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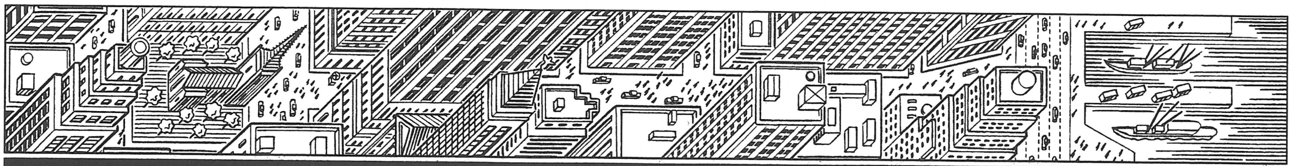

Rodica Prato for Barron's

UP & DOWN WALL STREET

Forever Bullish

BY JAYE SCHOLL

(the following has been excerpted:)

IF ANYTHING, ALEX ROEPERS IS EVEN more dour on the economy than Bill Gross. Alex, you may recall, is the hedge fund manager who recommended **Harsco** in this space a month ago as a post-September 11 play, and we must confess to being impressed by the ingenuity and logic of his analysis. Harsco, we should add, enjoyed a nice little rise after the mention.

Alex, whose firm bears the somewhat pallid name of Atlantic Investment Management, is big on companies that are solid financially and whose products aren't rendered obsolete by a new technology. The kind of companies, in other words, built to weather whatever the economic gods toss their way—which is why we decided this might be a propitious time to give him a buzz.

As intimated, Alex views the economy through a very dark glass, indeed. He rates as better than an even bet that the economy will continue to struggle well into 2003. And he thinks there's a decent chance that things get real nasty, if housing prices take a dive.

As to the stock market, we feel safe in stating he's not in Peter Lynch's camp. He expects the S&P to slip back to 850-900, while the Nasdaq skids below 1,200. Oh sure, he snorts, stocks provide superior returns over time, buy how about those stretches of 10 to 15 years, "when you don't make a penny?"

Nonetheless, there always are stocks that buck the trend and he's confident he can come up with his share of them. Alex often is attracted to a company experiencing problems—the very thing, of course, that turns off most professional investors. But he's not being merely perverse. Rather, he's drawn to a troubled company only when he's pretty sure he knows the remedy for what ails it and has amassed enough shares to persuade the CEO to pay heed.

Alex's confidence in his diagnostic abilities is grounded in his background in high-powered corporate jobs, both here and in Europe (he was born and educated in The Netherlands). In his dealings with managements of outfits he owns a piece of, "I try to be helpful," he avers. By his own description, that means lending a hand at everything from rewriting investor relations material to introducing bumbling CEOs to the joys of early retirement.

Among those likely to be peevish about Alex's remedial contributions is the former chief executive of **Kennametal**, one of those encouraged by Alex to find the exit and who incurred Alex's ire by pursuing acquisitions in 1997. Revealing traces of his Calvinist heritage, Alex remembers thundering at the poor fellow that, by indulging his acquisitive yen, "he was committing a sin that will be punished." And, sure enough, Kennametal's stock lost 75% of its value in just four months, skidding from $44 to $17 in mid-1998, by which time, no surprise, Alex was no longer a shareholder.

We bring up the unpleasant past only because Kennametal, under new management, has regained Alex's favor and a place in his portfolio. He calls the company, which makes such consumable tools as carbide tips for grinding steel and mining coal, and supplies Detroit and the aerospace industry with various and sundry products, as a "proxy for U. S. industrial production."

Coal? Copper? Autos? Aerospace? The innocent investor might be forgiven if Kennametal strikes him as a proxy for recession. But, Alex points out, industrial production is mired not in a recession but in a full-blown depression—yet Kennametal still makes money and, in fact, is making more and more of it. The company earned $2.71 a share in fiscal 2001, ended June, and should earn $2.40 this fiscal year and $3 next.

Coal, whose fortunes were deep in the pits not so long ago, has gotten a bright new lease on life, thanks to the rise in oil prices and, more importantly perhaps, the big role it has been awarded in the Bush Administration's proposed energy program. Kennametal is a leading beneficiary of the

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old fuel's revival because of the huge lead it enjoys on rivals in supplying drilling tools that, like Gillette's razor blades, need constant replacing.

In the past few years, Kennametal has diligently put its big cash flow to work at reducing leverage, halving the $1.2 billion of debt taken on to swing acquisitions. Noting that insiders do not own a controlling stake, Alex suggests that Kennametal might well be a takeover candidate. He's looking for the stock to rise well into the 40s or low 50s.

Alex is also high on **Precision Castparts**, which makes, well, parts for jet engines. The stock was in a nosedive even before the attack on the World Trade Center, plummeting from a high of $50 in May to $30 in August, on indications of softening in the aerospace business. September 11, it goes without saying, accelerated the descent and the shares currently hover around $22.

Half of the company's revenues come from aerospace, which is a highly cyclical business in the best of times and this is the worst of times. Boeing, which accounts for 15% of Precision's overall sales, has slashed estimates of the number of new planes it expects to deliver next year from 510 to 350. Airbus, the company's other big customer, had planned to turn out 380 planes in 2002, but has lowered its sights to 280.

While Precision Castparts does a flourishing trade in space parts for both military and civilian customers, it's by no means enough to offset such a sharp contraction in the new plane market.

Alex contends that all this bad news is already in the stock. What isn't, he insists, is Precision's growing strength as a supplier to the power generation market. Now 22% of revenues, this end of the business should contribute 35% within two years and the company is busily expanding capacity to meet briskly expanding demand.

Precision Castparts, Alex figures, should earn around $2.90 in the current year. Earnings may slip to $2.55 next fiscal year, hardly a disaster for a $22 stock. Comes the recovery in a couple-three years, he envisages earning power of $4 a share. ■