



# INVESTING FOR THE new MILLENNIUM

## Assembling a stock portfolio to meet the changing demands of the future

by George Anders

**T**hink about a financial strategy for the new millennium—and get ready for two thrilling, jarring leaps into the unknown.

First come the classic questions that investors face every month. Where is the economy headed? What investments should do well, and which might stumble? What's the right way to balance a portfolio to make the most of future opportunities without being reckless?

Wall Street is awash with investment ideas for the new millennium, all of which need to be viewed from the starting point of what we really know about markets' behavior. It's a safe bet that the gains of the 1990s won't continue forever. Markets don't always go up, and sometimes the drops can be quite painful. Yet if history is any guide, investors with strong enough nerves to keep much of their wealth in stocks over long time spans will consistently outperform people taking more cautious strategies. And with dozens of new technologies promising to make our lives easier, zestier—and longer—the chance to invest at least part of a portfolio in tomorrow's growth industries has seldom looked more enticing.

### Changing Needs

But a second line of questions may deserve more attention. What sort of future needs are we investing for, anyway? Traditionally, people have set aside money for their children's college education, for a home down payment, and for retirement at age 65. In the new millennium, all those pursuits may be transformed in remarkable ways.

Getting a good education may become a goal that never stops, as experienced workers jump from one career to another. The line between owning and renting property may become a blur. And retirement may no longer be an abrupt event that separates the elderly from everyone else. People of all ages may flit in and out of the work force, using their savings to travel around the world in their 30s, or combining work and play into their 80s and 90s.

"You can't just plug your age, your income and your life expectancy into a financial model anymore," says David Yeske, a San Francisco financial planner who advises architects, engineers, doctors and lawyers. "The choices going forward are much more complex, and much more interesting."

The new investing climate of the millennium is likely to matter most to investors with the longest time horizons. For short-term traders, the first few days of 2000 aren't anything special. They merely provide another chance to try to squeeze some advantage from following the market's nearly random zigzags on a minute-to-minute basis. But for people whose horizons stretch out in decades, the millennium's arrival provides an excellent chance to rethink both investment goals and the tactics used to pursue them.

Putting that principle to the test, The Wall Street Journal asked David Gardner, a co-founder of Motley Fool Inc., to devise an investment portfolio that would best suit the life-time needs of a newborn this week.

### Beyond the Internet

Mr. Gardner's choices aren't for the timid. He is an unabashed fan of fast-growing young companies that are business mavericks. By his own acknowledgment, more than a few of his picks turn out to be bitter disappointments. But over the past few years, he has attracted more than 700,000 users to his Web site, thanks to a knack for spotting giant winners. For the first 11 months of 1999, his Rule Breaker portfolio was up 64%. It has averaged yearly gains of nearly 70% since its formation in 1994, benefiting greatly from early bets on America Online Inc. and Amazon.com Inc., two of the Internet economy's highest fliers.

Mr. Gardner remains as bullish as ever about new technology, but his horizons are rapidly widening beyond the Internet. Now he

thinks biotechnology and wireless communications may have the greatest potential—both for investors and the general public—in coming decades.

"Biotechnology has the potential to extend, maybe limitlessly, the lives we live," Mr. Gardner says. Today, the average American has a life expectancy of about 75 years. But if medical advances make it possible to ward off heart disease, diabetes, strokes and cancer, he figures, life spans of 100 years or more could become common. Many investors shy away from biotech stocks because it's hard to evaluate the underlying science of each contender. But that just reinforces Mr. Gardner's belief that biotech provides some great investment opportunities.

In his Millennium Baby portfolio, Mr. Gardner recommends three biotech issues: Amgen Inc., Millennium Pharmaceuticals Inc. and PE Corp.-Celera Genomics Group. Of the triad, Amgen has the strongest track record, with a history of profitability and two top-selling drugs in production. The others are tiny companies posting losses, but Mr. Gardner hopes that brighter things lie ahead. Besides, he observes, "you have to like Millennium for the name alone."

Mr. Gardner says he's only partly through picking his wireless-communications favorites, but he expects Cisco Systems Inc. and Qualcomm Inc. to capture top spots. Both stocks have soared for years on the strengths of their core businesses: Cisco's delivery of Internet infrastructure and Qualcomm's manufacturing of a wide range of telecom gear. That's just the warm-up act, Mr. Gardner contends; he sees further gains as the companies pursue wireless initiatives.

Meanwhile, Mr. Gardner is sticking with three of his longtime Internet favorites, AOL, Amazon.com and eBay Inc., believing they have further to go. AOL already has a lofty \$160 billion market capitalization on the strength of its 20 million customers in the U.S. and abroad. But Mr. Gardner thinks a market leader like AOL could add enormous numbers of users among the 500 million personal-computer owners in the world. "We value brands," he says, "and the Internet is the greatest brand-building technique we've ever seen."

### Brand Leaders

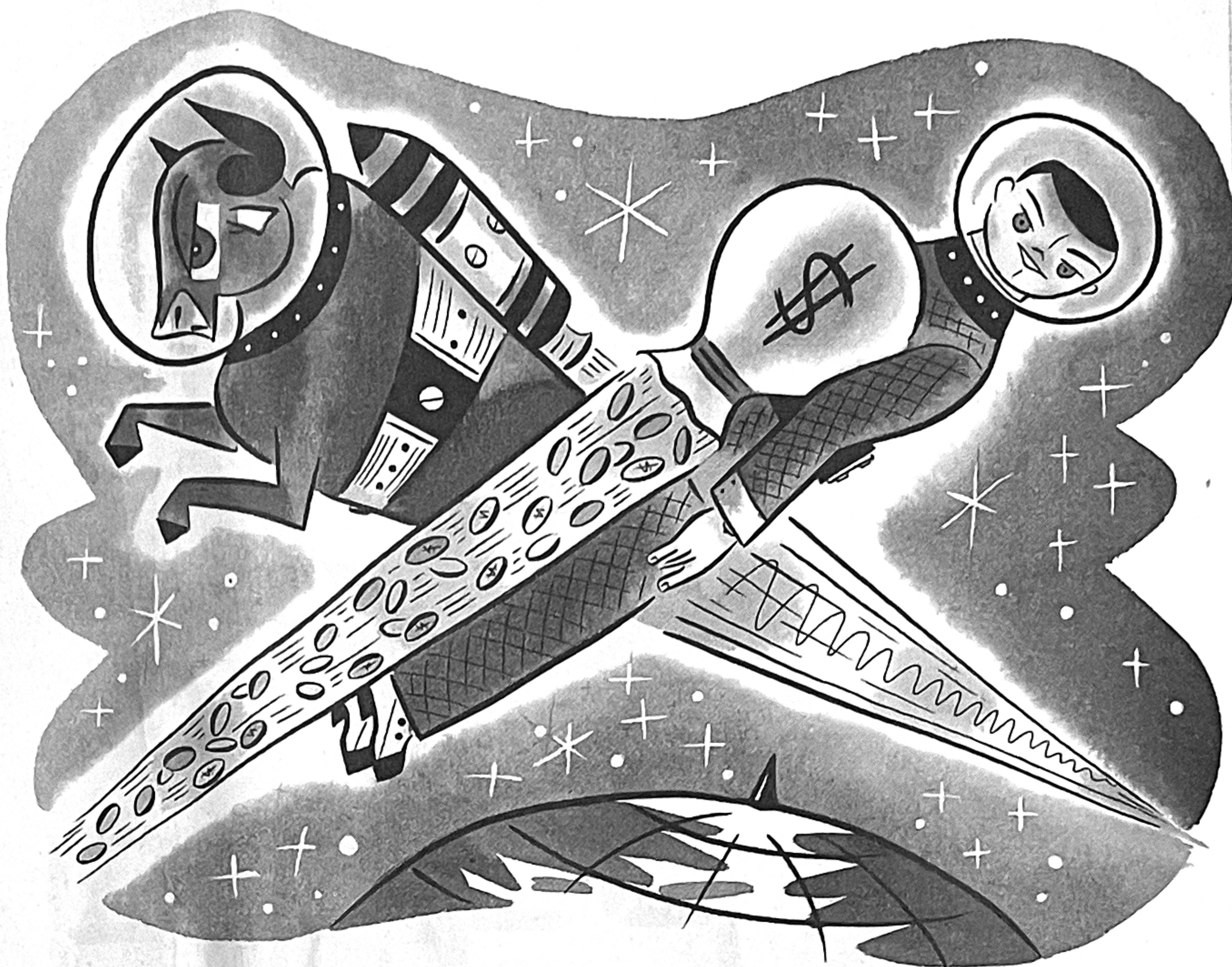
Finally, Mr. Gardner encourages investors to look for companies "whose brands are so strong that they almost amount to legalized monopolies." His top three choices in that respect are Gap Inc., Coca-Cola Co. and Microsoft Corp. Other investors may quibble over those picks, he concedes, but he says brand leadership in one form or another should be an important part of investors' thinking.

As big as Wall Street is, there's no shortage of other financial advisers, brokers and pundits with different picks and analytical frameworks for the decades ahead. Many strategists advise putting at least 10% of an equity portfolio into foreign stocks, for example, something that doesn't figure into Mr. Gardner's thinking. Meanwhile, value investors prefer companies that sell at much lower price-earnings ratios, albeit with less exciting growth prospects. And many financial planners recommend that their clients put their money in diversified mutual funds, rather than trying to pick winners on their own.

Still, Mr. Gardner's starting point—a belief that long-term investors ought to concentrate much of their money in the stock market—is widely seen as smart thinking. Since 1926, according to Yale University finance professor Roger Ibbotson, U.S. stocks have averaged nearly 11% in dividends and capital gains each year. That far outstrips the average returns on bonds and money-market instruments.

### Dow 100000?

There's no reason to think such trends won't continue, Prof. Ibbotson contends, though stock investors will have to endure plenty of volatility along the way. If historic returns stay on track, Prof. Ibbotson argues, the Dow Jones Industrial Average, which darted past 10,000 this year, could break the 100,000 barrier in the year 2024. Overall, he adds, large-capitalization stocks should climb 11.6% a year



in the next 25 years, while government bonds rise just 5.4% a year on average and money-market instruments limp to a third-place finish, with average gains of 4.5%.

Because most individual investors focus on short-term turbulence instead of prospects for long-term gains, they tend to be underinvested in stocks, says Christopher Jones, vice president for research at Financial Engines Inc. His Palo Alto, Calif., company makes sophisticated financial-projection software available to the public over the Internet.

In recent studies, Mr. Jones says, Financial Engines has found that people using its software tend to boost the percentage of their portfolios allocated to stocks. For peace of mind, Mr. Jones says, it's understandable that individuals don't want 100% exposure to the stock market. But a 70% to 80% stake may be a prudent choice for long-term investors, he says.

### Money to Spend

So how will all that money be used? Experts aren't nearly so sure of themselves on this question—but they are willing to speculate. Saving for children's education will surely be part of many investors' goals, says Adam Rosier, a Southgate, Mich., financial planner for American Express Co. But Mr. Rosier says it's unlikely that college costs will keep climbing at the past two decades' rate of 7% to 8% a year.

"If you just extrapolate that trend, in another generation or two, people will be spending 1½ times their annual incomes just to get one year's education for their kids," he observes. "I don't see that happening." Recently, in fact, higher-education cost increases have begun to ease a bit. According to the College Board, tuition at the average four-year private college rose just 4.6% this year, to \$15,380. Room and board climbed just 3.6%, to \$5,989.

Even bigger changes may lie ahead. Motley Fool's Mr. Gardner speculates that in a generation's time, much more schooling will be done over the Internet, at lower cost than today's live-in colleges. And many financial planners believe that lifelong learning will become the norm, rather than a period of intense education in one's teens and early 20s, followed by almost no formal education for the rest of one's life. If so, that could lighten the load on parents try-

ing to pay for their children's schooling. Instead, offspring might shoulder much of the costs themselves after entering the work force.

### Leisure World

Saving for retirement, meanwhile, is likely to be transformed by new work habits. Mr. Yeske, the San Francisco financial planner, says some of his clients already are planning their investments so they can quit work for a year or two in their 30s and 40s to live at ski resorts or other pleasant places. Then, when the savings wear down a bit, they plan to return to the daily grind.

"Those kinds of people are in the vanguard," Mr. Yeske says. "Leisure is becoming more embedded in people's lives."

Meanwhile, he says, some white-collar professionals say they don't want a classic retire-

ment at age 65, with an utter stop to their working lives. Instead, they envision doing some part-time consulting into their 70s and 80s, gaining mental stimulation, social contact and extra income. Such people, Mr. Yeske says, may not need to set aside as much cash for retirement, because they can count on some earnings beyond age 65.

On the other hand, Mr. Yeske says, the prospect of longer life spans in the new millennium makes it likely that people in their 70s, 80s and beyond may need to set aside much more money for nursing care. Currently, disability and long-term-care insurance are two of the more obscure parts of a person's financial portfolio. But that could change—especially if life spans beyond 100 become common, and age 65 is more like a halfway point in a person's life than a pause just a few years before the end. ■

## Firms shaping the new age

Which are the companies to watch at the start of the new millennium? Perhaps those that have already done the most to revolutionize their respective industries at the end of the last one.

Microsoft Corp., Wal-Mart Stores Inc., Home Depot Inc. and General Motors Corp.'s Saturn division are among the 20 companies certified as "mavericks" for having "revolutionized their industries, broken new ground, or rewritten the rules," according to a new survey of more than 6,000 Americans. The survey was conducted for The Wall Street Journal by the Reputation Institute, a New York-based private research organization that studies corporate reputations, and Harris Interactive, a New York polling company.

"Companies that were the winners in one period are often defeated by groundbreaking mavericks later on, so it becomes increasingly important to be able to spot those hard-charging companies early," says Charles Fombrun, a New York University professor who is the executive director of the Reputation Institute.

Perhaps not surprisingly in this booming digital economy, 12 of the "mavericks" are Internet or computer companies. The rest come from older, more established industries such as retailing, telecommunications and auto manufacturing.

The strongly competitive Internet economy changes so rapidly, though, that companies in dominant positions in these early days of the Web are in no way guaranteed of retaining their hegemony over the longer term. Even Microsoft is seeing its core Windows operating system challenged by the growing popularity of the free Linux operating system developed nearly a decade ago by a young Finnish programmer and refined by volunteer programmers world-wide.

"The danger for any company which is successful now is that it will lose out to some future maverick," says Dr. Fombrun.

A related study by Dr. Fombrun and Harris Interactive asked respondents to rate the reputations of the 20 companies, using such criteria as emotional appeal and the quality of a firm's products or services. It's in comparing the maverick rankings with the reputation ratings that things begin to get interesting.

Take Microsoft. The Redmond, Wash., software titan was No. 1 on the public's list of maverick companies (an irony, to be sure, given that an antitrust lawsuit has accused the company of rewriting the rules in more ways than one). But Microsoft ranked seventh in terms of corporate reputation, with respondents hammering the company for making unreliable, difficult-to-use products that are only

marginally better than earlier versions.

Apple Computer Inc. saw a similar discrepancy. The Cupertino, Calif., company, whose products include the popular iMac line of desktop computers, ranked second among revolutionary companies, but near the bottom in terms of its corporate reputation.

"Those companies missed an opportunity" to maintain a high reputation among consumers, says Dr. Fombrun. "It shows they disappointed people after an initial burst of attention from being seen as mavericks."

Ice-cream maker Ben & Jerry's Homemade Inc., by contrast, ranked 19th in terms of its status as a groundbreaker, but tied for first place in terms of its reputation with consumers, who cited its quirky, offbeat products and commitment to progressive social causes.

—Yochi J. Dreazen

### The Mavericks

MAVERICK RANK	COMPANY	REPUTATION RANK
1	Microsoft	7
2	Apple	18
3	Wal-Mart/Sam's Club	2
4	AOL/ Netscape	14
5	Amazon	8
6	eBay	13
7	Dell	5
8	Saturn	17
9	IBM	9
10	Yahoo!	8
11	Home Depot	3
12	DaimlerChrysler/Dodge	15
13	AT&T	12
14	Intel	1 (tie)
15	Gateway	4
16	Cisco	10
17	Lucent	6
18	Ford	16
19	Ben & Jerry's	1 (tie)
20	MCI WorldCom	19

Source: Reputation Institute

### Stocks for the New Millennium

David Gardner's choices include biotech and wireless companies

COMPANY	MARKET CAP (IN BILLIONS)*	INVESTMENT THESIS — AND CAVEATS
Microsoft	\$516.0	Software giant that even the Justice Department can't slow down. Or can it?
Cisco Systems	303.0	Leading builder of Internet infrastructure, pushing into wireless markets. But high valuation leaves little room for error.
Coca-Cola	166.0	Global leader in beverages, with a world-renowned brand. Signs of a slowing growth rate are troubling to some, though.
America Online	163.0	Top Internet service provider, with fast-growing profits from ads and commerce. Can it duplicate its U.S. triumphs abroad?
Qualcomm	60.0	Fast-growing maker of telecom equipment, with big ambitions in wireless markets. Stock doubled from July to November 1999; how much more upside is left?
Amgen	46.0	Largest biotech company, capable of acquiring smaller players with promise. But sales growth of its Epogen anemia drug is expected to slow this year.
Gap	34.0	People will always wear clothes — and this retailer's fashion sense lately has been unerring. Even so, can anyone gauge the public's taste forever?
Amazon.com	29.0	Leading Internet retailer, rapidly expanding beyond its start in books. Still posting losses, though, and its eventual path to profit isn't assured.
eBay	21.0	The king of Internet auctions, gaining cachet as it lists higher-priced items. Can it stay ahead of many smaller competitors?
Millennium Pharmaceuticals	3.6	Biotech company tackling everything from diabetes to cancer. Lots of partnerships with big drug companies, but no blockbusters yet.
P.E. Corp.-Celera Genomics	1.5	It's mapping the human genome, which could yield medically priceless knowledge. Nice, unless regulators curb profits.

\*As of Dec. 1