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Buy-and-hold is a viable strategy, some say

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In today's market, Harry B. Banzhaf is a contrarian.

The Whitefish Bay asset manager buys stocks and holds on to them, a practice that hasn't been in vogue since the last long-term bull market ended four years ago.

When investors pulled money out of real estate investment trusts, which trade like stocks, to invest in tech companies in 1999, he saw an opportunity. He's hanging on to many of those same investments.

"If my cost basis is low and they're compounding dividends anyway, I can absorb it and so can my clients," he said.

Despite the trend to trade in and out of stocks, some investors say buy-and-hold is still a viable strategy.

In his book "The Citizen Investor: The Power of Ownership," Phil Dow tells investors how to find solid companies in growth industries and create a diversified portfolio that can outperform the market long-term.

The quality companies Dow seeks - he calls them bulldogs - are admittedly rare.

But Dow, equity strategy director at RBC Dain Rauscher, says patient investors can do their homework to find companies that dominate their industries, have debt-to-capital ratios around 30%, spend heavily on research and development, and are low-cost producers with big insider ownership and earnings that are growing at above-average rates.

"If you read the quarterly and annual reports, managements tell their expectations for the prospects of the company, and, over time, you can tell if management does what it says it will do," Dow said.

Markets



James B. Kitzinger

Bulldogs

Phil Dow says the stocks on this list won't provide the hottest returns, but they represent quality companies that should work well for patient, long-term investors.

- Citigroup Inc. (**C**)
- Wells Fargo & Co. (**WFC**)
- MBNA Corp. (**KRB**)
- Pfizer Inc. (**PFE**)
- Medtronic Inc. (**MDT**)
- Amgen Inc. (**AMGN**)
- UnitedHealth Group Inc. (**UNH**)

He says companies that have A+, A and A- ratings from Standard & Poor's have historically outperformed the overall market. Also, he says he's more confident about companies that keep increasing their dividends over time.

Dow says individuals should put up to half of their investment dollars in a portfolio of 15 to 20 quality stocks.

People who have owned Citigroup for 10 years, for example, have made "seven times your money - and that doesn't account for cumulative dividends over the last 10 years," Dow said.

Some, like James B. Kitzinger, say that kind of investing isn't as easy as it looks in the rearview mirror.

Competition has accelerated in most industries, and there aren't as many defensible niches as there were historically - making a buy-and-hold strategy riskier than it was 30 or 40 years ago, said Kitzinger, principal and equity portfolio manager at Kitzinger Lautmann Capital Management Inc. in Milwaukee.

"Forty years ago if you had an entrenched position in a market that provided a 15% return on equity, with no change and no competition, you had a monopoly," Kitzinger said. "Our contention is that the ability for others to access capital to arbitrage your high returns away continues to change - that's why capitalism works, and that's why the pie gets bigger and the distribution of successful entrepreneurs keeps changing."

Kitzinger is no rapid trader. His firm holds most of the stocks it buys for two or three years, he said.

But the competitive landscape can wreak havoc on long-held portfolios. For example, an investor 15 years ago might have viewed Federated, May or Toys "R" Us as quality, long-term holdings, but all those retailers are now "blown apart," Kitzinger said.

"Understanding good companies get undervalued and that's when you should be buying them, and understanding good companies get overvalued and that's when you should be selling them is how you should go about it," he said.

Having that kind of understanding may be an art, but just being able to hold stocks for a long time isn't so difficult for low-frequency traders who aren't in the investing profession, said Werner F.M. De Bondt.

"For those people, inertia is the driving force, so 'buy and hold' is easy for them because they just forget about it," said De Bondt, director of the Driehaus Center for Behavioral Finance at DePaul University in Chicago. "It's the

- Cisco Systems Inc. **(CSCO)**
- Intel Corp. **(INTC)**
- Microsoft Corp. **(MSFT)**
- Sap Inc. **(SAP)**
- General Electric Co. **(GE)**
- Costco Wholesale Corp. **(COST)**
- General Mills Inc. **(GIS)**
- Exxon Mobil Corp. **(XOM)**
- Burlington Resources Inc. **(BR)**
- BJ Services Co. **(BJS)**

Quotable

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**- James B. Kitzinger,
portfolio manager**

people who watch it who suffer decision conflict."

Still, according to Banzhaf, "It only works if you made a good purchase at the right price to begin with."

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