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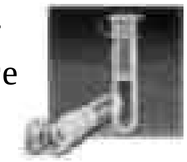

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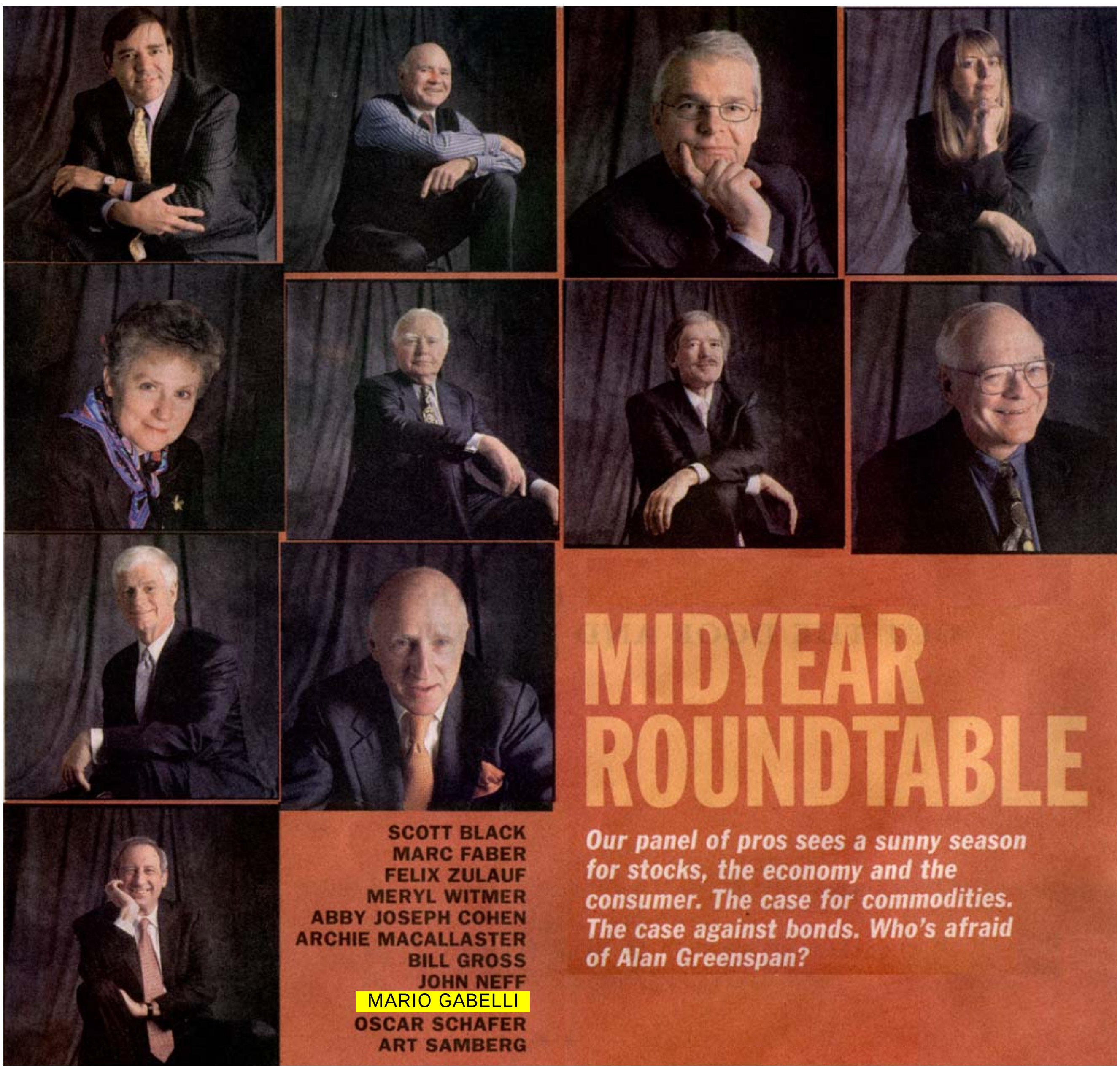
BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY WWW.BARRONS.COM JUNE 21, 2004



DOWJONES

2004 Midyear Roundtable

SCOTT BLACK Founder and President, Delphi Mgmt; portfolio manager, Delphi Value Fund, Boston

ABBY JOSEPH COHEN Chair, investment policy committee, Goldman Sachs, NYC

MARC FABER Managing Director, Marc Faber Ltd., Hong Kong

MARIO GABELLI Chairman, Gabelli Asset Management , Rye, N.Y.

BILL GROSS Founder and Chief Investment Officer, Pimco, Newport Beach, CA

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JOHN NEFF Retired portfolio manager, Vanguard Windsor Fund and Gemini II; managing partner (retired), Wellington Mgmt Co., Radnor, PA

ART SAMBERG Chairman and CEO, Pequot Capital Management, Westport, Conn

OSCAR S. SCHAFER Managing Partner, O.S.S. Capital Management, NYC

MERYL WITMER General Partner, Eagle Capital Partners, NYC

FELIX ZULAUF Founder and President, Zulauf Asset Management, Zug, Switzerland

Clear Skies, Plenty of Sun

Summertime, and the Fed is easing. But stocks will stay high

When you're right, you're right. From oil prices to interest rates to the winded bull market, the members of the *Barron's* Roundtable all got the chance to take a bow for something -- for some, many things -- they predicted when we gathered Jan. 12 for our latest gabfest. But enough of the past. What do they think of the future?

In recent phone chats with each of our anointed 11, it was hard to discern a discouraging word about the near-term outlook for U.S. stocks. Why, even Felix Zulauf, our resident skeptic, expressed mild shock that he was sounding so bullish.

With the nation's economy growing, corporate earnings climbing and the bond market fully prepared for the Federal Reserve to lift interest rates, these legendary investors expect the major indexes to rally as summer unfolds. Besides, a presidential election looms in November, and neither party -- not the one in power nor the one that hopes to be -- plans to offend investors.

Sure, there is plenty to worry about. That oil prices will rise, given crude's concentration in the world's No. 1 hot spot. That China won't be able to cool its sizzling economy without inducing other recessions. That terrorism will continue to spread. That, longer term, the bill will come due on the gargantuan U.S. deficit.

But this is a summer of fun, and potential profit. So let the pros take their victory laps, so long as they pay the requisite toll: a few good investment ideas to sustain us through December. You'll find their recommendations, provocative insights and an interim look at their January picks in the pages that follow.

– Lauren R. Rublin

Barrons: *Are the good times rolling, Mario?*

Gabelli: The economy is strong, as we thought it would be. Fiscal stimulus on top of the extraordinarily liquid monetary policy pursued by the Federal Reserve provided a tailwind, and it's worked. It's all designed to help reelect the president, and we will get to that in a second. But in next year's first quarter, will the reversal of stimulus be a gentle headwind or a gale? The pluses will be inventory rebuilding, increasing capital expenditures and the ability of business to overcome the shackles of Sarbanes-Oxley [a restrictive securities-reform act]. The major concerns are oil and terrorism. The dollar also is going to weaken against the yen and renminbi next spring. And, for the next six months, we will be focused on the four Ds.

Q: *Define.*

A: The deficit first. In five years the trade deficit will be almost $3 trillion. That is unsustainable. Something's got to give. The Japanese and the Chinese can't be counted on to keep buying our bonds. Then there's the domestic deficit. Whoever is elected president in November will have to deal with that. The third deficit is in jobs, though I'm more optimistic here. Jobs are moving from Flint, Mich., to Shanghai, but an extra three billion consumers are now in the takeoff stage.

Q: *What are the other Ds?*

A: The dollar is one. When interest rates rise in the next 12 months, the dollar provides ballast versus the euro. But longer term, there are major structural imbalances between the U.S. and Asia. The third D is dividends. Payout ratios will climb, though we don't know what the tax rate on dividends will be if Kerry [Sen. John Kerry, the presumptive Democratic presidential candidate] is elected. That's the fourth D: Democrats. And the fifth D is deals: corporate lovemaking is back.

Corporate earnings are even better than expected, though the first quarter of 2005 will face tough comparisons with 2004. By next spring short-term bills will yield 3% to 4%. Inflation is hitting the consumer as the prices of gas, milk and meat go up. The impact of lower taxes is starting to dissipate. The consumer wants more income, which means more wage pressure. Industries such as packaged goods, auto replacement parts and supermarkets will benefit. Broadcasters will benefit from higher prices for advertising.

Q: *Will the voters reelect Bush?*

A: If oil is at $32 to $34 a barrel, and we start pulling troops out of Baghdad, I don't see how he could lose. But it's going to be a long, hot summer. There are terrorism risks. Your portfolio needs extra liquidity, because there is more volatility.

Q: *Well said. Let's move on to stocks.*

A: The American farmer is in good psychological shape, due to strong prices for commodities such as wheat, corn and beans. Beef and pork prices are also strong. He hasn't bought a new tractor in years. If the farmer comes roaring back, two companies benefit: Deere and CNH Global, or Case New Holland, based in Lake Forest, Ill. Deere trades around 68. The company's cash flow is great, and it has prepaid $1 billion in pension-fund obligations. Industry pricing is good. It's an easy story to talk about. Where will Deere use its cash flow? We'd like to see the company bolster certain businesses. Meanwhile, it's building up its balance sheet. The Street gets uptight whenever China says it's cooling, but the play here isn't sales of Deere equipment to China. It's selling American foodstuffs to China.

Q: *Which surely benefits Deere.*

A: Deere and CNH control 90% of the business, but there's a wrinkle in CNH. It sells for 20, and there are 133 million shares outstanding. Fiat owns preferred that converts into 100 million shares of common at 24 apiece. If I were the new head of Fiat, I would take out my preferred in the next six months and restructure my debt. If Fiat doesn't do that, it will put a lid on CNH. But the industry's cash flow is powerful, and there will be spot shortages of equipment in the farm sector.

Q: *What else do you like?*

A: Starting in the 1960s, we have based some of our work on demographics. One industry likely to benefit from changing demographics is recreational vehicles -- motor homes, travel trailers and campers. It's a cyclical business, somewhat sensitive to interest rates, but it's benefiting from an aging population. A subset of this business is mobile homes. Ten years ago, if you could breathe and make an X, salesmen sold you a mobile home. They'd

Mario Gabelli's Pick's

Company	Ticker	Price 6/15
Farm Equipment		
Deere	DE	$68.65
CNH Global	CNH	19.20
Mobile Homes		
Cavco Inds.	CVCO	$39.89
Nobility Homes	NOBH	22.27
Skyline	SKY	39.99
Southern Energy Homes	SEHI	4.20
Champion Ent.	CHB	9.53
Coachmen Industries	COA	15.75
Fleetwood Ent.	FLE	13.28
Palm Harbor Homes	PHHM	18.01
Chemicals-Specialty		
Sensient Technologies	SXT	20.95

give you 100% financing. The industry grew from 200,000 to a peak of 350,000 shipments, and then collapsed.

Yet, demand has stayed steady around 250,000. Much of it was filled by repossessions and inventory destocking. The industry worked down inventory to roughly 50,000 units from 140,000. The reduction is just about over.

Q: *But won't demand fall when rates rise?*

A: Rising rates will make it a relative advantage to own a mobile home as a starter unit. In the past 12 months Warren Buffett bought two mobile-home manufacturers, Clayton Homes and Oakwood Homes. He has committed $3 billion to the industry. I have been buying the group for three months, and own a significant position. I like Cavco Industries, which was spun off from Centex. There are only three million shares outstanding, and the stock sells for 40. My clients own about 13% to 14%. The company has $10 a share in cash, no debt, and is making money at the bottom of the cycle. It operates mainly in the Southwest.

Q: *What about the rest of the group?*

A: Nobility Homes is based in Ocala, Fla. It has four million shares and sells for 22. It has an $90 million market cap. The company has a financing joint-venture with Clayton, no debt and lots of cash.

Q: *How much stock do your clients own?*

A: Not enough. The insiders own 50%. We also like Skyline. It's in the mobile-home and RV business. It, too, has no debt, and $10 a share in cash. The stock sells for 40 and there are eight million shares. Other stocks include Southern Energy Homes, Cavalier Homes, Palm Harbor Homes, Champion, Coachmen and Fleetwood Enterprises. You can buy a basket. When this industry turns in the next three or four years, you could make a lot of money. The point isn't that manufactured housing is coming back. It isn't declining any more. Industry shipments will rise because inventories have been cleaned out and repossessions are slowing.

Q: *Understood.*

A: We're back in supermarket stocks because they are helped by inflation. I'm not recommending them here, but we're buying Albertson's. We also like Sensient Technology, based in Milwaukee. It's got 48 million shares. The stock is 20. The company is in the color business. It makes colors for inkjet printers, and flavors and fragrances. This year revenue will be about $1 billion, and earnings will be $1.60 to $1.65. The industry is undergoing consolidation, and the company's takeout price could be 40% or 50% higher. Synthion eliminated its poison pill, a move that was very shareholder-friendly and good for the stock.

Barrons: *Naturally. Thank you, Mario.* ■

Mario J. Gabelli is the Chairman and Chief Investment Officer of Gabelli Asset Management Inc. and Portfolio Manager of The Gabelli Asset Fund. The securities mentioned in the article are not representative of the entire portfolio, and are subject to change at any time. The percentage of net assets for each security mentioned that is held in Gabelli Asset Fund's portfolio as of 6/15/04 follows: Deere & Co. 1.3%; Sensient Technologies 0.3%; Fleetwood Enterprises 0.04%; Cavco Industries 0.02%; Champion Entertainment 0.02%; Palm Harbor Homes, Inc. 0.02% and Skyline 0.02%; Companies mentioned in the article, but not listed here, are not holdings of Gabelli Asset Fund as of 6/15/04.

A complete listing of the Fund's holdings as of 6/15/04 is available by calling the distributor, Gabelli & Company, Inc., at 800-GABELLI (800-422-3554) or by visiting our website at www.gabelli.com. Investors should consider the investment objective, risks, sales charges and expenses of the Fund carefully before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing.

The views expressed in this article reflect those of the portfolio manager only through 6/10/04. Minor edits were made. The manager's views are subject to change at any time based on market and other conditions. Favorable earnings or EBITDA (Earning before Interest, Taxes, Depreciation and Amortization) growth prospects do not necessarily translate into higher stock prices, but they do express a positive trend which we believe will develop over time. 6-04