Investment Vision

By Bill Ragsdale

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Some people have a vision of the future and the dynamics of the collective human mind which simply escapes us mortals. Franklin Roosevelt was one. Others include Bill Gates, Hewlett & Packard and Ronald Reagan. We have simple labels for them as genius, visionary, guru or natural leader.

For example, consider Sir John Templeton, now 88 years old. Born in humble circumstances in Tennessee, he founded the Templeton family of mutual funds, moved to the Bahamas, became a British subject and was knighted in 1987. In 1992 his fund family was sold to Franklin Resources and his interest shifted to charitable efforts and the annual Templeton Award for the best academic paper on Theology and the existence of God.

Sir John is a perma-bull if there ever was one. His mantra is, "Buy undervalued companies and hold for the long term." He would calmly restate his method time and again on his periodic appearances on Wall Street Week. As an early innovator in international funds he searched the world over for undervalued stocks. His investment horizon often was decades.

But his great insight and many decades of experience came to the forefront in, what for him, was a monumental shift in strategy. What did this marvel do? He shorted Internet stocks in 2000! As he stated, this was a once-in-a-lifetime opportunity.

He applied a vision which looks reasonable now but must have required amazing insight and commitment built on his lifetime of market observation

So how did he do it? In January of 2000 he realized the six month limit on trading by company insiders (the lock-up period) would shortly be ending for many newly public Internet companies. He scheduled the short sale of the high flyers 11 days before their lock-ups ended. He targeted stocks trading at least three times their offering price figuring insider selling would add to the declines he expected anyway. He shorted 84 stocks with $2.2 million positions for each. His target was to close the short positions if the stocks fell to 5% of their original value or reached a price-earnings ratio of below 30.

In a few positions the stocks rose, he lost money and gracefully closed the positions. But overall he hit the ball way out of the park. His gains so far total $84 million or nearly a 50% gain on each position. Firms such as Vittria Technology, Breakaway Solutions and Vyye collapsed for a 95% profit.

Normally I am against trading once in a lifetime events, such as the recent Year 2000 worry. But here we see a process built on a rational economic framework which took advantage of the greed in human behavior, and was very diversified with precise measurements. [Background data from p54 of Forbes Magazine, 5/28/2001.]

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