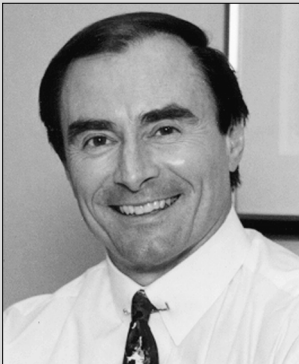


# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Investing in the Fastest Growing Companies



FRANK J. HUSIC founded Husic Capital Management in June 1986 and has 30 years of industry experience. As Managing Partner and Chief Investment Officer, he oversees all investment activities for the firm. Mr. Husic is the Chairman of the Senior Management Committee and of the Portfolio Strategy Committee. Previously, Mr. Husic was Senior Vice President and Director of Alliance Capital Management. He was also President and Portfolio Manager of the Alliance Technology Fund and the Alliance International Technology Fund. Over the years, Mr. Husic has been a speaker at various industry conferences as well as having appeared on programs such as CNBC, CNNfn and Wall Street Week With Louis Rukeyser. Mr. Husic earned a BS in Mathematics from Youngstown State University, an MS in Industrial Administration from Carnegie-Mellon University and an MA in Economics from the University of Pennsylvania.

**(YAE502) TWST: Would you tell us about Husic Capital Management, how it developed, and what its investment style is?**

**Mr. Husic:** We are a growth equity investment firm. Our core competence is managing portfolio and securities comprised of America's fastest growing companies in a growth equity style. We were founded in 1986, are based in San Francisco, and have a list of very prestigious institutional and high net worth clients.

Over the years we've grown our product offerings from one at the beginning to, on the long-only side, small and mid-cap, large cap, all cap, and balanced growth. We have concentrated products and products aimed at the technology-only sector. Over our history we've added products that are both long and short, that is, hedge products, and we have quite an interesting variety of those products now as well.

**TWST: Is there an overall investment philosophy?**

**Mr. Husic:** Yes. Our philosophy is to be early in anticipating changes that occur at various levels — at the company level, industry level, sector level, market level, asset level — really at whatever level enables us to be among those who are early in seeing change and then take advantage by going long in companies that will

benefit from the change or by selling or going short those companies that will be victims of those changes.

**TWST: Do you have a top-down approach before you actually select stocks?**

**Mr. Husic:** We actually begin with a bottom-up approach, which involves using both fundamental and technical screens, and generally being aware of one's environment. Using these screens, in an idealized world we identify individual companies that are being affected by these changes. We then attempt to extrapolate a more general theme from the individual company. Using that theme and its broad parameters, we drive back down to the individual company level to hopefully find more attractive investment candidates for our portfolio. So it begins at the bottom at the company level and it very much emphasizes getting to know the managements, getting to understand the critical variables behind what drives the business model of an individual company, then attempting to extrapolate from that up to a more generalized theme. And then, using those parameters, we once again dive back down to the individual company level to find more companies that are being driven by this change as well.

**TWST:** Last year you discussed the impact of China on the market. Another theme was satellite radio. Can you update us on those trends?

**Mr. Husic:** Wasn't that timely? And isn't this conversation timely as well, because those two satellite stocks are now having a very severe down adjustment today after the inverse of yesterday when they both reached new highs as a result of a number of events, several of which we would have forecast and several we were absolutely amazed by. A big event yesterday was **Toyota (TM)** announcing a new arrangement with **XM Satellite (XMSR)** to offer **XM Satellite** radio units as factory-installed starting in 2005. But among the events that were unforecastable was Howard Stern moving to **Sirius (SIRI)**, which is a fairly major change wave. But I would say of a much bigger order of magnitude was Mel Karmazin

is. We'll simply have to watch developments. The growth is limited only by the imagination of entrepreneurs to invent new ways to exploit this latest technology.

China has developed along some of the lines we discussed. Internet sites and telecommunication services that have been associated with the emergence of the middle class have continued to be spectacular. New names have been added to them, most specifically a company that we own called **Shanda (SNDA)**, which offers online gaming. And that's a new wrinkle. At the time we last talked, we mostly focused on SMS, short messaging services, such as **SINA (SINA)**, **Sohu (SOHU)** and **NetEase (NTES)**. Since that time and over the last year, **Shanda** has been added with online gaming. There's another company called **The9 Limited (NCTY)**, which is a similar kind of offerer of online gaming.

*"On April 28, the birthday of Steve Wynn's wife, there will be the grand opening of Wynn Resorts in Las Vegas. This, I believe, will raise the bar on entertainment product in Las Vegas. An even bigger part of the story is that Steve has one of the two main concessions to operate a Las Vegas-style gaming facility in Macao that will open in 2006."*

agreeing to become CEO of **Sirius**, the full implications of which none of us yet appreciates. While the stocks are adjusting today, I would say that what is emerging is the fact that over time these companies will be able to deliver virtually unlimited content. What's important about that are the two facets of unlimited content: when you want it and where you want it. Those are two very important issues.

Today, as you can tell, we're moving away from traditional media, which offers pre-programmed content, where if you want to watch the news, it has to be at 6:00 or 7:00, and it's going to be what a producer has decided you should see and in predetermined order. You have to live through segments in order to get to parts you are interested in.

I think Bill Gates summarized the new world today so well when he created the one-line advertising statement, "Where do you want to go today?" This is another phase of enabling people to direct and choose what information and what content they want to experience. Satellite radio is taking the evolution a step further. Not only can you choose what you want but also where you want. In the sense that you can now do this in your car and over time through handheld devices, satellite radio offers a sense of ubiquity. Clearly one will be able to receive this content in various places. It's an interesting and very important breakthrough.

Returns have been enormous from investing in this area over the last 15 months, so it's hard to know how much more there

1-Year Daily Chart of Wynn Resorts

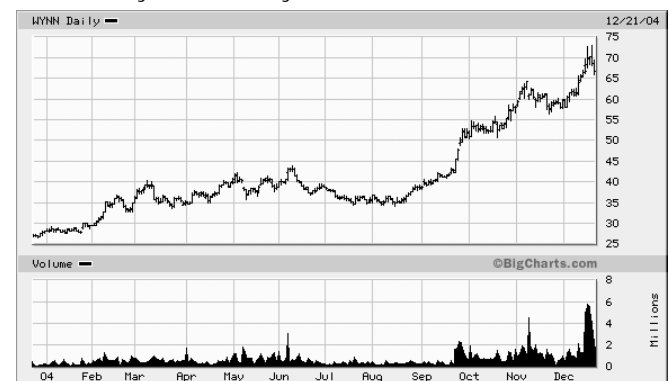


Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

It's interesting to consider the fact that video game revenue now exceeds by a large margin box office receipts from movies, which no one would have thought of five years ago. In fact, today a company called **THQ (THQI)** is down significantly because they were designing the video game for **Pixar's (PIXR)** next movie called "Cars," which is being deferred, pushed out about six months. This is going to create a hole in **THQ's** game offerings as well. So there

is a linkage between this one medium and another, and yet this second medium, which started up more recently, has surpassed the other by a large, large amount.

I mentioned **Shanda** and **The9**. In addition, I would mention two other companies. The first is **Ctrip.com** (CTRP), which is online travel in China and has done incredibly well. The other is **51job** (JOBS), which is online job postings in China similar to Monster.

*“Homeland security covers a number of subsectors, including security, communications, and intelligence companies that are involved in making our lives more secure, whether it be detection of bombs, of criminals, of the wrong kinds of people, surveillance of situations, or antivirus. Here our poster children are stocks like Symantec, VeriSign and McAfee.”*

A second dimension of China has worked out far beyond our wildest dreams. Last year, we talked about **Wynn Resorts** (WYNN) and the fact that there were two components to the **Wynn** story. On April 28, the birthday of Steve Wynn’s wife, there will be the grand opening of **Wynn Resorts** in Las Vegas. This, I believe, will raise the bar on entertainment product in Las Vegas. I’ve been there a number of times to see it and it’s truly breathtaking. An even bigger part of the story is that Steve has one of the two main concessions to operate a Las Vegas-style gaming facility in Macao that will open in 2006. On Friday the road show will be here for the **Las Vegas Sands** (LVS), which is Sheldon Adelson’s company and is the other operator of a concession in Macao. It operates the Venetian, one of the most profitable operations in Las Vegas and the only one of Las Vegas’ operations to have already opened in Macao. It has so far exceeded all expectations.

Another fact I think you’ll find quite interesting and not many people know is the revenues in Macao this year are projected to be \$5 billion. That equals all of Las Vegas’ revenues. The projection is that in five years Macao revenues will be \$15 billion, a triple in five years, and these are pretty stunning statistics. So that is the second dimension that I referred to in my previous interview.

The third, which again has been marvelously successful, is the demand by China at the margin for various industrial commodities, including energy, steel, etc. In 2004 that demand launched a commodities boom that has inured well to companies like steel companies, nickel, copper, aluminum, energy. Those companies have been pretty spectacular stocks this year. It’s not clear what the future is or what the next 12 months will be for them. Because all of these things move in waves, it isn’t clear whether things are shifting away from them in the short term. In terms of the last 12 months, it’s certainly been the right place to be.

**TWST: What investment themes has your research team come up with as we enter 2005?**

**Mr. Husic:** In our last quarterly letter we put forth the thesis that technology stocks were about to join the bull market. If you recall, the NASDAQ, which has a lot of technology stocks in it, was the strongest to rally out of the bear market from October 2002 to January 2004. During that period, the NASDAQ was up 93% versus the S&P up 50% and the DJIA up 49%. Then out of that October 2nd bottom there was a great deal of skepticism. Not many people be-

lieved technology would come back. By January 2004 enthusiasm had grown quite a bit and we went into a consolidation/correction period. The NASDAQ bottomed at 1750 on August 13. It’s at 2123 today, so it’s already had a pretty good move.

We think there’s more to come and we especially are enamored of four areas within technology. The first is spending on homeland security, which covers a number of subsectors, including security, communications and intelligence companies that are involved in making our lives more secure, whether it be detection of bombs, of criminals, of the wrong kinds of people, surveillance of situations or antivirus. Here our poster children are stocks like **Symantec** (SYMC), **VeriSign** (VRSN) and **McAfee** (MFE). There is a full range of these companies, though most of them tend to be small and mid-cap companies.

The second big area is the Internet. Last year everyone called for the death of the Internet but we contended the death knell was premature. Companies are once again asserting themselves. We’ve already alluded to this with our earlier discussion of the shift away from conventional media to a media more related to the Internet. Here some of the outstanding stories have been **eBay** (EBAY) and **Yahoo!** (YHOO), which are making new highs again this year. Again, a full range of companies has been involved in taking and converting “the media” to “my media.” We think companies involved in advertising, commerce and search are particularly interesting here.

The third area is wireless, which we tangentially referred to with our satellite radio discussion. We continue to like parts of **Nex-tel**, including **Nextel Partners** (NXTTP), **Nextel** (NXTL) itself, and **NII Holdings** (NIHD), the Latin American portion of **Nextel**. And of course I’d be remiss to exclude the makers of wireless devices like **Research in Motion** (RIMM) and **palmOne** (PLMO) with the new Trio 350. And of course who can believe what’s happened to **Apple Computer** (AAPL) this year?

One of my favorite things to do at the end of the year is what I call the cocktail party bet, which is ask people who generally aren't involved in the market which of two stocks they thought outperformed the other one. My cocktail party question in 2003 was, "The market has done well in 2003. Which stock do you think outperformed, **Microsoft** or **U.S. Steel**?" Nine out of 10 people guessed **Microsoft**, because it's a progressive, attractive growth company. Most think **U.S. Steel** has gone out of business. And of course last year **U.S. Steel** went up 3.5 times and **Microsoft** was about flat.

*"One of our favorite ideas is Ultratech. We think they are an important possessor of powerful intellectual property with two particular technologies that they developed, Bump technology and laser thermal processing, which are entering into powerful growth curves."*

One of the interesting cocktail party questions for this year is, "Which did better, **Dell** or **Apple Computer**?" **Dell** is up about 25% or 30% and of course **Apple** is up 3 times. No one would have guessed that. Many prominent technology investors in the past have called for the death of **Apple** and said they would ride **Apple** right to zero because it was losing market share. The invention of the iPod and some other products has played directly into the whole shift to the Internet and to wireless.

Finally, the fourth area that we like a lot in technology is the whole field of consumer electronics. In fact, just before we got on the phone I was visiting with a semiconductor company that plays well into that area. We think we're at an important inflection point for a number of killer applications in consumer electronics, whether it's digital cameras, iPods, PDAs, or flat panel television sets. The paradigm shift to digital equipment and the digital age for consumer electronics is driving fantastic change and creating new winners, some of which we referred to already with **Apple** and **Research in Motion**. But we think companies like **SanDisk** (SNDK) and **Flash** (FLSH) and **Lexar** (LEXR) are big winners in this space as well.

One of our favorite ideas is **Ultratech** (UTEK). We think they are an important possessor of powerful intellectual property with two particular technologies that they developed, Bump technology and laser thermal processing, which are entering into powerful growth curves. We think that **Ultratech** has a very attractive future ahead of it in terms of its growth.

I would reiterate something else from our discussion a year ago: that we continue to be firm believers in small and mid-cap stocks outperforming larger cap companies. We know this is a song that's been sung now for four or five years, but we think we've entered a period very reminiscent of the period coming out of the 1973-

1974 bottom when there was an eight- or nine-year period of outperformance by small caps versus large. We see no evidence that's going to change. In general, we think large cap companies, because of the big stock market move in the late 1990s, still have far too much market capitalization in them. Also, foreign investors don't have the same affection for the US market they displayed in the late 1990s. So it's becoming more of a domestic stock-picker's market among mostly domestic managers. That tends to favor companies that are less well known. Very large companies have very large capitalizations relative to either their revenues or their growth rates.

1-Year Daily Chart of Ultratech

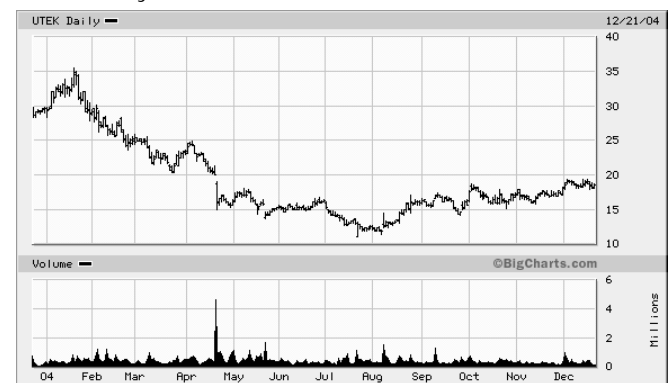


Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

Here I have a number of poster children, but probably one that is so clear is **Wal-Mart** (WMT), which continues to be a retailing juggernaut selling a very high percentage of all retail sales in America yet the stock is underperforming this year again, after having underperformed for several years. We expect that will continue in 2005.

The second term for the Bush administration is an important topic as well. As you know, most people thought that it would be a Democratic victory or potentially an ugly stalemate. Instead it was a very clear victory for Bush, including victories in the popular vote and the Electoral College. Important shifts within the Congress allow the Republicans to have the majority. There is opportunity for producing sweeping change and for introducing brave new directions in fiscal

policy. Whether those ambitions and hopes will be achieved remains to be seen, but the stage has been set for moving away from the prior 10 years, which has been a period of political gridlock, and for moving the country in important directions to address issues facing the economy, including tax reform, Social Security and health care. It's clear that Bush intends to take on some of these issues. He's also changing his team to a more proactive and anticipatory group than the prior one.

Now, with change comes the risk of failure and of moving in incorrect directions, but at the moment the stage has been set for addressing these issues. It's interesting, in 2004 corporate earnings will be up 25%-30%. I'm not sure whether in its history the corporate sector has ever been healthier from a balance sheet perspective. Many companies have deleveraged themselves and have huge amounts of cash. Yet the market has effectively gone nowhere in this period. We could have a paradox where earnings slow up to 10%-15% but the market moves ahead much more dramatically than that. This scenario has some substantial probability of occurring in 2005.

**TWST: What about the impact of oil prices and the outlook for energy?**

**Mr. Husic:** I have the same point of view about energy as I've had since the year 2000. Energy has entered a long-term secular bull market. Having said that, it is possible within any shorter period of time to lose between 20% and 30% of your money. We're coming off the second major positive cyclical leg of this secular bull market, but I think the outlook looking forward is for energy stocks to relatively underperform other groups over the next six to 12 months. A number of things could change that but they would have to be exogenous variables — disruption in supply or some other event of major magnitude. Without those, I think the seeds are sown for lower energy prices, coming off this \$55 emotional top, though remaining above the level of prior lows. I do not look for energy companies to be the leader stocks in the next six to 12 months, and that's part of why in our latest piece we've highlighted technology stocks.

**TWST: Do you see the administration resurrecting an Energy Independence Bill?**

**Mr. Husic:** Absolutely. I think it will be an important priority and could provide the seeds that drive the next leg of the bull market in 2005 or 2006. The problem is you're going to have up earnings for a lot of companies. There's a good chance for some energy companies to have flat to down earnings in 2005 because of the tremendous explosion in their earnings this year.

**TWST: Do you see better prospects for the E&P companies? Would you put your money in the oil services?**

**Mr. Husic:** At the margin oil services will be more interesting. In 2004 E&P companies have been loading up cash in the balance sheets and they are grudgingly beginning to spend those resources. They're faced with either paying them out to shareholders, using them in some way, repurchasing stock, or spending money to find other reserves. It's reasonable to think that spending on finding new energy and unconventional sources of energy will rise. That

should inure well to companies in energy service. In that area we especially like the offshore drilling companies like **TODCO** (THE), **Diamond Offshore** (DO) and **Transocean** (RIG). Also, we like the companies involved in areas like LNG and, actually, we think coal companies will continue to do well next year.

What is different about the coal companies, and it varies by company, is they're on long-term contracts and have not yet fully realized the gains from price appreciation this year. As time passes, these long-term contracts roll over in some fashion — enabling the companies to renegotiate new contracts at higher prices than prior contracts. As a result, there should be more earnings upside in the coal companies in the next 12 months than in the oil and gas companies, which have more immediately realized the appreciation.

**TWST: Last year you said that the NASDAQ had produced an extremely inefficient market. Has your view changed over the past year?**

**Mr. Husic:** I still think it's extremely inefficient, although the levels of the market are very different from what they were then. Last year when we talked it was about 1900. It's currently about 2100, so it's up but not substantially. Coming into 2003, the index was 1100. When we had our conversation last November, I had been talking about that environment in late 2002 and the beginning of 2003 when things were so inefficient. Compared to that time, the NASDAQ is much more efficient but still offers opportunity. Clearly, it's not 1100 anymore.

**TWST: What are some of the investment opportunities in the small cap range you've been attracted to in recent months?**

**Mr. Husic:** I mentioned **Ultratech**. **Pinnacle Entertainment** (PNK) is a casino operator with properties in various parts of the country. It's a very small stock. We find quite a bit of value in **Gateway** (GTW) with its new management. Even though **Gateway** acquired eMachines, it was effectively a reverse merger and the management of eMachines is now running the company. In semiconductors we like **Atmel** (ATML) a lot, and I mentioned **Lexar** in the flash memory area. In the materials area we like **Metal Management** (MTLM), a very interesting scrap steel company that has emerged from near bankruptcy.

**TWST: What is your sell process and, in particular, your hurdle strategy?**

**Mr. Husic:** We believe our sell discipline is unusual, if not unique to us. Here's how it works. When we buy a company for our portfolio, we initially take a 1.5%-2% position. Our hurdles are actually company-specific tangible forecasts of events that we expect to occur in the next 90 days or less. They're observable, measurable events that are going to have an impact on the revenue and earnings growth potential of the company. Necessarily, they are short term in nature. Because we are theme investors, we want to position ourselves in front of longer-term themes that will deliver extraordinary rates of return to our clients. However, one of the risks in being a long-term theme investor is that you could be too early. So we try to link up time frames, short- to long-term thinking, by using these hurdles.

Our thought process is that if the environment for a set of companies is truly becoming favorable, then there should be some positive implications and impact on the companies that are in that theme. Their prospects should be improving in some way. Our forecasts capture the events we expect to happen that will show the environment is changing in a positive way for the company.

So the company is going to report relative to an event in the next 90 days or less. The hurdles can be anything from a very large menu of items. To give examples, actual earnings versus consensus forecast, perhaps a change in management or control, new bookings or order rates for the company, growth of market share, expanded profit margin in a particular division — whatever we think is important for the company to continue to experience the positive change that we expect to happen over the next two to three years.

For every company we own, we put in place this forecast of a hurdle. It is very important to understand that the forecast is not about the company's stock price but instead is about the development of the fundamental story. Once the forecast is in place, time passes and the company reports relative to the forecast. If it meets or exceeds the forecast, we will stay invested in the company. In fact, to the extent that the company greatly exceeds the

miss, we will stop selling, set a new hurdle, and wait. Two violations in a row and we will sell all of our stock, no questions, no explanations allowed.

Let me say further that if you don't come up with a reasonable explanation for why the company missed the original hurdle, we immediately continue to sell all the rest of our holdings. So the most important driver of our sell discipline relates to this hurdle strategy.

**TWST: What about valuation?**

**Mr. Husic:** The second important reason to sell a stock relates to valuation. We're especially inclined to sell or take profits when we see the company's valuation stretched or expensive relative to comparables in that particular investing space, or expensive relative to the company's own growth prospects. We employ a PEG model that tracks the PEG ratio of companies in a sector. The PEG ratio refers to the company's p/e relative to its growth rate. We generally prefer to buy companies when the PEG ratio is well below 1 and seldom buy when it exceeds 1. We are not limited to this model only and use other metrics for valuing companies, such as market cap to revenue, price/earnings ratio, and other measures related to book value and cash flow.

*“Pinnacle Entertainment is a casino operator with properties in various parts of the country. It's a very small stock. We find quite a bit of value in Gateway with its new management. Even though Gateway acquired eMachines, it was effectively a reverse merger and the management of eMachines is now running the company.”*

forecast, not only will we remain invested in the company, but we might actually now increase our weighting within the portfolio in that company's stock.

A company that meets a succession of hurdles or forecasts may end up becoming a top holding of the firm, which generally has a weight of 8%-10% of our portfolio. The top 10 holdings generally make up between 40% and 50% of the holdings in our portfolio and become key drivers of our performance. So you can see that the top 10 holdings in the portfolio will in general be companies that we've been investing in for a period of time and are companies that have displayed the ability to meet or exceed a series of forecasts over that time frame.

Very importantly, if the company fails to meet the forecast, that is, misses a hurdle, we will immediately put up for sale a quarter to a half of our holdings. While we are selling, a member of the investment team will investigate why the company missed that hurdle. If our analysis finds there is a good explanation for the

1-Year Daily Chart of Pinnacle Entertainment



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

The third reason we sell is to introduce a new theme in our portfolio and that action means we need to reduce another theme. As we do that, we have to take down the weighting from one or more stocks. When we are overwhelmed with exciting stock ideas, we assess individual ideas on a relative return basis.

**TWST: What are some examples of stocks that you have sold in the last year to illustrate your hurdle strategy and your valuation metrics?**

**Mr. Husic:** On a valuation basis recently we sold **Pixar**, which is the wonderful animated film company that produced its latest dramatic hit, “The Incredibles.” We sold it on the heels of the introduction of “The Incredibles” as the stock went to a new all-time high. It’s especially timely today because they announced that they would be delaying the release of their next film, “Cars,” and that announcement has knocked the stock down pretty substantially today. It was very appropriate that we sold the stock when we did, and we did so on a valuation basis.

As far as disappointing on the hurdle strategy, a good example there was **Sohu**, one of the Chinese Internet companies. We sold the stock on a hurdle violation basis.

**TWST: Is the turnover pretty large because when you get new themes and new interests in various trends, you have to make room for them?**

**Mr. Husic:** Our turnover is about 100%-130% a year. What we find is that because of the use of the hurdle strategy, the companies that are going to be some of our biggest winners will come and stay quite a while in our portfolio. With those companies that are going to disappoint us, we generally learn of that disappointment pretty early after having made our acquisition of the company and it is a relatively small weight within the portfolio. There is an inherent tax efficiency to the process, as well.

Several of the companies we discussed during our interview are brilliant examples of this, including **XM Satellite**, which we began buying at about \$1. As I mentioned, it’s now almost \$38 and it’s been with us well over a year. We began buying **Wynn Resorts** at \$13. It’s \$62 today and with us well over a year. We began buying **Oregon Steel (OS)**, another company that we’ve done well with, at \$4 a share. It’s currently \$15.75.

These are interesting examples of our strategy at work. Where these are companies that have met or exceeded our hurdles, we’ve remained invested and in fact, to some extent, have increased our weights. Our clients have very attractive gains of 5, 6, 7 times on their money and these are mostly long-term capital gains.

The turnover comes instead in these names where there have been disappointments and we’ve left the ideas relatively early in our ownership of the companies. There’s a kind of bifurcation where names come and stay for a long time but those that disappoint exit fairly quickly.

**TWST: You have different portfolios and investment strategies. What is your performance record over the past year?**

**Mr. Husic:** We’re especially proud of the third quarter, where we had very strong performance. We believe we’ll be among the top investment managers in the country in the third quarter and are hoping for a strong finish in the fourth quarter, as well. After a meteoric 2003, we’ve had a more average 2004, but we feel that the market has consolidated and has been performing in the way I’ve discussed. We’re looking forward to a very exciting next six to 12 months.

**TWST: What is unique about the investment style at your firm? What do you feel you bring to the table that other money management firms don’t?**

**Mr. Husic:** Our principal skill is this idea of anticipating change and being early, looking around the corner at what is going to happen — not what is happening or what has happened. We very much believe and use as an important guide for our work the simple equation that the price of an asset in the public marketplace is equal to some earning power measurement (usually earnings per share, but it could be cash flow, EBITDA or whatever) times a fraction, which most typically is described as p/e or price over that earning power. That’s more traditionally called a multiple.

What we think is interesting and what is different about us is that everyone emphasizes the importance of forecasting and being accurate in forecasting the earnings power measure. We believe in it, as well. But we think potentially even more important is the need to forecast the direction of that multiple, that fraction, that p/e because we believe it swings widely between terminal values broadly described as greed and fear. Those swings can be very dramatic and examples abound.

We need only go back to the satellite radio companies as particularly extreme examples. At \$1 or less, the pendulum of p/e had clearly swung to fear and offered enormous opportunity. At some point here the pendulum is swinging back to greed, and the issue now will be to determine where that is. But our job is to put our client portfolios in those names and sectors where that multiple is expanding and moving toward greed and avoid and go short in the places where the multiple is moving in the opposite direction toward fear.

We think it’s a very unusual approach to focus on forecasting multiple direction and it requires a special and rare talent, the ability to look forward. We think most people look coincidentally or backward but that’s not where returns lie.

The problem in the marketplace is that prices of securities generally embed expectations of present and past events. But it’s the future that determines what returns will be. Our skill is that ability to look forward and anticipate what will be the next winners as opposed to what have been.

It’s referring back to my cocktail question in January of 2003: Which stock would most people have picked, **Microsoft** or **US Steel**? Most people would have picked **Microsoft** and been dead wrong. At the beginning of 2004, between **Dell** and **Apple**, which would most investors have chosen? I’m sure most of them would have chosen **Dell** and not **Apple**, and they would have been wrong again.

Around that skill and talent we build disciplines, including the hurdle strategy and valuation, because no one is right 100% of the time. If you use discipline and have risk management controls, your successes become important parts of your portfolio and diminish the impact of the mistakes and disappointments. In more common parlance, allow your winners to run and cut short your losers.

**TWST: Is there anything that you wanted to bring out as a better picture of your work?**

**Mr. Husic:** One is the fact that we believe in and are totally committed to independent research. We don't depend on the Street to tell us about our investments. We want to have discussions with the company. We want to have the perspective to know when the company's stock plunges whether we should truly be selling or whether we want to be buying that company's stock. We can only be in that position if we understand the companies ourselves.

We use the brokerage community in a proactive fashion. Again, it's like Bill Gates saying, "Where do you want to go today?" We want to call them and ask them about companies, rather than have them call us and recommend companies. We may or may not be right. We are sure they don't know what they're doing. Typically, when a broker brings a company around, you can look at the price chart of the company and it's probably up 500% in the last 12 months because that's when opinions become cheery and everyone becomes enamored of companies, not when they have been doing poorly. So it's very important that we drive our own research independently.

The other thing that I think is very important is we went on to China very quickly, and that was appropriate. But it's important to see China and what's happening there as really part of a much bigger issue. I maintain that the biggest problem facing the world today is the enormous gap between the rich companies and the poor countries. This problem is exacerbated greatly by the demographic profile of rich countries and poor countries.

Broadly speaking, rich countries are older and are growing more slowly. Individual countries obviously differ with respect to one another but those are general characteristics. Poor countries are startlingly young and are growing at rates 3-6 times that of rich countries. Within this scenario rests a range of outcomes that go from extremely optimistic to extremely pessimistic.

The optimistic outcome relates to the fact that young people have high degrees of energy and high degrees of productivity and generally can produce things in a very productive manner. If they're properly channeled, they can produce a virtual cornucopia of goods and services to the world at extremely low prices that will benefit everyone.

The downside is that if young people feel they've been left out of the wealth sharing and left out of the system, they will react in a very aggressive fashion, whether it be anti-draft violence in America 30 years ago or, as we see in the darkest moment, 9/11. If we don't create a scenario where the have-nots are in fact participating in growing standards of living and prosperity, the downside we face is an extremely terrible outcome. It is important that the have-nots improve their standards of living.

The paradox is those goods needed to increase the standard of living of the have-nots are, in many cases, goods we have taken for granted in our country for 20 and 30 years. They involve infrastructure, buildings, houses, cars, air conditioners and a plethora of items that most of us take for granted every day. The impact of this industrially has been to revive a number of industries and companies that have been moribund for 20 and 25 years, such as fuel companies, copper companies and cement companies.

It's producing this paradox where we are living through a commodity boom related to global industrialization at the same time that bond markets around the world have extremely low yields. A large part of our economy is still disinflating because the supply of goods and services produced out of emerging countries is being balanced by a boom in commodities demanded by these emerging countries. That explains the paradox of how you can have low inflation and low interest rates at the same time commodity prices are through the roof.

**TWST: It also helps with the outsourcing.**

**Mr. Husic:** Totally. China is one very important cog in this process, but it really needs to be seen as a part. These things are also happening in Eastern Europe. They're happening in South America and other parts of Asia as well.

**TWST: Thank you.**

*Note: Opinions and recommendations are as of 12/17/04.*

FRANK J. HUSIC  
Husic Capital Management  
555 California Street  
Suite 2900  
San Francisco, CA 94104  
(415) 398-0800