

SmartMoney

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SPECIAL ARTICLE
REPRINT FEATURING
**JOHN
TEMPLETON**

The World's Greatest Investors

These guys don't just think outside the box, they climb out and close the lid behind them. What you can learn from the best minds in money management.

By Andrew Bary, Nicole Bullock, Matthew Heimer and Eleanor Laise

It takes time to become a legend. Maybe that's why Bill Miller, at age 55, is the whippersnapper among the five investors on the cover of this magazine. By 1981, when Miller started at Legg Mason, Warren Buffett was already making a name for himself at Berkshire Hathaway, where he'd been the boss for 16 years. Sir John Templeton had been shooting the lights out for his clients for over 40 years. And Peter Lynch, though he'd been at the helm of the Magellan fund for only four years, was well on his way to an extraordinary run—average annual

returns of 29 percent. Bill Gross doesn't trade stocks, but he may be the most powerful of the bunch. With nearly half a trillion dollars of government and corporate debt under management, the "king of bonds" carries a very big stick. His flagship fund has returned an average of 9 percent a year since 1990, beating 98 percent of its peers. Each has a different way of finding value, but they all have one thing in common—after they've finished buying, the market always seems to come around to their point of view. That, of course, is when they sell.

Sir John Templeton

Born on the eve of World War I, Sir John Templeton was a Yale undergraduate during the Depression and a Wall Street rookie in the runup to World War II. He's seen his share of tough times. That's why, when he told SMARTMONEY last year that "there are fewer opportunities than I've ever seen in 91 years," we sat up and took notice.

Templeton never had much trouble spotting opportunity. He hunted down global bargains long before jet travel got off the ground and invested in U.S. companies at the start of World War II. The most important lesson we can learn from Templeton is to go against the grain. An über-contrarian, he didn't just bet against the crowd—he liked to invest at "the point of maximum pessimism." The results don't say much for the crowd. An investor who put \$10,000 in his flagship Templeton Growth fund at its launch in 1954 would have nearly \$7 million today.

His outlook remains negative. "Prices of almost all publicly traded stocks are now too high in relation to probable long-term earnings per share, especially in the U.S.A.," he recently wrote in response to our questions. He advises investors to keep no more than half of their portfolio in stocks. "Bond prices also continue to be too high," he says, "especially the prices of lower-quality bonds."

That doesn't mean he's out of ideas. He's a fan of market-neutral funds, which keep a roughly equal weighting in long and short positions and let investors profit from the wisdom of the manager. And as always, he sees value overseas. Investors should "invest in a well-managed mutual fund focusing on nations and industries where share prices are not so high," he says.

He likes the Matthews Asia-Pacific fund, which invests more broadly across Asia than most of the funds that focus on the region. Templeton's tip for bond investors: Focus on countries that have both trade and budget surpluses. Russia and Canada fit the bill.

Though Templeton has been putting his own money in hedge funds, their explosive growth gives him qualms. He argues that "very few hedge funds will be able to cover their very high operating costs. Because many hedge funds work with borrowed money, it is quite possible that many will become bankrupt within the next year or two and the liquidation of those bankrupt funds will depress share prices."

Depressed share prices? That will mean it's time to load up on stocks. As Templeton put it shortly before the turn of the millennium, "In this century or the next, it's still buy low, sell high."

Templeton-Worthy Picks

Stocks based on an American Assoc. of Individual Investors screen.

HARLEY-DAVIDSON (HDI, \$49)

The stock is off 18 percent over 12 months, yet growth is above the industry average.

HOME DEPOT (HD, \$40)

Templeton likes steadily increasing profit margins.

MATTHEWS ASIA-PACIFIC (MPACX)

Templeton's foundation invested in a similar fund. Asian stocks are cheap, he believes.

SOURCES: AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS; BASELINE

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