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Thanks, Mr. Market

"If you find yourself in a room with 500 shareholders at an annual meeting," Michael Price advised the *Grant's* assemblage last week, "maybe it's not an undiscovered stock. But if you're the only guy who shows up, maybe it is."

Price, who has made a career transition to managing his own money from managing other people's (e.g., via the Franklin Mutual Series Fund), pointed out that all things, not least all financial things, move in cycles. In one phase of its life cycle, a company is solvent, evidently well managed and fully valued. Turn the cyclical page and the same company is in crisis, its evidently competent management ousted and its share price shredded. Never mind the happy season, he said; wait to pounce in the sere season.

Consider, for instance, Hospira Inc. (HSP on the New York Stock Exchange), a maker of ready-made injections, which ran afoul of federal inspectors. "The FDA comes in," Price recounted, "gives you letters, they do investigations, they close off two-thirds of the plant, you can't sell the drug and earnings go from $3 a share to $2 a share—maybe $1.50 a share, whatever. What happens to the stock? The stock goes from $45 to $28. So right away, you, the investor, are being offered the opportunity. In that case, a couple-billion-dollar discount to buy a very solid, clean company that you know has the resources to fix that manufacturing problem.

"Forget the bankers," Price went on. "Forget the lawyers. Forget the traders. Forget the research analysts. Forget the underwriters. Forget all the nonsense that Wall Street provides. Mr. Market hands you this opportunity when the management stumbles in an otherwise perfectly solid company, and they will fix themselves. And they'll spend a year fixing it. So, for a year, they'll earn $1.50 to $2 a share instead of $3 a share, but once they get it straightened out, it'll be at 15 times earnings, and it'll be back to $45. It's $31 today."

Allegations that officers of Wright Medical were bribing orthopedic surgeons to induce them to implant the company's artificial extremities—knees, hips, feet, ankles—produced a value seeker's opportunity in the shares of WMGI. Sin aside, Price continued, the company was A-OK: "Numbers were fine. Balance sheet was fine. New CEO comes in. . . . They settle some litigation and you start to look at who owns the stock. We notice that there have been some interesting accumulators of the stock. . . ." "Probably," Price elaborated, "half of our positions are in some form of spin-offs, restructurings, something that has come out of bankruptcy, something that might be going into bankruptcy—in terms of senior secured, etc. . . . Knowing where you are in the cycle is so important. When you're talking common stocks, you want to be in the value portion of the cycle. You want to be there before the company is levered up, before the company has been very acquisitive, etc."

On the rebound, too, is CIT Group Inc., the small- and mid-market lender that filed for bankruptcy protection in November 2009 and emerged in December 2009; ex-Merrill Lynch chieftain John Thain took the helm in February 2010. Valued at around tangible book value, said Price, the company boasts "tremendous" earnings power: "It has big tax credits and businesses that are worth north of book as their margins improve. They've also refinanced their balance sheet. So CIT has made great strides." Having owned the debt—also on the rebound, said Price—he and his team are back in the stock: "For CIT, which went through all sorts of corporate evolutions, was for me—it's a great example of (and continues to be) a very reasonably priced stock that is under-owned by institutions." And did you know, Price later mused, that Canada's five big banks, which survived the 2008-09 debt drama intact, are "totally acquisitive right now?"

"So," he continued, "when you have something that had come out of Chapter 11, with a refinanced balance sheet, with understated earnings power, now is the time to strike. I don't think John Thain is ready yet, but now is the time to strike for some of these consumer finance businesses or smaller banks in the U.S."

As for being the only shareholder at the annual meeting, Price recalled, he was once that individual. The year was 1975, the place was

Eau Claire, Wis., and the company was National Presto Industries (NPK on the Big Board), a manufacturer of pressure cookers, canners and—yes—artillery shells. Price was bullish on National Presto then—when it was trading at 60% of book—and he's bullish on it today, at 1.77 times book value and 11.7 trailing net income. "Every now and then, they'll pay a special dividend," he said. "Every now and then, they'll buy back a few shares. It is still controlled by the family."

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