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Those With a Sense of History May Find It's Time to Invest

By [ALEX BERENSON](#)

The four most dangerous words for investors are: This time is different.

In 1999, technology companies with no earnings or sales were valued at billions of dollars. But this time was different, investors told themselves. The Internet could not be missed at any price.

They were wrong. In 2000 and 2001 technology stocks plunged, erasing trillions of dollars in wealth.

Now investors have again convinced themselves that this time is different, that the [credit crisis](#) will push economies worldwide into the deepest recession since the Depression. Fear runs even deeper today than greed did a decade ago.

But in their panic, investors are ignoring 60 years of history. Since the Depression, governments have become far more aggressive about intervening when credit markets seize up or economies struggle. And those interventions have generally succeeded. The recessions since World War II, while hardly easy, have been far less painful than the Depression.

Now some veteran investors, including G. Kenneth Heebner, a mutual fund manager who has one of the best long-term track records on Wall Street, say that the sell-off has gone much too far and stocks are poised to rally powerfully if the downturn is less severe than investors fear.

“The fact is, there are a lot of tremendous bargains out there,” said Mr. Heebner, who manages about \$10 billion in several mutual funds. Indeed, by many measures stocks are as cheap as they have been in the last 25 years.

He pointed to [Chesapeake Energy](#), a natural gas producer that he owns in his CGM Focus mutual fund. In July, Chesapeake traded for \$63 a share. On Friday, it fell as low as \$11.99.

He says that investors with a stomach for risk and a long time horizon should consider following [Warren E. Buffett](#), who in the last three weeks has invested \$8 billion in [Goldman Sachs](#) and [General Electric](#).

Mr. Heebner expects world economies to contract over the next year. But he said the market plunge in the last week was no longer being driven by rational analysis. Stocks are probably falling because of a combination of panic and forced selling by hedge funds that must meet margin calls from their lenders, he said.

Mr. Heebner’s funds have not avoided the carnage this year. The CGM Focus fund is down about 42 percent so far in 2008. But his long-term track record is impressive. In the decade that ended Dec. 31, 2007, CGM Focus rose 26 percent a year, including reinvested dividends, making it among the best-performing mutual funds.

Mr. Heebner is not alone in his optimism.

“I think in years to come — I wouldn’t say months to come — we will perceive this as being a great value-buying opportunity,” said David P. Stowell, a finance professor at Northwestern and a former managing director at [JPMorgan Chase](#). “Two and three years from now, it will seem very smart.”

Even before their jaw-dropping plunge of the last month, stocks were not expensive by historical standards, based on fundamentals like earnings and cash flow. Now, after falling 30 percent or more since early September, stocks in stalwart, profitable corporations like [Nokia](#), [Exxon Mobil](#) and [Boeing](#) are trading at nine times their annual profits per share or less. Many smaller

companies are even cheaper. Some of those stocks are trading at five times earnings or less.

Those ratios are historically low. Over all, the Standard & Poor's 500-stock index is trading at about 13 times its expected profits for 2009, its lowest level in decades. In contrast, at the height of the technology bubble in early 2000, the stocks in the S.& P. traded at about 30 times earnings, the highest level ever. At the same time, the 10-year Treasury bond paid about 6 percent interest, compared with less than 4 percent today.

Investors have fled stocks in favor of government bonds, insured bank deposits and other low-risk investments because they are deeply afraid of the worldwide economic crisis, said Stephen Haber, an economic historian and senior fellow at the Hoover Institution. But he said he believed that fear might have gone too far.

"If there is good and wise policy, and government moves effectively, this need not play itself out in ways like [the Great Depression](#), which is the image that is playing itself out in people's mind," Mr. Haber said. Government action typically does not work immediately, and banking crises around the world often require multiple interventions, he said.

Still, optimists remain in the minority on Wall Street. Most investors seem to believe that the credit crisis will do substantial damage to stocks and overall economic activity.

"We have never before seen for such sustained periods of time such a sustained turn away from risk taking," said Steven Wieting, the chief United States economist for [Citigroup](#). "This has broken out of the boundaries we've seen." Economic activity appears to have slowed sharply in September, Mr. Wieting said.

The panic last week took the biggest toll on financial companies, as well as companies that are highly leveraged. But stocks fell 10 to 30 percent even for companies typically thought to be resistant to economic downturns, like the manufacturers of consumer staples.

For example, [Newell Rubbermaid](#) fell to \$12.82 on Friday from \$17.34 on Oct. 1, a 26 percent decline in 10 days. Newell Rubbermaid now trades at its lowest levels since 1990, and just eight times its expected earnings for next year.

Yet Newell Rubbermaid, whose brands include Calphalon, is profitable and insulated from the credit crisis, said William G. Schmitz Jr., who follows household products companies for [Deutsche Bank](#). “There’s really no balance sheet risk,” Mr. Schmitz said. The company also pays a 6 percent dividend.

Newell Rubbermaid said in July that it would earn \$1.40 to \$1.60 a share for 2008, excluding restructuring charges. For 2009, stock analysts predict it will make \$1.53 a share. And while a slowing economy may mean that people will be buying fewer products from Newell Rubbermaid, the recent plunge in oil prices will reduce its costs, Mr. Schmitz said.

“The way the stock’s reacted, you’d think they were going out of business,” he said.

Martin J. Whitman, a professional investor for more than 50 years, said that as long as economies worldwide could avoid an outright depression, stocks were amazingly cheap. Mr. Whitman manages the \$6 billion Third Avenue Value fund, which returned 10.2 percent annually for the 15 years that ended Sept. 30, almost two percentage points a year better than the S. & P. 500 index. The fund is down 46 percent this year.

“This is the opportunity of a lifetime,” Mr. Whitman said. “The most important securities are being given away.”

Now Versus the Great Depression: No Comparison

Key Factor	Great Depression	Today
Gross domestic product growth	-27%	+1%
Industrial production	-52%	-2%
Unemployment rate high	25%	6%
Federal deficit as percentage of GDP	1.4%	4.9%
U.S. exports	-66%	+15%
Consumer Price Index	-27%	+4%
Money supply	-29%	+3%

Source: Federal Reserve, *Historical Statistics of the United States*, Bureau of Labor Statistics, Bureau of Economic Analysis, National Bureau of Economic Research.¹