

Michael Price gave a lecture at Columbia today 2009.

*Editor: These notes are abbreviated but they might give you a feel for how experienced value investor sees the world. Mr. Price typically looks for catalysts and companies trading below private market values.*

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### **Nothing New In Finance**

"There is nothing new under the sun." All happened before, in one form or another. All resulted from the same human factor: Wall Street created something people don't want. As an investor, I only want debt or equity.

It all boils down to one simple question as far as investing is concerned: **Is it cheap?**

It is going to get worse before it gets better. We are 50% in cash.

One lesson learned: we were too bottom-up. In 2006 and 2007, **macro pictures should be taken into consideration.** You read reports on sub-prime almost daily.

### **Categorization**

We separate financial companies from non-financials. We further categorize non-financials into three categories:

1. Totally debt-free companies.
2. Companies with near-term maturities that can refinance in 2009 & 2010.
3. Too much debt: they have to sell equities.

Investing in REITs is still early, but is going to be very interesting in the next several years. Real estates are a laggard of the economy. Things will still become worse for that sector. However, investors have to do the work *before* the opportunities come.

Banks: lending is scary. It will take another 6-12 months for the loans to be priced correctly. They still need to be refinanced. The market is getting the sequence wrong. Financials, rather than non-financials should be refinanced first.

Wells Fargo: \$46B tangible BV. You are paying twice the book at the market value. About \$800 billion of assets were from Wachovia and were booked at 80%-90%. Its auditor, KPMG, is not a good one. A bank in RI, took \$30 million TARP. Yet there was no preferred on its balance sheet. It was also audited by KPMG.

**There are many such examples. There is still going to be a shock wave from financials for the market to absorb.**

Value stocks: over a year or two, there will be a lot of value out there.

**Rubbermaid**, clean balance sheet, bought at 5. **Ebay** - bought at \$10



Closed-end funds: trading at discounts. GVL, Cocasa in Europe. However, NBC: debt and equities of private companies - misleading. Another misleading one is KPE. Has NAV at \$18, trading at \$2.

There are tremendous opportunities.

**Rights offerings** are worth looking at. What are the management are doing with a right issue? Buy the rights, short the common.

### **How to read the Wall Street Journal?**

The purpose of which is to find things to fine tune my valuation.

Defense overhaul will affect valuations of stocks in defense sector and contractors

Subsidies for private health insurers

Auto sector

Music firms

3rd section of the Journal: Short squeeze, stock loan. You should lend stocks at high interest rates to brokers if you long a stock with a high demand for shorting.

Third Avenue Suing MBIA - read the lawsuit.

Syndicated loan. Outback Steak House

CF proxy fights. The fertilizer stocks came down to 30% of their highs. Now they are buying each other. Get long fertilizer companies for consolidation opportunities.

**Where to find deals:** Bad news - New low list, dividends omissions, and litigation, and Index changes.

Lex column of FT is published twice a day. Can easily run a \$10B fund based on the Lex column.

Q&A

Financials?

The showdown of 2009: Wells Fargo write-down. How it plays out all depends on the unemployment rates.

Commercial real estate?

Very bearish on commercial real estate.

One example. The rate of our downtown office was \$50/ft<sup>2</sup>. We can find similar office at \$30/ft<sup>2</sup>.

Bonds?

When you own a stock, better watch the high yields issued by the same company. All securities are tied together.

Management Interviews?

Better know the CEO and COO than the CFO.  
Better read the annuals backward.

How can you tell whether or not a company can refinance?

Based on your cash flow projection.

Banks are pulling back their lines. The loans will be marked down to 60% if they do renew it.

Chemicals?

Short Dow when the deal was announced. They paid too much.

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