

SmartMoney

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PORTFOLIO PLAY

Finding the New Money Trails

As companies begin to open their wallets, savvy investors hope to fill theirs—by betting on the right firms. **By Reshma Kapadia**

A YEAR AGO THE IDEA OF SPENDING on anything but bare essentials was all but unthinkable. After all, with the economic crisis and market crash, most companies had a good reason to clamp down. But savvy investors are looking to get a jump on—and cash in on—a developing trend in corporate America. Call it the return of the spenders.

According to a recent Business Roundtable survey of chief executives of the country's biggest firms, nearly 40 percent expect higher spending at their companies in the next six months, almost twice the number that did in the fall. "Company executives are telling investors, 'Do not think we can save ourselves to prosperity,'" says Tobias Levkovich, chief U.S. equity strategist at Citigroup. He says that means companies will start loosening up the purse strings to invest in their own operations, even if it involves some added costs. (They won't do it by hiring a lot of workers, though. Only 19 percent expect to add employees, while half plan to keep head count steady.) Although total corporate spending is still falling, Levkovich says, it typically turns around after about six months of profit improvements.

For investors, the trick is to find companies that are on the receiving end of the revival in spending. Technology firms are often seen as likely winners, as many of them have products or services, such as computer software, that help make their customers more efficient. Other potential beneficiaries include firms that benefit from the continued trend toward outsourcing, as companies look to others to perform tasks that they used

to do in-house. But strategists say investors shouldn't stop at the obvious candidates. Indeed, companies that help customers generate higher returns can be found in just about every industry.

Randy Hare, manager of the \$50 million Huntington New Economy fund, is zeroing in on firms like fertilizer maker Potash Corp. of Saskatchewan, which can help farmers be more productive by increasing their crop yields. Some fund managers say another likely beneficiary is CVS Caremark. While many people know CVS for its chain of drugstores, the company's pharmacy-benefits business can help insurers and corporations save money on health care by cutting back on the number of vendors. And since CVS Caremark is buying a higher volume of drugs—for its pharmacy customers and for its mail-order business—it can often get a good deal on price. "When everyone is watching costs, anyone that can help a company be more valuable in a no-growth world stands to gain," says Ron Sloan, senior portfolio manager of the \$5.2 billion AIM Charter fund, which owns CVS Caremark shares.

Of course, the recession and financial crisis have left many corporate strategists skittish, and any economic setback could keep corporate coffers closed for longer. And even as spending does return, experts say it could well be uneven, benefiting some companies but leaving others behind. That means investors looking for winners have to be as careful as the outfits doing the spending.



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