Investor's Business Daily

Bill Miller Closes In On Lucky No. 13

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By Paul Katzeff

Who says the number 13 is unlucky? Not Bill Miller, manager of $13 billion Legg Mason Value Trust. (Nasdaq:LMVTX - News) The fund is only three weeks away from topping the S&P 500 for a 13th year in a row. That would extend the fund's own record streak.

Going into Wednesday the fund had gained 33.31% for the year, says Lipper Inc. The benchmark was up 22.60%.

This is also the first in four calendar years the fund posted a positive return while topping the S&P 500.

Value Trust beat the index in 2000-02, but closed each year with a loss.

"The streak per se doesn't mean much to us," Miller said Wednesday at the Legg Mason Asset Management Year-End Luncheon. The upbeat gathering was at New York's tony 21 Club. "We are pleased about giving consistent returns for shareholders. When we buy a stock, we don't do it because we think it'll do well over the next 12 months. We're thinking three years out."

Performance was helped by positive trends in the overall market and economy, assistant fund manager Nancy Dennin said separately.

"Those trends only improved in the fourth quarter," Dennin said. "GDP data were revised up to 8.4%, the fastest growth since 1984. The Institute for Supply Management index of factory orders was 62.8%, the highest since December 1983."
The biggest worries concerned job growth. "That picture brightened in the last month or so," Dennin said. "The four-week moving average for jobless claims in November was the lowest since February 2001."

Those trends helped persuade investors the GDP recovery is real.

"At the end of the summer, people feared the market could give back its year-to-date gains," Dennin said. "That fear is gone."

It has been replaced by cautious hopefulness, Miller adds. "Sir John Templeton (founder of Templeton Funds) once said bull markets are born on pessimism and they grow on skepticism," Miller said. "That's where we are now."

Tyco's Contribution

Scandal-scarred Tyco International has been among the fund's top performers in the fourth quarter, rising 19% through Wednesday.

"It's a classic example of what we do," Dennin said. "When Tyco was rumored to be on the verge of filing for bankruptcy in July 2002, we bought more shares. We feel that despite its problems, its underlying assets have strength."

Nextel has been another top performer. It's up 24% this quarter and 102% for the year.

As of Sept. 30 it was the fund's second largest holding, helping make telecom one of the fund's two largest overweighted sectors.

Between May and October last year the stock tumbled to the high 20s from the high 30s.

"A year ago, in the summer of '02, we were adding a lot to Nextel and other stocks that were on the way down," Dennin said. "We feel they're well positioned to capitalize on the economic recovery."

In contrast, Q3 top performers like Amazon, AES and Capital One Financial were volatile stocks, making big bounces off weak or flat first- and second-quarter returns.
Despite their drab fourth quarter, those examples are still big winners for the year, up 159%, 170% and 87%, respectively.

Bank One has been another strong stock this quarter. It's gained 13%. Waste Management, up 12%, also has been a big contributor.

“They're both solid companies,” Dennin said. “They're well managed, and Waste Management in particular has excess cash flow. Waste Management lagged for several months earlier this year for no particular reason.”

In the third quarter the fund neither opened any new positions nor closed existing stakes. It did add to some holdings. It boosted its Tenet Healthcare stake by 1.6 million shares to a total of 15 million.

The stock was the portfolio's second best performer in Q3, gaining 24%.

It also boosted Fannie Mae by 10% to 4.4 million shares.

“Both stocks were under pressure,” Dennin said. “We thought they were good buys.”

Neither has gained much this quarter.

Mostly Standing Pat

Over this year, Miller and Dennin have made few moves. “At 4%, turnover is the lowest ever except for maybe right after inception (April 16, 1982). We used the falling market in 2002 to average down (on cost) on a lot of our stocks. In 2003, we like our portfolio.”

Most of the fund's outperformance this year was in the second quarter. It gained 25.48% vs. the S&P 500's 15.38%. In the fourth quarter going into Wednesday the fund was lagging, 5.68% vs. 6.8%.

“People were taking profits in a lot of our high-beta names - like AES, Nextel and Amazon - in the past few weeks,” Miller said.

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