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WHERE TO INVEST 2008

BY RUSSELL PEARLMAN

A rocky stock market and fears of an economic slowdown have investors wondering what to do next. We've got the answer.

ON THE HIT TELEVISION SHOW 24, federal agent Jack Bauer never seems fazed by the terrorist plots, romantic entanglements and ever-present disorder that threaten to overwhelm him. But at least Bauer's troubles are over after a single day. The threats to the stock market over the next 12 months, including a recession, slowing corporate profits, rising commodity prices and a meltdown in the financial-services industry, are enough to make investors think twice about keeping their money in stocks.

Smart investors should take a tip from Bauer and stay cool. Even with a sluggish U.S., the world economy is expected to grow at a 4.8 percent clip this year, which should provide investing opportunities abroad. (Central European television stations, anyone?) What's more, many large U.S. companies are garnering benefits from the weak dollar, which makes our goods cheaper for foreign buyers. Douglas Peta, market strategist at J.W. Seligman, which manages \$20 billion in assets, says his firm has

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bought into sectors such as agriculture and industrials, betting that rising demand for commodities translates into more profits for the companies that help produce them. "We own the stocks of companies that make things emerging economies need," he says.

Each January, SMARTMONEY takes an extensive look ahead at the stock market to find the most promising categories and the stocks worth grabbing for the coming year. Like Peta, we see a broad range of opportunities in a host of sectors that will benefit from growth overseas. Indeed, the best opportunities in 2008 are companies that are helping the world's emerging economies become more like ours—with better roads, stronger utilities and solid financial networks. People in these regions, from Poland to the Philippines, are also eating better, which means corn and other crops are in demand. All these trends have been going on for a while, but they look even more attractive this year, compared with what's happening in the U.S. economy.

Of course, rising prices for energy, health care and food could easily cause American consumers to cut back on spending, slowing both economic and corporate growth around the world. The November

election is another source of uncertainty. Stocks typically don't return much over the rate of inflation in the year leading up to a presidential election, notes Jeremy Grantham, chief investment officer of GMO Securities, which oversees \$156 billion. And this year, he says, will be no exception.

Still, even an average stock market has its individual standouts. We looked for companies that are not overly reliant on the U.S. economy. And apparently, many U.S. investors feel the same: They yanked \$11 billion out of domestic equity funds from January to August of last year and poured 10 times that amount into overseas funds, chasing hot markets like China. For us, that's not a recipe for success, or for picking stocks, since all stock market bubbles eventually pop, leaving performance chasers holding the bag.

As great as the opportunities look for emerging markets-related stocks, we rounded our picks with some beaten-down stocks that seem ready for a rebound, in this case two top U.S. financial firms that are well managed and will gain market share from their weakened rivals as the credit squeeze continues. The result: a dozen companies that are likely to increase profits in a world filled with trouble spots.

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These companies should benefit from global economic growth even if the U.S. economy slumps, and our U.S. financial picks should gain market share as their weaker rivals struggle.

Company (Ticker)	Price (\$)	Market Value (\$mil)	2007 Sales (\$mil)*	2007 Net Income (\$mil)*	2007 EPS (\$)*	2008 EPS (\$)*	2008 Est. P/E	Dividend Yield (%)
AGRICULTURE								
Bunge (BG)	103.66	12,526	41,317.8	686.8	5.38	5.87	18	0.7
Deere (DE)	152.73	33,630	22,077.4**	1,745.0	7.66	9.41	16	1.3
ENERGY SERVICES								
Diamond Offshore (DO)	115.20	15,992	2,628.9	928.8	6.69	11.89	10	5.0
Ion Geophysical (IO)	14.32	1,164	695.2	46.3	0.53	0.83	17	0.0
CENTRAL EUROPE								
Central European Media Ent. (CETV)	120.00	4,315	760.6	102.9	3.01	4.32	28	0.0
Erste Bank (EBKDY)	39.07	24,713	4,429.8	864.8	2.78	3.35	12	1.1
WIRELESS COMMUNICATIONS								
Philippine Long Distance (PHI)	67.99	12,831	3,141.2	779.7	4.08	4.54	15	4.8
Telefónica (TEF)	101.50	160,134	79,024.5	9,821.8	5.15	6.13	17	2.7
CONGLOMERATES								
General Electric (GE)	40.33	407,583	171,818.8	22,497.5	2.21	2.51	16	2.8
United Technologies (UTX)	75.65	74,781	53,765.4	4,220.2	4.25	4.84	16	1.7
FINANCIAL SERVICES								
Genworth Financial (GNW)	25.53	11,199	11,289.4	1,365.9	3.07	3.32	8	1.6
Wells Fargo (WFC)	32.31	107,995	39,235.2	9,127.5	2.70	2.95	11	3.8

Prices as of 11/2/07. *Estimated at time of original publishing. **Fiscal year ends Oct. 31. Dividends of TEF, DO and PHI can vary widely.

SOURCE: BLOOMBERG

[The following is excerpted]

CONGLOMERATES

Huge global sales and a wide range of businesses should buffer a U.S. slowdown.

STOCKS OF LARGE U.S. companies are cheap. If it sounds like you've heard this before, you have, right here, about a dozen times since 2005. Large-company stocks finally started to outperform smaller company shares in 2007 but remain attractively priced, as investors continue to keep their money parked in small- and midcap stocks.

Large U.S. companies have diverse product lines and a worldwide customer base, lessening the possibility that a slowdown in one region will take down the whole company. And they are the cheapest part of the stock market right now. The S&P 500 trades at a P/E of 16. Meanwhile small-company stocks continue to trade at a significant premium, according to research from the Leuthold Group, and don't provide as much protection if the economy falters.

Investors don't have to go very far down the S&P 500 list to find one of its best values, General Electric, the country's second-largest company by market value. Almost half its \$172 billion in annual sales comes from outside the U.S. At the moment, the world can't seem to get enough of GE's aircraft engines, new pipelines and water desalination plants. And GE Chief Financial Officer Keith Sherin tells SMARTMONEY he's quite confident that the global economy will continue to grow for the next couple of years, regardless of what happens in the U.S. In October the Fairfield, Conn.-based firm reported it has \$47 billion worth of projects backlogged, a 68 percent increase from a year earlier.

Yet while GE's profit is up 41 percent since the end

of 2004—and is expected to grow another 14 percent in 2008—the stock is up only 12 percent over the same period. Meanwhile, the S&P 500 has advanced more than 29 percent. Investors often criticize Chief Executive Jeff Immelt for the stock's lackluster performance, but he's probably just as upset—in October he bought \$3.3 million worth of GE shares on the open market. If GE continues to produce profit, though, the stock price should eventually rise.

GE's smaller, fierce rival is United Technologies, which makes everything from helicopters to air conditioners. Much like General Electric, the company's revenue is being propelled by growth in emerging economies. Its Pratt & Whitney engines are in high demand from airlines around the world. And in the third quarter, sales at its Otis elevator division were up 15 percent, to nearly \$3 billion, thanks in part to demand for elevators for the dozens of new skyscrapers going up from Shanghai to Abu Dhabi.

On Oct. 18 company executives had the audacity to say they were worried that the U.S. housing market would slow their profit growth. Investors sent the stock down 4 percent in one day. But as long as the U.S. economy doesn't collapse, the Hartford, Conn.-based United Technologies should do fine. Even the most U.S.-centric product lines, heating and air-conditioning systems, are becoming less dependent on American businesses and homes as overseas sales grow. Analysts expect UT's profit to rise 14 percent in 2008, to \$4.2 billion, or \$4.84 a share. At 16 times 2008 expected earnings, the stock is a value.

THE SMARTMONEY REPORT CARD One of the keys to investment success is to limit your mistakes and find a few big winners, as our three previous "Where to Invest" portfolios demonstrate.

2005		2006		2007	
Company (Ticker)	Total Return Since 11/16/04	Company (Ticker)	Total Return Since 11/15/05	Company (Ticker)	Total Return Since 11/8/06
Citigroup (C)	-7.3%	Bank of America (BAC)	8.8%	Amazon.com (AMZN)	117.8%
General Electric (GE)	21.4	UBS (UBS)	15.5	Yahoo (YHOO)	15.7
Baxter (BAX)	96.9	Amgen (AMGN)	-30.7	Anheuser-Busch (BUD)	9.2
GlaxoSmithKline (GSK)	24.9	Gilead Sciences (GILD)	81.7	Diageo (DEO)	26.4
Diageo (DEO)	81.7	HCA (HCA)*	10.9	Dow Chemical (DOW)	11.5
McDonald's (MCD)	104.8	UnitedHealth Group (UNH)	-18.0	Rohm & Haas (ROH)	3.4
Caterpillar (CAT)	75.3	Tyco International (TYC)**	10.5	Goldman Sachs (GS)	22.4
Deere (DE)	137.0	General Electric (GE)	24.3	Lehman Bros (LEH)	-18.4
Norfolk Southern (NSC)	57.1	ConocoPhillips (COP)	40.6	China Mobile (CHL)	142.9
Paccar (PCAR)	81.9	Devon Energy (DEV)	66.8	Coca-Cola Hellenic (CCH)	90.7
Accenture (ACN)	57.3	Nokia (NOK)	143.7	Hartford Financial (HIG)	10.3
UnitedHealth Group (UNH)	21.4	Qualcomm (QCOM)	-5.9	Travelers (TRV)†	2.1
Portfolio S&P 500	62.7 35.6	Portfolio S&P 500	29.0 27.4	Portfolio S&P 500	36.2 10.9

Returns through 11/02/07. *Taken private 11/17/06. **Accounts for return of three companies split off from original Tyco on 6/29/07. †Recommended as St. Paul Travelers.

SOURCE: BLOOMBERG