset\ Turnover \times Leverage$$

The three variables in the equation are shown in Chart 1. Net margins made a structural shift higher in the mid 1990s and remained at historically high levels even in the recession year 2001. Financial leverage is high by historical standards. However, one area in which there is definite room for improvement is asset turnover, which has been declining for a quarter century.

Chart 1: DuPont Analysis—S&P Industrials



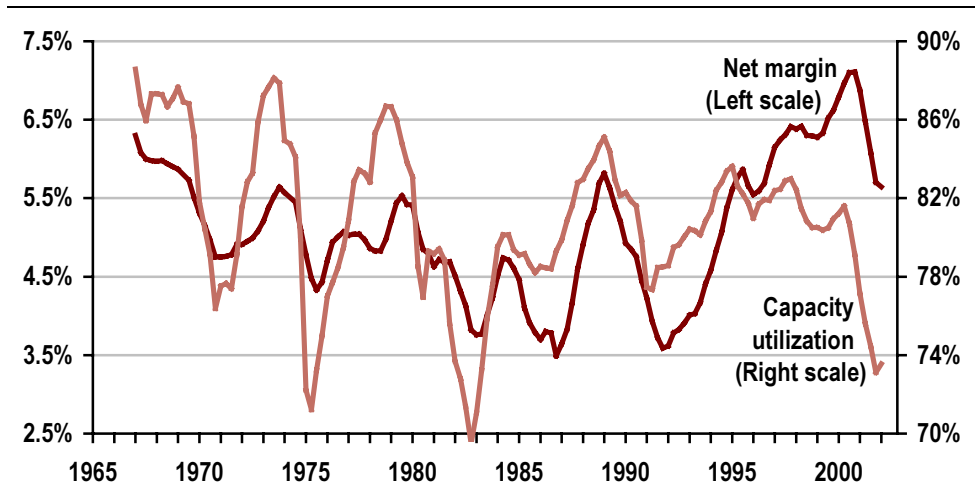
Source: Standard & Poor’s and UBS Warburg LLC estimates

Net Margins

In the mid 1990s margins made a structural shift higher—presumably the result of corporate restructuring

Higher margins are to thank for the remarkable EPS growth of the 1990s. As we have discussed in other reports, net margins have tended to fluctuate with capacity utilization, which they still do. However, in the mid 1990s, they made a *structural* shift higher—presumably the result of corporate restructuring in the early 1990s—so that even in the recession year 2001, net margin was at a level historically associated with robust expansion (Chart 2).

Chart 2: Capacity Utilization and S&P Industrials Net Margin (Quarterly)



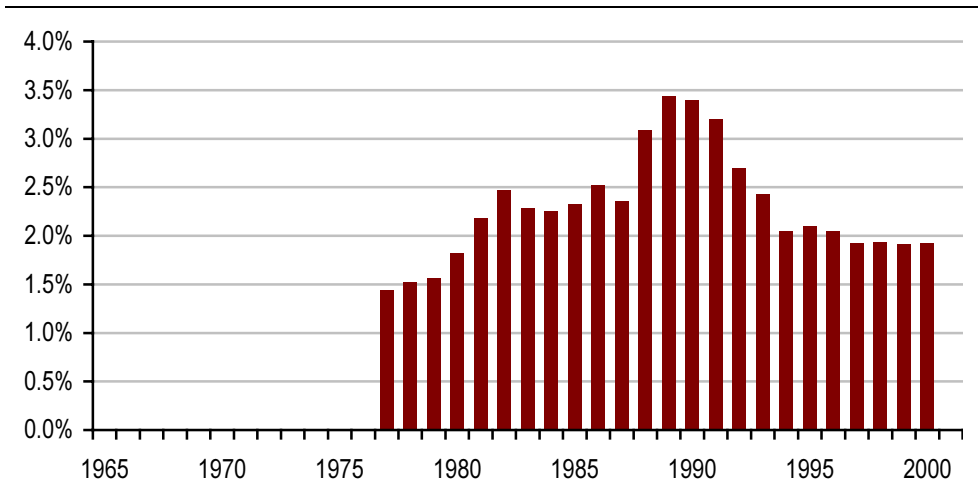
Note: Margin calculated using rolling four quarters operating EPS. Source: DRI and Standard & Poor's

Leverage

Financial leverage is high by historical standards, but low interest rates have kept interest costs in check

Financial leverage is high by historical standards, with assets-to-equity averaging 3.4 times in the 1990s compared with 2.6 times in the 1980s. This is perfectly rational since the long-term decline in interest rates naturally increases a firm's appetite for debt in its capital structure. Even though balance sheets are more leveraged, low interest rates have kept interest costs in check. As Chart 3 illustrates, interest cost as a percentage of sales is now lower than it was through most of the 1980s.

Chart 3: Interest Cost as a Percentage of Sales— S&P Industrials



Source: Standard & Poor's

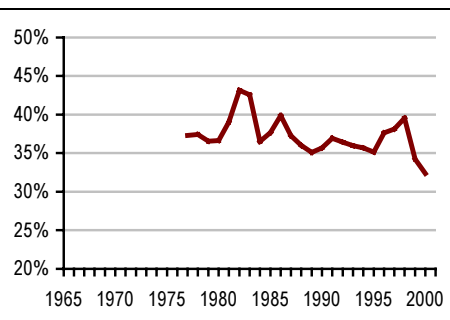
Asset Turnover

Over the past quarter century asset turns have declined from 1.3 times to 0.8 times today—a drop of nearly 40%

The decline in asset turnover may come as a surprise to many, since conventional wisdom holds that in the new economy lean companies operated without the overhead that burdened the old bricks-and-mortar economy. In reality, however, over the past quarter century asset turns have declined from 1.3 times to 0.8 times today—a drop of nearly 40%!

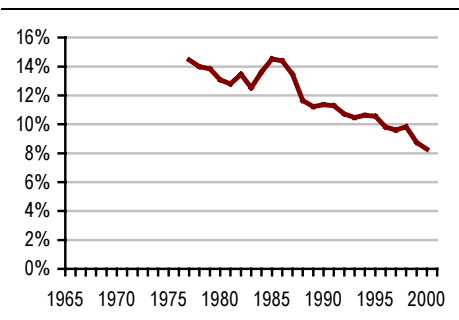
Some assets *are* managed better in the new economy. As bricks and mortar declined in importance, the plant, property, and equipment (PP&E) required to produce a dollar of sales decreased, as shown in Chart 4. Meanwhile, just-in-time delivery cut inventory levels from 14% of sales in 1977 to 8% in 2000 (Chart 5). Receivables are being better managed as well. Days sales outstanding (receivables divided by sales x 365) fell from 98 days in 1988 to 78 days in 2000. (FASB 94, which required consolidation of majority-owned subsidiaries, makes comparisons before 1988 impossible). These improvements all had the effect of freeing up capital for more productive uses.

Chart 4: PP&E as a Percentage of Sales



Source: Standard & Poor's

Chart 5: Inventory as a Percentage of Sales



Source: Standard & Poor's

It now takes \$0.43 of intangibles and other assets to produce a dollar of sales, up from just \$0.04 in 1977

New Economy Baggage

What new economy boosters often overlook is that in lieu of bricks and mortar, firms have been investing a tremendous amount elsewhere, particularly in intangibles and “other assets.” Chart 6 illustrates how this shift in investments has affected the asset side of the balance sheet. From previous research on FAS 142 (*No More Foolin’ with Poolin’*, 21 January 2001), we know that the majority of intangibles (83% in our sample) is goodwill. “Other assets” is a catch-all category (Table 1) for which we do not have a detailed breakdown, although it includes several new economy items that we suspect are at least partly behind the rapid increase, such as:

- Purchased technology,
- Software costs (when not part of PP&E),
- Start-up costs, and
- Stock issuance costs

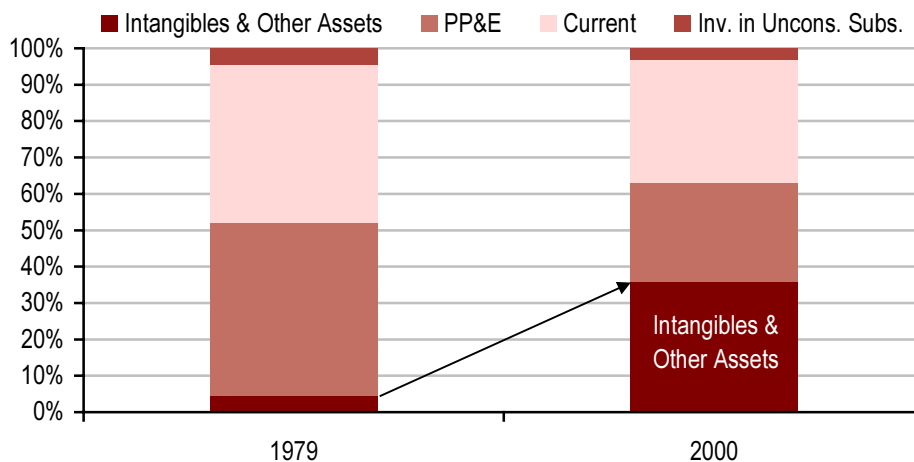
Regardless, the rapid increase in intangibles and other assets is fine, so long as they produce sales. However, the evidence would suggest that they have yet to “pull their own weight.” Chart 7 shows that it now takes \$0.43 of these assets to produce a dollar of sales, up from just \$0.04 in 1977.

Table 1: Items Included in “Other Assets”

1. Acquisition costs	13. Deferred policy costs	26. Prepaid pension costs (if rept'd as a separate line item in long-term assets)
2. Advances to staff	14. Deferred taxes	27. Property not used in operations
3. Amounts due from directors, officers, and employees	15. Deposits	28. Publishing and prepublication costs
4. Assets of discontinued operations	16. Finance service companies deferred finance charges on installment obligations when presented as a deduction from receivables	29. Publishing companies royalty advances to authors
5. Banks and S&L acceptances and all other assets	17. Idle land	30. Purchased technology
6. Broadcasters program rights, film productions, film rights	18. Long-term inventory	31. Restricted cash
7. Cash on deposit pursuant to loan agreements	19. Long-term prepaid expenses	32. Start-up costs
8. Cash surrender value of life insurance policies	20. Materials and supplies	33. Stock issuance costs
9. Claims in litigation	21. Minority interest in consolidated subsidiaries	34. Timberlands other than those owned by forest and paper companies
10. Computer software costs (when not in PP&E or on Schedule V and VI)	22. Motion picture companies film distribution systems	35. Tooling costs
11. Contracts	23. Negative goodwill	36. Treasury stock reported on the asset side of the balance sheet
12. Deferred financing costs	24. Pension and other special funds	
	25. Pre-opening expenses	

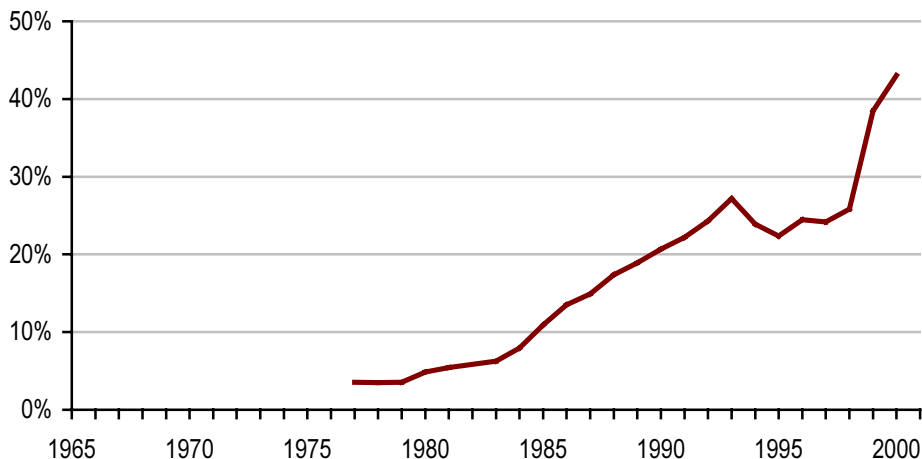
Source: Standard & Poor's

Chart 6: Asset Categories as a Percentage of Total Assets, 1979 Versus 2000



Source: Standard & Poor's

Chart 7: Intangibles and Other Assets as a Percentage of Sales



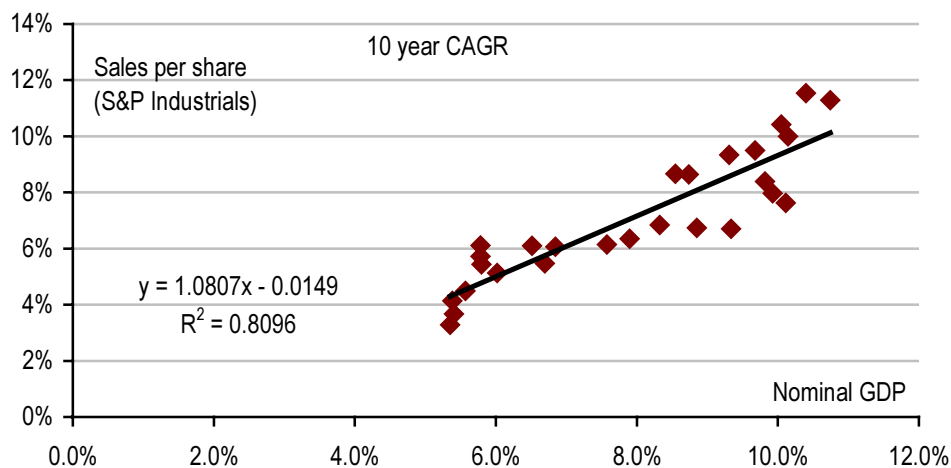
Source: Standard & Poor's

Why Asset Turns Matter

Margins are unlikely to repeat the rise of the 1990s, and leverage is unlikely to rise significantly from here. That leaves improving asset turns.

Firms face a headwind to earnings growth since low nominal GDP growth tends to keep a lid on sales growth, as illustrated in Chart 8. So how are firms going to produce the earnings growth that investors demand? Again, there are three ways to boost ROE, and by implication EPS growth: increase margins, increase leverage, or boost asset turnover. Firms may be able to boost margins still further given robust productivity, although we think they are unlikely to repeat the performance we saw in the 1990s when restructuring led to a structural shift higher. And, with leverage high by historical standards, and little room for further declines in interest rates, we believe that leverage is unlikely to rise significantly from here, especially given the increased vigilance of investors and ratings agencies in the wake of Enron and other accounting scandals. That leaves improving asset turns. Thankfully, it is possible that in a more disciplined business environment, when investors are skeptical of acquisitions and the accounting confusion they create, firms will expend less effort on doing deals, and more effort on squeezing incremental revenue from the assets already on their books.

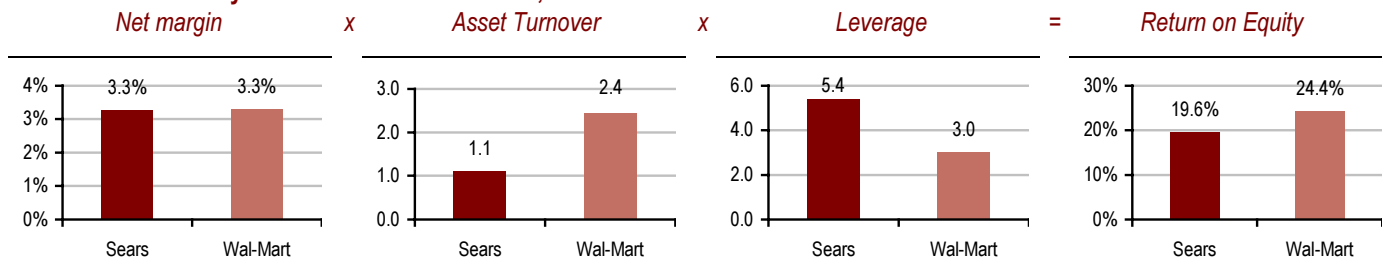
Chart 8: Nominal GDP Growth Versus S&P Industrial Sales per Share Growth (10 yr. CAGR)



Source: DRI and Standard & Poor's

Chart 9 illustrates how high asset turns can have a dramatic effect on ROE—and by implication the sustainable growth rate for earnings. Sears and Wal-Mart have identical net margins of 3.3%. Yet because Wal-Mart's discount stores and supercenters generate far more in sales per dollar of investment, the company is able to employ lower leverage (making it less risky) and still generate a superior ROE equity.

Chart 9: DuPont Analysis—Sears Versus Wal-Mart, 2000



Note: Based on GAAP EPS. Source: FactSet and Standard & Poor's

Asset Turns by Sector

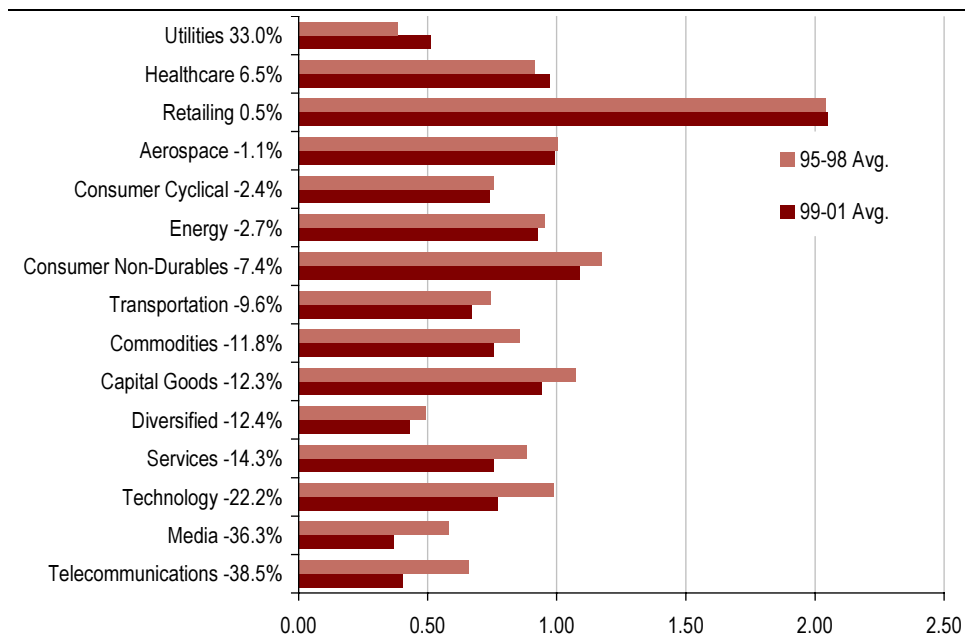
Chart 10 shows average asset turns by sector, comparing 1995-98 with 1999-2001. It is normal for asset turns to vary by sector, as some are more capital intensive than others. However, examining trends within each sector indicates how successful managements are in squeezing incremental revenue out of existing assets. The percentages next to each sector show the improvement or deterioration in asset turns between the periods. We look at averages for two reasons:

- Asset turns can fluctuate substantially from year to year, especially in sectors such as commodities and energy, where sales are largely a function of commodity prices.
- It is reasonable to expect synergies even from well-thought-out mergers to take a few years to materialize, so a sudden boost in assets could hurt asset turns.

Perhaps not coincidentally, the three sectors with the heaviest M&A activity—TMT—also experienced the most dramatic declines in asset turns

The healthcare and utilities sectors have been able to squeeze incremental sales out of existing assets over the last few years, while retailing, aerospace, consumer cyclicals, and energy, have held asset turns relatively steady. Perhaps not coincidentally, the three sectors with the heaviest M&A activity—tech, media, and telecom—also experienced the most dramatic declines in asset turns.

Chart 10: Asset Turns by Sector and Change in Average (1995-98 Versus 1999-2001)
Sorted by Improvement / Deterioration in Asset Turns

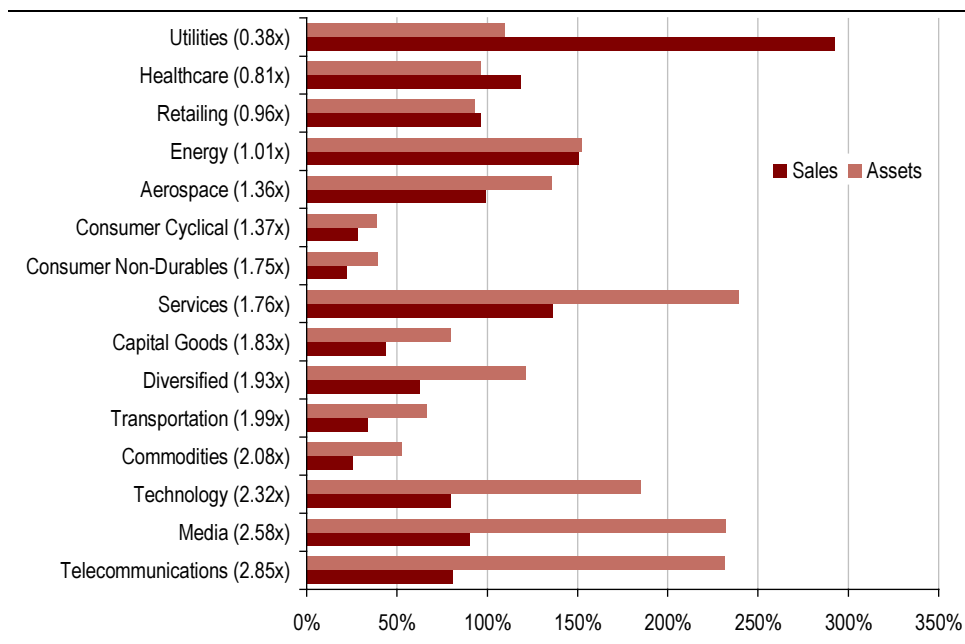


Source: FactSet and UBS Warburg LLC

Declining asset turns for TMT was not for lack of sales growth; assets simply spiraled out of control

When dealing with ratios, it can be instructive to examine both the numerator and the denominator. For example, Chart 11, which compares the growth in sales to growth in assets between 1995 and 2001, provides further evidence that declining asset turns for TMT was not for lack of sales growth; each sector grew 80-90%. Rather, it implies that in the rush to do deals, assets simply spiraled out of control. The numbers next to each sector give the ratio of asset growth to sales growth. Also interestingly, although Chart 10 implies that utilities have made excellent use of their assets, Chart 11 reminds us that whopping sales growth of 293% could have only come from the booking of relatively profitless energy trades as revenue. Which begs the question: Did this huge increase in asset turns accomplish what it is supposed to: boosting ROE? *Read on!*

Chart 11: Sales Growth Versus Asset Growth, 1995-2001
Sorted by Relative growth in Assets over Sales



Source: FactSet and UBS Warburg LLC

Asset Turns and ROE

Consider Them Together

Sectors with the worst declines in asset turns also exhibited the steepest declines in ROE

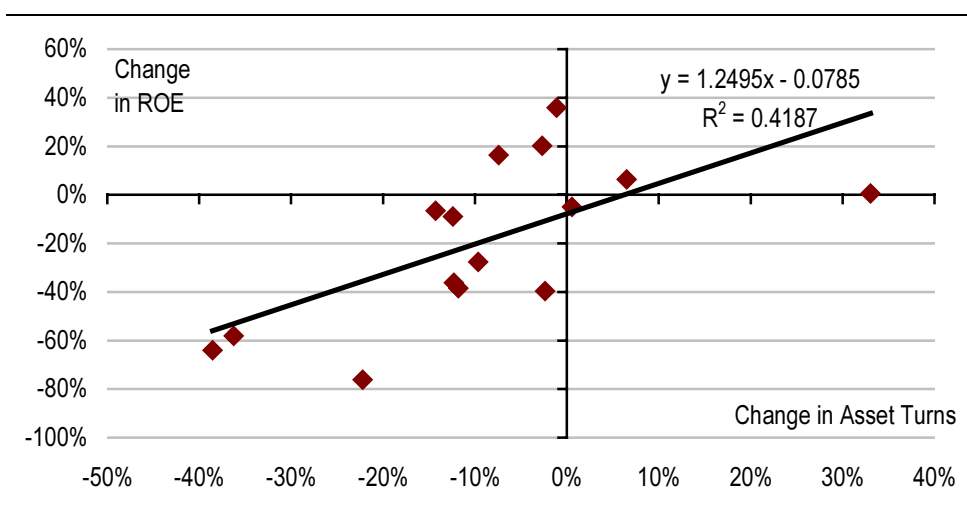
Of course, boosting asset turnover often involves a trade-off. It's easy to rev up sales if you practically give your product away (just ask the automakers), or book profitless round-trip energy or bandwidth trades! Drive margins to zero and ROE equals zero as well, no matter how high your asset turnover. That is why the otherwise outstanding increase in asset turns in the utilities sector did very little to improve ROE (Table 2). Healthcare is the only sector in which higher asset turns contributed significantly to higher ROE. However, we can see that the precipitous declines in asset turns for TMT contributed to the dramatic deterioration in ROE. Chart 12, which is a scatter plot of the data in Table 2, illustrates the broad relationship between changes in asset turns and ROE: Sectors with the worst declines in asset turns also exhibited the steepest declines in ROE.

Table 2: Improvement/Deterioration in Asset Turnover and ROE
Sorted by Change in ROE

	Change in Asset Turnover Avg. '99-01 vs. '95-98	Change in ROE Avg. '99-01 vs. '95-98
Aerospace	-1.1%	35.9%
Energy	-2.7	20.1
Consumer Non-Durables	-7.4	16.4
Healthcare	6.6	6.3
Utilities	33.0	0.6
Retailing	0.5	-5.0
Services	-14.3	-6.5
Diversified	-12.4	-8.9
Transportation	-9.6	-27.7
Capital Goods	-12.3	-36.2
Commodities	-11.8	-38.4
Consumer Cyclical	-2.4	-39.6
Media	-36.3	-58.1
Telecommunications	-38.5	-64.0
Technology	-22.2	-76.1

Source: FactSet and UBS Warburg LLC

Chart 12: Change in Asset Turns Versus Change in ROE (Avg. '99-01 vs. '95-98)



Source: FactSet and UBS Warburg LLC

Asset Turns in the “Tepid 00s”

The period 1995–2001 was marked by robust consumer and capital spending (at least until the final year) when sales came easy and restructuring led to a surge in profitability. During this period, firms with asset turns above average for the sector—an indication management focuses on allocating capital to projects that deliver additional sales—had only a 50-50 chance of posting higher-than-average ROE (Table 3). In other words, it was entirely rational for investors to focus on margins rather than asset turns since the secular shift in margins was the overwhelming driver of ROE and hence earnings growth.

Table 3: Relationship Between Superior Asset Turns and Superior ROE, 1995-2001

Of companies with...	Percent w/ Above-Avg. ROE	Percent w/ Below-Avg. ROE
Above Sector Avg. Asset Turns	50%	50%
Below Sector Avg. Asset Turns	41%	59%

Note: Of S&P 500 companies, excluding financials. Based on GAAP EPS. Source: FactSet and UBS Warburg LLC

Over the past three years, 60% of companies with asset turns above average for the sector also posted higher-than-average ROE

Now, however, in the “Tepid 00s,” characterized by slower expected economic growth and only slight margin improvement, it makes sense to pay more attention to asset turnover. Over the past three years—a period when both sales and margins first rose and then declined—60% of companies with asset turns above average for the sector also posted higher-than-average ROE. By contrast, a company with asset turnover below the sector average had only a 44% chance of posting higher-than-average ROE (Table 4).

Table 4: Relationship Between Superior Asset Turns and Superior ROE, 1999-2001

Of companies with...	Percent w/ Above-Avg. ROE	Percent w/ Below-Avg. ROE
Above Sector Avg. Asset Turns	60%	40%
Below Sector Avg. Asset Turns	44%	56%

Note: Of S&P 500 companies, excluding financials. Based on GAAP EPS. Source: FactSet and UBS Warburg LLC

Investors may do well by focusing on firms with a proven ability to squeeze incremental revenue from existing assets

Companies With High Asset Turns and ROE

Given the challenges firms will face in delivering EPS growth in the “Tepid 00s” akin to what we saw in the remarkable 1990s, investors may do well by focusing on firms with a proven ability to squeeze incremental revenue from existing assets. We believe companies such as Wal-Mart, with asset turns consistently above the sector average, are in a good position to grow earnings faster than average as well. Table 5 lists those S&P 500 stocks rated Buy or Strong Buy by UBS Warburg analysts that over the past three years have generated asset turnover and ROE that exceed sector averages. On average, these stocks have also outperformed the S&P 500 in price, gaining 21.3% since the end of 1998, compared to a loss for the Index of 25.5%.

A Word on Write-Offs...

One easy way to boost asset turns is by writing down assets, which, of course, many companies did in 2001. However, doing so also hurts ROE, since writing down an asset comes out of both earnings¹ (numerator) and equity (denominator). Since the numerator is smaller than the denominator, writing down assets reduces ROE. Therefore, it is axiomatic that if both asset turns and ROE are superior to sector averages, it did not come simply from writing down assets.

...And Stock Repurchases

Some of the stocks in Table 5 exhibited extraordinarily high ROE over the past few years, at least partly because those companies reduced equity by aggressively repurchasing stock. However, returning the money to shareholders (whether through repurchases or dividends) is preferable to making poor investments that destroy shareholder value.

¹ Here we use GAAP earnings. Using any measure of operating earnings that did not include write-offs would result in comparing apples to oranges when calculating return on equity, since shareholders’ equity reflects all write-offs that have occurred to date.

Table 5: Buy- and Strong Buy-Rated S&P 500 Stocks With Asset Turns and ROE Superior to Their Sector Averages, 1999-2001
Sorted by Relative Asset Turns

Company	Ticker	Co.	Industry	Relative	Co.	Industry	Relative	Price
		Asset Turns (A)	Asset Turns (B)	Asset Turns (A / B)	ROE (C)	ROE (D)	ROE (C / D)	Perf. End 98-Now
Dow Jones	DJ	1.43x	0.35x	4.06x	33.4%	3.8%	8.68x	-12.5%
Dell	DELL	2.30	0.75	3.05	32.9	4.5	7.31	-26.6
3M	MMM	1.13	0.43	2.63	26.7	18.8	1.42	75.7
New York Times	NYT	0.91	0.35	2.60	23.5	3.8	6.10	36.9
Liz Claiborne	LIZ	1.92	0.74	2.60	20.4	14.7	1.39	79.6
McGraw-Hill	MHP	0.91	0.35	2.60	24.0	3.8	6.25	22.5
WW Grainger	GWW	1.94	0.76	2.56	11.9	11.0	1.08	11.4
Lexmark	LXK	1.83	0.75	2.43	34.9	4.5	7.75	-8.3
Knight-Ridder	KRI	0.74	0.35	2.10	16.5	3.8	4.30	18.7
Stanley Works	SWK	1.39	0.74	1.89	21.8	14.7	1.49	27.9
Kaufman & Broad Home	KBH	1.34	0.74	1.82	23.6	14.7	1.61	71.5
Adobe Systems	ADBE	1.25	0.75	1.67	38.9	4.5	8.62	73.3
Pulte	PHM	1.19	0.74	1.60	15.1	14.7	1.03	77.3
Marriott International	MAR	1.17	0.76	1.55	11.6	11.0	1.05	15.6
Ecolab	ECL	1.15	0.76	1.52	23.9	11.0	2.16	24.6
TJX Companies	TJX	3.12	2.05	1.52	43.6	16.2	2.70	35.8
Nucor	NUE	1.14	0.76	1.50	10.1	9.8	1.03	14.1
Alltel	AT	0.59	0.40	1.48	25.5	6.2	4.09	-27.5
Conoco	COC	1.35	0.93	1.45	25.3	15.4	1.64	n/a
Gannett	GCI	0.51	0.35	1.45	17.6	3.8	4.58	15.9
Apple	AAPL	1.08	0.75	1.44	12.4	4.5	2.75	-27.6
Walgreen's	WAG	2.91	2.05	1.42	17.7	16.2	1.10	19.9
Centex	CTX	1.04	0.74	1.41	17.5	14.7	1.20	13.7
ITT Industries	ITT	1.04	0.74	1.40	19.4	14.7	1.32	68.6
Electronic Arts	ERTS	1.05	0.75	1.39	6.5	4.5	1.44	124.5
IBM	IBM	0.99	0.75	1.32	36.5	4.5	8.11	-17.6
Kimberly-Clark	KMB	0.98	0.76	1.30	30.8	9.8	3.14	8.2
Univision	UVN	0.44	0.35	1.25	12.6	3.8	3.27	25.6
Wal-Mart	WMT	2.48	2.05	1.21	20.1	16.2	1.24	30.2
Colgate Palmolive	CL	1.29	1.09	1.19	74.9	34.3	2.19	16.0
General Dynamics	GD	1.17	0.99	1.19	23.6	11.8	2.01	26.8
Rockwell Collins	COL	1.15	0.99	1.16	25.8	11.8	2.19	n/a
Network Appliance Limited	NTAP	0.87	0.75	1.16	7.1	4.5	1.57	-15.4
National Semiconductor	LTD	2.26	2.05	1.10	19.5	16.2	1.21	5.6
Applied Materials	NSM	0.82	0.75	1.09	14.5	4.5	3.21	19.6
AMAT	AMAT	0.80	0.75	1.07	18.7	4.5	4.15	27.2
IMS Health	RX	1.02	0.97	1.05	61.9	24.6	2.51	-54.2
Merck	MRK	1.01	0.97	1.04	45.3	24.6	1.84	-31.1
Average								21.3%
S&P 500								-25.5%

Note: Based on GAAP EPS. Prices performance calculated as of 28 August 2002. Source: FactSet and UBS Warburg LLC

Global rating definitions and allocation

Rating	Definition	% of companies under coverage with this rating	% for which IB services have been provided
Strong Buy	Greater than 20% excess return potential; high degree of confidence	12%	53%
Buy	Positive excess return potential	39%	38%
Hold	Low excess return potential; low degree of confidence	44%	28%
Reduce	Negative excess return potential	4%	22%
Sell	Greater than 20% negative excess return potential; high degree of confidence	1%	11%

Excess return: $\text{Target price} / \text{current price} - 1 + \text{gross dividend yield} - 12\text{-month interest rate}$. The 12-month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.

*Investment banking services include, but are not restricted to, acting as manager/co-manager in the underwriting or placement of securities (within the past three years), acting as financial advisor, and/or providing corporate finance or capital-markets-related services to a company or one of its affiliates or subsidiaries (within the past 12 months).

Source: UBS AG, its subsidiaries and affiliates; as of 30 June 2002.

Companies mentioned

Company Name	Reuters	Rating	Price*
3M Co. ^{3b,10}	MMM.N	Strong Buy	US\$124.65
Adobe Systems Inc. ^{1,10}	ADBE.O	Buy	US\$20.32
Alcoa Inc. ^{8,10}	AA.N	Buy	US\$24.68
Alltel Corp.	AT.N	Buy	US\$43.24
Apple Computer Inc. ¹	AAPL.O	Strong Buy	US\$14.70
Applied Materials Inc. ¹	AMAT.O	Buy	US\$13.44
Centex Corp ^{3b,10}	CTX.N	Strong Buy	US\$50.14
Colgate-Palmolive Co. ¹⁰	CL.N	Strong Buy	US\$53.65
Conoco, Inc.	COC.N	Buy	US\$23.95
Dell Computer ¹	DELL.O	Buy	US\$26.75
Dow Jones & Company Inc.	DJ.N	Buy	US\$42.45
Ecolab Inc.	ECL.N	Buy	US\$44.83
Electronic Arts Inc. ¹	ERTS.O	Buy	US\$63.28
Gannett Co. ¹⁰	GCI.N	Buy	US\$75.32
General Dynamics Corp.	GD.N	Buy	US\$76.75
Grainger (WW) Inc.	GWW.N	Buy	US\$45.20
IBM Corp. ^{3a,6,10}	IBM.N	Strong Buy	US\$76.62
IMS Health Inc. ¹²	RX.N	Buy	US\$17.35
ITT Industries Inc.	ITT.N	Strong Buy	US\$66.59
KB Home ^{3b,6,10}	KBH.N	Strong Buy	US\$48.06
Kimberly-Clark	KMB.N	Buy	US\$58.97
Knight Ridder Inc.	KRI.N	Strong Buy	US\$60.73
Lexmark International Group Inc.	LXK.N	Buy	US\$47.45
Limited Inc.	LTD.N	Buy	US\$15.30
Liz Claiborne Inc.	LIZ.N	Buy	US\$28.55
Marriott International, Inc. ¹⁰	MAR.N	Buy	US\$33.15
McGraw-Hill Companies ¹⁰	MHP.N	Strong Buy	US\$63.56
Merck & Co. ^{3b}	MRK.N	Buy	US\$50.74
National Semiconductor Corp.	NSM.N	Buy	US\$16.34
Network Appliance Inc. ¹	NTAP.O	Strong Buy	US\$9.80
New York Times Co. ¹⁰	NYT.N	Buy	US\$47.25
Nucor Corp.	NUE.N	Buy	US\$47.72
Pulte Homes ⁶	PHM.N	Buy	US\$47.75
Rockwell Collins Inc. ^{6,9b,10}	COL.N	Buy	US\$20.98
Sears Roebuck & Co ^{3b,3a,8,10}	S.N	Buy	US\$44.70
Stanley Works	SWK.N	Buy	US\$34.75
TJX Companies Inc.	TJX.N	Strong Buy	US\$20.06
Univision ^{3a,9a,10}	UVN.N	Strong Buy	US\$23.73
Wal-Mart Stores ¹⁰	WMT.N	Buy	US\$53.20
Walgreen Co.	WAG.N	Strong Buy	US\$35.15

* As of Thursday, August 29, 2002. Source: UBS Warburg

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