

The Journal News

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6 QUESTIONS with Barry Abramson

Age: 49
Home: Scarsdale
Family: Two children
Education: B.A., economics, Yale University, 1977.

What do you like about following utilities?

There is always something new or interesting to look at. With a lot of stocks in the sector, it is easy to find interesting relative values or in other words, a stock that's cheap compared to others in the sector.

What changes do you see in the power production?

New technologies will be very important, but some are not yet economically viable. Wind is probably the most successful alternative energy source we have, and that sector will keep growing. They are making the wind machines bigger, better and more efficient. The problem is finding places, to put them. Like any big, hulking structure, no one wants them in their neighborhood.

What is your favorite movie? "Saving Private Ryan." I like almost anything with Tom Hanks.

What are your hobbies? Hiking, Running and Baseball.

Do you have a favorite baseball team?

I have a dilemma. My daughter loves the Mets and my son loves the Yankees. At home, I have to be neutral and root for the local team.

What place would you like to visit?

I haven't been to the Grand Canyon. That's on my list. Also Hawaii. ■

Power's Back on

Gabelli fund leads the way as utilities sector recovers from deregulation woes and Enron scandal. by Jay Loomis

RYE — Electric utilities lived up to their nickname "widow and orphan stocks" for most of the 27 years that Barry Abramson followed them as a research analyst. The low volatility, rich dividends and an image of safety and security were reassuring. To others, utilities were so predictable that they were boring.

"Many people who don't follow the sector say, 'Oh, it is a dull industry,'" Abramson said. "It is still overlooked by some portfolio managers and investors because they think it is dull."

But the industry has hardly put people to sleep lately.

Deregulation at root

The problems began when power companies that had enjoyed virtual monopolies in their home markets for decades faced deregulation. Designed to unleash competition and give consumers a choice of power suppliers, deregulation was poorly executed in many states. That flawed implementation contributed to an assortment of ills: over-building of power plants that put some utilities deeply in debt; severe power shortages and allegations of profiteering in California; energy companies teetering on the brink of bankruptcy.

In addition, alleged accounting irregularities at energy trader Enron helped trigger a massive loss of investor confidence, reflected by sharp drops in utility stocks and mutual funds.

In 2001 and 2002, the Gabelli Utilities Fund fell 15.4 percent and 15.1 percent, respectively.

"Enron was an example of a lot of things that went wrong," Abramson said. "There were too many companies chasing growth in a sector that doesn't grow fast. They felt that deregulation of a slow-growing sector would somehow create tremendous opportunities, and the fast-moving companies would be able to grow earnings rapidly in that environment.

"But this a mature economy in which electric demand grows something like 2 or 3 percent a year. Everyone has electricity. So it wasn't like some new product such as wireless phones."



The most aggressive utilities borrowed heavily to build plants that might not be needed for many years, and suffered when power prices plunged.

Nearly three years after the Enron debacle, utilities have worked hard to get well.

"Now they are all echoing the same words: 'Back to basics,'" Abramson said. "To get there they had to go through a lot of pain, cut debt, write down assets . . . bite the bullet. Shareholders suffered as they cleaned up their act."

Mario J. Gabelli, the company founder and team leader for the fund, said excesses remain, but the companies "are working their way through it. They are returning to the basics of serving customers, paying dividends and generating cash flow."

Out of the dark

As the restructurings unfold, some value investors see utilities as turnaround plays. The sector has outperformed the market during the past two

years. In 2003, the Gabelli Utilities Fund rose 29.5 percent, better than a return of 28.7 percent for the S&P 500. It is up 3.3 percent this year, compared to 1.2 percent for the S&P.

Morningstar, the Chicago-based fund research service, gives the fund its top 5-star rating. The fund also recently received the Lipper Fund Award for the highest consistent return scores among its utility peers.

"Most of the managements have learned from their mistakes," Abramson said. "Some have been thrown out and replaced . . . Over the next few years, there will be a mindset at these companies to be risk averse because they are coming out of a rough period."

The average dividend yield is about 4.5 percent for electric utilities and 4.25 percent for gas utilities. That can be welcome money in the bank, especially at a time when the overall market is lackluster and struggling to hit new highs.

Dividends also became more attractive after last year's tax cuts trimmed the average tax rate to 15 percent from more than 38 percent for the top income brackets. An alternative to utilities, bonds, is still subject to higher tax rates.

"If the market is going up 25 percent or more, you don't care about a few percent from dividends," Abramson said. "If you think the market will go up only 8 percent a year, then it is nice to get half of that up front in dividends."

Then there is the steady cash flow.

"They are still in a business that never goes out of style," he added. "Nothing will replace electricity as we know it. People will still use power month after month and pay their bills."

Detractors

Some local money managers, however, are lukewarm on the sector.

Paul Levis, president of Summit Financial Consultants, an investment adviser in Yonkers, said investors are more cautious about utilities since Enron.

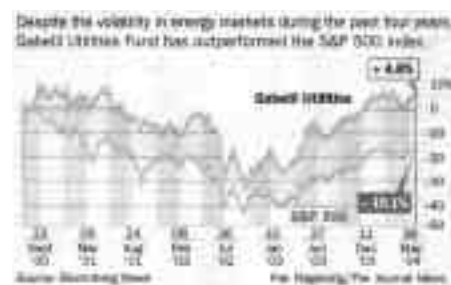
Past performance is no guarantee of future results. 14.71%, 1.44% and 6.78%, were the average annual returns for the Gabelli Utilities Fund for the 1 year, 3 year, and since inception period ending 6/30/04. Total return and average annual returns are historical and reflect changes in share price, reinvestment of dividends and capital gains and are net of expenses. Due to market volatility, current performance may be lower or higher than the figures shown. Investment return and principle value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. Performance is for Class AA Shares. Other share classes may have different performance characteristics. If expenses had not been limited to 2.0% of net assets, returns would have been lower. Funds investing in a single sector, such as utilities, may be subject to more volatility than funds that invest more broadly. The utilities industry can be significantly affected by government regulation, financing difficulties, supply or demand of services or fuel and natural resources conservation. The S&P 500 is an unmanaged index, generally representative of the U.S. stock market and is adjusted for reinvestment of dividends.

The following securities held in The Gabelli Utilities Fund were mentioned in this article: Consolidated Edison Inc. 0.83%; Duke Energy Corp. 1.84%; Entergy Corp. 0.39%; FPLGroup Inc. 2.45% and Southern Co. 1.02%. Companies mentioned in the article, but not listed here, are not holdings of Gabelli Utilities Fund as of 6/30/04. The securities mentioned in the article are not representative of the entire portfolio, and are subject to change at any time. The views expressed in this article reflect those of the portfolio manager only through 6/30/04. 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.

To obtain the most recent month-end performance information, please call 800-GABELLI or visit www.gabelli.com. Investors should consider the investment objective, risks, charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing. 6-04

Gabelli Utilities Fund

Ticker: GABUX
Address: Gabelli Funds,
1 Corporate Center, Rye, NY10580
Phone: 800-422-3554
Internet: www.gabelli.com
One-year return: 13.98%
Three-year return: 0.86% annualized.
Expense Ratio: 2.00%
Assets: \$52 million



"The landscape is much more complicated than it has been in the past," he said.

His advice is for clients to put their money in a fund with a broader focus than utilities.

"Enron was an example of a lot of things that went wrong. There were too many companies chasing growth in a sector that doesn't grow fast."

Barry Abramson

David Geller, president of Geller Capital Management in White Plains, looks to buy stocks with a history of paying dividends that also have future potential for earnings growth. He finds that many utilities aren't growing fast enough to make his cut.

"We think there are better opportunities elsewhere," Geller said.

Yet Gabelli's Abramson said utilities still look like bargains. Even though they aren't as cheap as they were in 2003 after last year's rally, a price/earnings ratio of less than 14 is midway through the historical range of 12 to 16.

Con Ed a favorite

The fund's 60-plus stocks include a healthy jolt from traditional utilities that stuck close to their core markets during the slump, including Consolidated Edison Inc., the dominant power supplier in Westchester County and New York

City; Southern Co., a major player in Georgia, Alabama and other Southeastern states; and FPLGroup Inc., a company with a strong hold on the fast-growing Florida market.

Con Ed was "an old-fashioned company that stayed old-fashioned," Abramson said. "They never really strayed. . . They did not move in a big way into any of the high-risk businesses."

The fund also has taken stakes in turnaround plays like Duke Energy Corp., a dominant utility in the Carolinas that slumped from \$46 to \$12.75 after it expanded too aggressively but rebounded to around \$20 as it got back to the basics, Abramson said.

Abramson also hasn't shunned nuclear power, despite controversy about its safety. Despite critics who want to shut down the Indian Point nuclear plant in Buchanan over fears that it could be a terrorist target, the fund has taken a stake in Entergy Corp., the operator of Indian Point and other nuclear plants around the country.

"Nuclear can't be shut down because it produces 20 percent of the power in the U.S.," he said. "So even people who don't like nuclear power for various reasons can't seem to come up with a better alternative. We don't look at it as litmus test — positive or negative." ■