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The Son Also Rises

Gabelli Jr.'s fund scores with value style.

BY JON BIRGER

As a youngster, Marc Gabelli never spent a lot of time talking stocks with his famous father, mutual fund manager Mario Gabelli. But that's not to say he didn't learn a thing or two from dad about managing money.

"My father is a great value investor," the younger Mr. Gabelli says. "So whenever I bought a pair of shoes, we'd have to go to five different shoe stores before I could buy anything."

This upbringing is serving Marc well. Now a portfolio manager with his father's firm, Gabelli Asset Management Inc., 31-year-old Mr. Gabelli is proving that there's more than one ace stock-picker in the Gabelli clan.

His mutual fund, the \$450 million Gabelli Global Interactive Couch Potato® Fund, gained a prodigious 116% last year. On the heels of 42% and 29% gains in 1997 and 1998, the oddly named fund now ranks as the top-performing global equity fund over the last three years, according to Lipper Inc.

While Couch Potato® had a lot of company in the triple-digit club last year—314 funds returned 100% or more, versus just six in 1998—Mr. Gabelli achieved his results with much less risk. Mr. Gabelli stayed away from overpriced Internet and technology stocks and received a better risk rating from fund tracker Morningstar Inc. than all but 9 of the triple-digit gainers for the 3-year period ended 12/31/99.

"You have to give Marc credit for sticking to his discipline," says Morningstar analyst Christopher Traulsen. "He hasn't jumped all over the Internet, and that would have been the easiest thing in the world to do, especially with a fund that has 'interactive' in its name."

It's hard to quibble with Couch Potato®'s track record, but some observers have questioned how much credit Mr. Gabelli actual-

ly deserves. "The stickiest issue is trying to determine how much of this is Marc and how much is the organization behind him," says Mr. Traulsen.

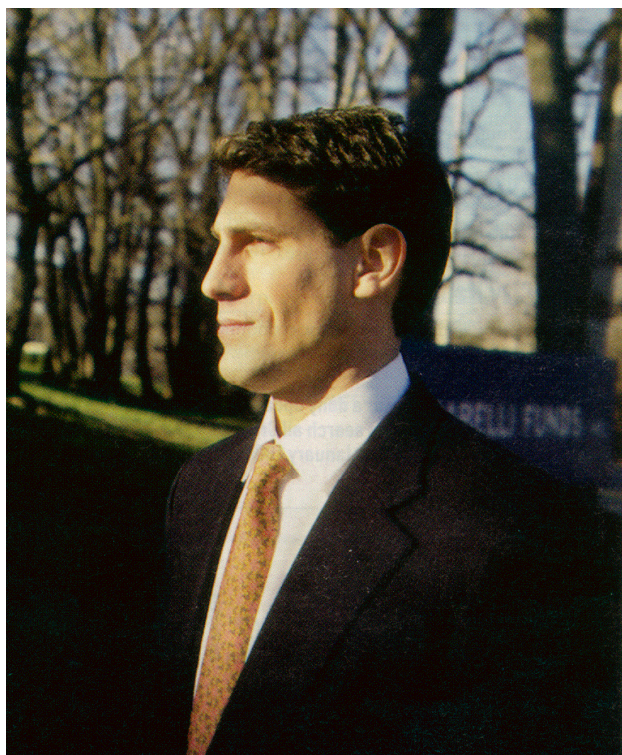
Second-generation fund managers have always had to answer to such doubters. Just ask the Davis Funds' Andrew and Christopher Davis, siblings whose father and grandfather were among the best investors of their generations.

Making his own choices

Mr. Gabelli bristles at any suggestion that his father has his hands on Couch Potato®'s remote control. "I don't work with my father," Mr. Gabelli says.

People who know the Gabelli's agree that Marc calls his own shots. "Marc has done an outstanding job in a very competitive area, but unfortunately a lot of people feel that just because someone is young, they can't have the necessary expertise or experience," says Victor Ugolyn, chairman of the Enterprise Group of Funds. "What they don't realize is that Marc has been exposed to the investment business his entire life."

Mr. Gabelli's strategy has been to invest in media, entertainment and telecommunications, the stocks that give Couch Potato® its name. These three areas were all hot last year, but Mr. Gabelli did more than merely enjoy the ride. He outperformed the average fund in Morningstar's specialty communications category by more than 45 percentage points.



FAMILY RESEMBLANCE: Marc Gabelli's Global Growth Fund racked up triple-digit gains last year.

"It's done spectacularly well for me," says Rudy Polanski, an investment adviser with Westport Resources in Westport, Conn. "The fund provides access to a rapid growth area without taking on enormous dot-com-related risks."

Favoring similar style

Mr. Gabelli is a devotee of his father's value-oriented investment style, which favors companies whose valuations are well below what a corporate acquirer might pay for the same business. But whereas Mario Gabelli has his Gabelli Asset and Gabelli Value funds positioned almost exclusively in U.S. stocks, two-thirds of Couch Potato®'s money is invested overseas. This requires the younger Mr. Gabelli to spend

six months out of every year on the road, scouring the globe for investment ideas.

In 1998, for example, he started spending a lot of time in Japan. That country was out of favor with investors, but Mr. Gabelli started plowing money into Japanese stocks he believed were undervalued—companies like electronics giant Sony Corp., venture capital firm Softbank Corp., and manufacturing and telecommunications conglomerate Kyocera Corp. Last year, these stocks were up 296%, 1,340% and 255%, respectively.

Softbank was a somewhat atypical investment for Mr. Gabelli, given his distaste for Web stocks. The company is one of the world's leading Internet investors, with large stakes in everything from E*Trade to Yahoo!

“When we bought Softbank, the entire company was trading at less than the value of its public stake in Yahoo!,” he says. “In essence, we were buying E*Trade and all the other businesses that Softbank has in its

venture capital portfolio for absolutely nothing.”

Despite the stellar results, Couch Potato® has yet to catch fire with mutual fund investors. The fund picked up about \$200 million in new sales last year, Mr. Gabelli says. While that's substantial, other members of the triple-digit club took in four or five times that amount.

Couch Potato®'s shortcomings seem to stem from the fund's name. Not only is “Global Interactive Couch Potato® Fund” a mouthful, but the word “interactive” gives the false impression that Couch Potato® is an Internet fund.

“The name is just too gimmicky,” says Thomas Courtney, an investment banker who advises asset management companies. “When an investor is deciding what to do with his money, he doesn't want a fund that sounds like a joke.”

Aware of these concerns, Gabelli Asset Management, based in Rye, N.Y., will soon rechristen Couch Potato® as the Gabelli

Global Growth Fund. If the new name catches on, it could reinvigorate Gabelli's own stock. Despite a 24% increase in corporate profits during the first nine months of 1999, shares of Gabelli now trade below their February 1999 initial public offering price of \$17.50.

To some extent, Gabelli has been dragged down by the underperformance of the entire asset management sector. A more specific problem is the perception that the firm depends too much upon one man, Mario Gabelli. If Marc Gabelli and other Gabelli fund managers like Howard Ward and Caesar Bryan continue to post good returns, it would go a long way toward allaying these concerns.

“We think Gabelli has a deeper bench there than the market realizes,” says Edward Barr, whose investment firm, E.S. Barr & Co., has been a big buyer of Gabelli stock. “So in our opinion, the stock price represents a significant discount to the intrinsic value of the company.” ■

Past performance is no guarantee of future results. 116.06%, 58.04%, 39.25% and 32.94% were the average annual returns as of 12/31/99 of the Gabelli Global Growth Fund for the one, three, and five-year periods and the period since inception on 2/7/94, respectively. The returns shown above are historical and reflect changes in share price, reinvested dividends and capital gains, and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. The Fund's total returns in 1997 and 1998 were 41.7% and 28.9%, respectively.

The Fund was ranked #1 by Lipper Inc. for the 3 and 5-year periods ended 12/31/99 out of 170 and 101 Global Funds, respectively. The Fund was ranked 7 out of 256 Global Funds tracked by Lipper Inc. for the one-year period ended 12/31/99. Lipper rankings are based on 12-month, 3 and 5-year total returns at NAV.

Marc J. Gabelli is the portfolio manager of the Gabelli Global Growth Fund. The views expressed in this article reflect those of the portfolio manager only through January 3, 2000. The manager's views are subject to change at any time based on market and other conditions. Favorable earnings prospects do not necessarily translate into higher stock prices, but they do express a positive trend, which we believe will develop over time.

The securities mentioned in the article are not representative of the entire portfolio, and are subject to change at any time. The chart below details the securities mentioned and their corresponding percentage of the portfolio as of 12/31/99:

Sony Corp.	2.37%	E*Trade	—
Softbank Corp.	2.78%	Yahoo	—
Kyocera Corp.	3.62%		

A complete listing of the Fund's holdings is available by calling the distributor, Gabelli & Company, Inc., at 1-800-GABELLI (1-800-422-3554), or by visiting our website at www.gabelli.com. The geographic breakdown for the fund as of 12/31/99 is as follows: North America 42.9%, Europe 27.8%, Japan 26.1, Asia/Pacific Rim 3.0% and Latin America 0.2%.

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