

TIP SHEET: Akre's New Fund Seeks Capital-Compounding Companies

By Mary Ellen Lloyd

Of DOW JONES NEWSWIRES

713 words

24 February 2010

15:00

Dow Jones News Service

DJ

English

(c) 2010 Dow Jones & Company, Inc.

Veteran money manager Chuck Akre likes businesses that are unlikely to be constrained by a constrained consumer.

Add high unemployment and under-employment to a credit environment in which opportunities for home equity loans and refinancing are essentially absent, Akre says, and "this decade will not look like the last decade."

"You've taken a lot of the powder out of the market that drove consumer spending in the last decade," so consumers will be far more discerning in their spending, according to Akre, who managed the well regarded FBR Focus Fund until August when he left and started up the Akre Focus Fund.

"We've been very cautious, and we remain cautious in this market," he says.

Top holdings in the nearly \$180 million Akre Focus Fund, already labeled by Morningstar Inc. as one of last year's best new funds, include FactSet Research Systems Inc. (FDS), Markel Corp. (MKL), American Tower Corp. (AMT), Lamar Advertising Co. (LAMR), and TD Ameritrade Holding Corp. (AMTD). Several top holdings were in the FBR Focus Fund, too.

Through Tuesday, the Akre Focus Fund posted a negative 0.98% return year to date, outperforming the S&P 500's negative 1.55% return in the same period. Of course, the fund's relative youth means performance figures are limited, but Morningstar says Akre had one of the best records of any domestic-equity manager over the last decade or more, on a risk-adjusted basis, during his tenure at FBR Focus Fund. With the new fund, Akre notes that more than half the fund's assets are in cash, and he's building a portfolio in a rocky environment.

"We've been very ginger putting money to work," he says. "We're trying to compound our fellow shareholders' capital at above-average rates with below-average levels of risk."

For Akre, risk isn't about a stock's volatility but about the quality of the business enterprise, the management, the balance sheet and the valuation.

Several of the Middleburg, Va., fund's holdings, such as financial data provider FactSet and MSCI Inc. (MXB), which provides indices and performance analytics for institutional investors, serve Akre's profession.

TD Ameritrade and another company in the electronic brokerage business, OptionsXpress Holdings Inc. (OXPS), are also holdings. "Those are two businesses that I don't think are going to be particularly adversely affected by a constrained consumer," Akre says.

Lamar Advertising, the third-largest outdoor advertiser in the U.S., is one of the fund's more highly leveraged companies, but Akre likes the potential free cash flow. "We think that free cash flow per share in 2010 is likely to be north of \$2.60, so at \$30, the stock is 11.5-times (earnings)," he says.

"This is an inexpensive business that generates a lot of free cash flow even in the worst of times," he says. "Should we get a pickup in the economy, they'll do much better."

Another Akre favorite is American Tower, which owns wireless communications equipment towers. It has a strong balance sheet and has a growing part of its business coming from outside the U.S., in such places as Mexico, Brazil and India, he says.

"Those are all friendly places to be doing business, with growing middle classes and below middle class, where in lots of cases there's not even a landline," he says.

As U.S. carriers continue to upgrade their services, they also require more equipment on more towers. "It may be the best business model we have in our portfolio," Akre says.

(Mary Ellen Lloyd covers home-related retailers from Charlotte for Dow Jones Newswires. She can be reached at 704-948-9145 or by email at maryellen.lloyd@dowjones.com.)

TALK BACK: We invite readers to send us comments on this or other financial news topics. Please email us at TalkbackAmericas@dowjones.com or respond directly to our Talk Back blog at <http://talkback.newswires-america.com>. We reserve the right to edit and publish your comments along with your name; we reserve the right not to publish reader comments. [02-24-10 1500ET]