

Eyes on 'iPhone Economy,' P/Es

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Around this time of year, market analysts drum up exquisite allusions to describe what has just passed and what lies ahead. This year, the folks at Fred Alger Management refer to "A Tale of Two Cities": "It was the best of times, it was the worst of times." Another pundit takes the astrological approach: "According to the Chinese zodiac, 2008 is a year of danger."

But once they get past the cuteness, the mavens have some intriguing insights to share. Here is a sampling: Fred Alger's chief executive, Daniel C. Chung, and chief economist, Zachary Karabell seek to answer the question "In what way does a recession shape investing choices?" They conclude that if a recession occurs, some companies will be sucked into the maelstrom but others will not.

In Chung and Karabell's view, there is a subprime economy of foreclosures, tight credit, plunging housing starts and declining jobs in construction. But there is also what they call the iPhone economy -- the stillbuzzing world of iPhone sales, hand-held GPS gadgets, PDAs, gaming devices and other tech wonders. "Those who live in the iPhone economy may be sharing the same country but are in many ways living in separate worlds," Chung and Karabell write. "The point is that it is possible for one part of the economy -- the sub-prime economy and everything related to it, including significant chunks of Wall Street financial institutions and banks -- to be in a recession and other parts of the economy to be expanding."

They also remain committed to large-cap growth stocks, saying these companies "are deeply immersed in a global economy that is showing signs of 'decoupling' from the United States and expanding at a much more rapid pace. Those companies are seeing robust growth from places as diverse as Latin America, the Gulf region, and especially China."

The newsletter Investment Quality Trends has been watching new years come and go for more than 40 years. In discussing financial stocks this year, they raise the specter of the legendary value investor Benjamin Graham. "Ben Graham is turning in his grave over specific values that currently exist," writes managing editor Kelley Wright.

Wright picks out several stocks that he believes Graham would find attractive: Bank of America (BAC), trading at a price-earnings ratio of 10 and yielding 6 percent; Central Pacific Financial (CPF), with a P/E of 9 and a yield of nearly 5 percent; TCF Financial (TCB), with a P/E of 9 and a yield of about 5.3 percent; and Wachovia (WB), with a P/E of 9 and a yield of more than 6 percent.

And finally, this from the investment management firm BlackRock. In a special report called "An Early Look at the 2008 Elections," Bob Doll, BlackRock's global chief investment officer of equities, highlights a few issues investors should keep an eye on as the campaign progresses.

"As we enter 2008, we expect trade to remain a hot-button issue and one that could have an impact on the markets," he writes. Doll notes that campaign rhetoric on protectionism could hit stocks if investors worry about the threat to globalization.

Investors also need to pay attention to the candidates' sparring over the capital gains tax, Doll says. The current, favorable 15 percent level is set to expire in 2010, and it's unclear whether a new president and

Congress will extend it. "Such discussions bear close watching since tax levels on investments obviously influence the relative attractiveness of equities," Doll writes.

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