Ruminations of

The Contrary Investor

James L. Fraser, CFA, Publisher Emeritus
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A Blast From the Past

Most readers know that Fraser Management hosts the Contrary Opinion Forum each year in October in Vermont. The Forum is a collegial gathering of some very smart people at the height of leaf-peeping season (hopefully!), with the idea being the exchange of contrarian ideas. This year will mark our 49th Forum, and we are honored and humbled by the quality of both our speakers and attendees — we hope they feel the same, and find their time with us enjoyable and valuable.

In 1983, *Time* magazine published an article on the Forum, and the Contrary Investor thought it might be interesting to reflect back on the impressions of what contrarian investing really is — or at least was perceived to be. In its entirety, here is the article, titled “They Love Those Unloved Stocks”:

Contrarians pursue profits by running against the pack .

Looking for an offbeat investment prospect? Well, consider a St. Paul company called American Hoist & Derrick. A typically depressed heavy-equipment manufacturer, Amhoist lost $21.8 million last year and is expected to wind up in the red again this year. Two of its primary markets, the petroleum and timber industries, remain sluggish. Its stock has been sagging in the bull market and now sells for $15, vs. a high of $26, reached in 1980.

Not interested? Openly contemptuous, in fact? Then you are hardly a contrarian. To a good contrarian, Amhoist's expected profits in 1984 will still be meager enough to make it an out-of season bargain, like snow tires in July. The fact that few other investors are attracted to it is all to the good. Contrarians are a stubborn breed who relentlessly resist the natural human tendency to run with the pack, and Amhoist is just the kind of stock they thrive on. Or hope to.

Of course, maintaining such an attitude is hard work, requiring constant discipline and regular rededication. Thus for the past 21 years, contrary investors have annually trekked far from Wall Street's madding crowd to band together for a few days and offer one another encouragement and advice. Last week more than 300 gathered in Vergennes, Vt., for the Contrary Opinion Forum at a resort on the shore of Lake Champlain. Donning a battered top hat, Conference Organizer James Fraser, 53, called the meeting to order by banging a soup pot with a wooden spoon. The members of his audience, who ranged from stock-market dabblers to professionals from Merrill Lynch and Dean Witter, wore buttons proclaiming slogans like THINK FOR YOURSELF. Said Fraser: "Contrary opinion teaches us to be thoughtful nonconformists, keeping us from being led astray by popular opinion."

Like all other investors, contrarians follow the obvious credo of buy low, sell high. But they avoid buying or selling at obvious times. They also avoid securities heavily favored by analysts, the ones that most investors buy, because contrarians believe that mob psychology has already made the stocks too expensive. Says Fraser: "We seek unloved situations before they become attractive to others." A former New York City banker and Wall Street broker, Fraser draws his authority from the fortnightly Contrary Investor newsletter ($80 a year), which he publishes from his stone house overlooking Lake Champlain. In August 1981 he urged his 1,000 subscribers to buy Sears, whose stock had fallen to $16, from $62 nine years earlier. Most investors perceived the retailer to be in terrible shape, but Fraser believed its troubles would pass. Last week Sears shares closed at $40.

The father of the Vermont strain of contrarians was the late Humphrey B. Neill, a successful Wall Street trader who retired to the woods and mountains, and published The Art of Contrary Thinking in 1954. Said he: "When everyone thinks alike, everyone is likely to be wrong."

One of the original contrarians was English Economist John Maynard Keynes (1883-1946), who made about $10 million trading stocks and bonds, primarily during the Depression. Keynes found a few unpopular stocks that were sounder than their prices alone would indicate. Like today's contrarians, he bought them for the long haul, recommending "a steadfast holding of these in fairly large units through thick and thin ... until either they have fulfilled their promise or it is evident that they were purchased on a mistake."

Speakers at last week's forum sought to reinforce the maverick tendencies that enable contrarians to resist the superstar issues hyped by stockbrokers and the financial press. Carlton Lutts, editor of the Cabot Market Letter, recommended International Harvester stock, despite the company's 1982 losses of $1.6 billion. Said Lutts: "The less appeal there is in the financial community, the greater the potential in capital gains." Other companies boosted at the forum included the struggling Bethlehem Steel and the sluggish Aetna Life & Casualty.

Some contrarians acknowledged that the approach is by no means infallible. John Bennett, senior vice president of Boston's successful Batterymarch Financial Management, confessed to taking a bath on Braniff stock after buying it only six hours before the airline declared bankruptcy.

The independent thinking heaped on the contrarians last week included the outlandish. Giving a long-term contrarian weather forecast, Climatologist Iben Browning predicted massive volcanic eruptions in the northern hemisphere in 1989-90 that will cause economic ruin. He warned sternly: "You have five years to get your ducks in a row."

Most contrary investors are moderates compared with their predecessors of 20 or 30 years ago. Although many steadfastly refused to participate in the frenetic run-up of such high-tech stocks as Apple Computer and Genentech, the bioengineering firm, they occasionally concede that there may be some validity to conventional wisdom. Last week contrarians agreed that IBM is still a good buy even though it is popular.

Yet when the demon of consensus appears contrarians begin to worry. A crowd of contrarians is a crowd all the same. Boston's Fidelity Group offers a Contrafund, which has sizable holdings in such firms as Texas Instruments and Canadian Pacific. Merrill Lynch has its Phoenix Fund, comprising shares of such recuperating companies as Manville and Ford. Contrariness has become so common on Wall Street that David Dreman, author of the 1982 book The New Contrarian Investment Strategy, sees the beginnings of a splinter group. Its name: the countercontrarians.

—By Stephen Koepp. Reported by Joelle Attinger/ Vergennes

While the names might have changed, the Contrary Investor would argue the song remains the same.

The Weather Trade

The past winter — if it is indeed past, since about a foot of snow is predicted for New England on April Fool’s Day — has been horrendous. And not only in the Northeast, but across the nation. Atlanta experienced temperatures of 18 degrees, and Fort Lauderdale broke a record dating back to 1959 when temp’s hit 39.

A lot of attention has been paid to commodities prices, which are at historic highs (with the exception of natural gas) for reasons having to do with a host of issues, not the least of which is the weather. But the nasty weather might be creating opportunities for contrarian investors. A look beyond commodities reveals some areas that might benefit from dreadful weather, and some that will likely suffer lower-than-expected earnings in the reporting period coming up.

Snowfall levels in January of 2011 were 60 percent higher than those experienced in 2010! This fact alone leads to several sectors losing out.

First, retailers looking to peddle spring wares. The goods in question are generally lightweight, and made of cotton. Cotton prices are at historical highs, and unless a consumer is going on a vacation in Jamaica, he or she is unlikely to be shopping for new shorts and tops. Nor is the consumer going to be buying a new parka in early spring. Retailers can't sell for warm spring weather, and they can't sell for continued frigid temperatures — a double whammy. Avoid stocks like Abercrombie & Fitch (AF), and The Gap (GPS). To be fair,, the Contrary Investor doesn't foray into the fickle world of retail fashion at all.

Next, airlines and shipping companies. All the weather delays have had to negatively impacted air carriers as well as FedEx and UPS. Delays in getting passengers and packages to their destination on time cannot be made up, much like a night for an unsold hotel room cannot be recaptured. Look for earnings for these companies to suffer from the bad weather.

Another sector likely to be negatively impacted is healthcare and healthcare service providers. The fact is that bad weather keeps people at home, indoors, and not going to their doctor as readily. The fancy term for this is "low utilization", and healthcare providers are likely to experience a healthy dose of it when they report earnings in the coming quarter. If one cannot get to the doctor, one cannot pay the doctor.

Finally, a beneficiary of all the bad weather could be grocery stores. The first place people go when the weather turns foul is to the grocery to stock up on items they will most likely not fully consume, but buy in prodigious quantities! An investor can combine this notion with the trend toward organic grocers like WholeFoods (WFMI), or can look at the more traditional outlets like Albertson's and Safeway. WFMI is a big holding in the Contrary Investor's portfolio, and has been a big winner as aging Baby Boomers express their preference for high quality, organic foods with their pocketbooks.

The more interesting question here is whether shorter-term results in reported earnings as a result of bad weather offer an opportunity or a red flag. Healthcare is not going away as our population ages, people will still buy spring clothing, and people and freight will still move from place to place. Certainly we will buy groceries. As the previous article points out, there are times to "love those unloved stocks," but is this one of those times?

The weather this winter (and into spring) has created a nexus of a natural phenomenon against the balance sheets of many companies — definitely a situation worth studying.

- Alex Seagle

Words to Consider

Formula for success: rise early, work hard, strike oil.

~ J. Paul Getty

I'm exhausted trying to stay healthy.

~ Steve Yzerman

With Major League Baseball's Opening Day just behind us, it is hard to believe that Alex Rodriguez of the New York Yankees earns only slightly less than the entire roster of the Kansas City Royals.

Every noble work is at first impossible.

~ Thomas Carlyle

Nobody can go back and start a new beginning, but anyone can start today and make a new ending.

~ Maria Robinson

The early bird who catches the worm works for someone who comes in late and owns the worm farm.

~ Travis McGee

An intellectual snob is someone who can listen to the William Tell Overture and not think of The Lone Ranger.

~ Dan Rather

You can know the name of a bird in all the languages of the world, but when you're finished, you'll know absolutely nothing whatever about the bird...So let's look at the bird and see what it's doing — that's what counts. I learned very early the difference between knowing the name of something and knowing something.

~ Richard Feynman

Those are my principles, and if you don't like them...well, I have others.

~ Groucho Marx

Every portrait that is painted with feeling is a portrait of the artist, not of the sitter.

~ Oscar Wilde

Live in such a way that you would not be ashamed to sell your parrot to the town gossip.

~ Will Rogers

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