

Baseball fanatic and stock junkie Richie Freeman has handily beaten the market for more than two decades. But he never stops worrying: Too much confidence might jinx his returns.

LUCKY NUMBERS

By Dyan Machan
Photographs by Suzanne Opton

RICHARD FREEMAN LOVES HIS STOCKS the way he loves his children. The 52-year-old manager of the Legg Mason Partners Aggressive Growth fund has owned shares of Tyco and Forest Labs since the fund's inception in 1983, a year before his younger daughter was born. For Freeman it's a winning strategy—his fund has returned 13.9 percent a year since he opened the doors 23 years ago, compared with 12.3 for the Standard & Poor's 500. Put another way, a \$10,000 investment in the fund would have grown to \$193,000; the same investment in the S&P would be worth \$139,000. But Freeman is quick to argue that the \$10 billion fund's record is not all his doing. He's afraid bragging about it might jinx him. "I have a very good intuition," he explains, "and a heck of a lot of luck."

Never mind that he's been watching the market closely since he was 14, has a Xerox-like memory for companies, prices and dates, and steel-reinforced buying discipline. According to Freeman, it could all change if he walks through the wrong subway turnstile. "All competitive people are superstitious," he says. "Ever watch

PATIENCE PAYS

By focusing on companies with good products and long-term earnings growth, Freeman's fund has left the market in the dust.







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Yankees third baseman Alex Rodriguez fixing his batting glove?”

Yeah, but does Rodriguez think he’ll strike out if you touch the stuffed dog on his TV?

Normally affable, Freeman is apt to get irritated if you pick up items on his desk or on the shelves in his brightly lit office, which is littered with stock- and sports-related memorabilia. Don’t touch the stuffed Westie in the Mets uniform or the mementos from his winning companies, which are specifically arranged to bring him luck.

You can’t convince Freeman that his good fortune is here to stay—and maybe that’s the secret to his success: He takes nothing for granted. He knows when each stock came into his portfolio and at exactly what price. “I have a good memory for things that interest me. When I was a kid, it was baseball,” he says. “Now it’s stocks.”

SMARTMONEY: *Those are two serious addictions—baseball and stocks. How did you get hooked?*

RICHARD FREEMAN: When I was 14, I used to watch ticker tapes for hours and memorize as many symbols as I could. Pretty sick, huh? I always knew I wanted to be in this business. Numbers fascinated me. My father was a garment salesman by day and a mutual fund salesman by night. He put whatever money I had into a mutual fund. I would get the *New York Post* [every afternoon] and calculate how I thought the fund did by multiplying the share amounts by the net change.

SM: *You have less than 1 percent of your fund in cash. Are you bullish?*

RF: I think the market is very close to a four-year bottom. I learned about four-year cycles from a business-school professor at New York University. It was worth my tuition. He said the stock market will hit a bottom every four years, between the election years. It’s been seen since 1962 and holds true. In 1986 it was the Ivan Boesky insider-trading scandal; 1990 was the Iraq War; 1994, the Mexican debt crisis coupled with doubling inflation. In 1998 it was the failure of Long-Term Capital; 2002 was the Enron and WorldCom failures, and in 2006 it’s oil and rising interest rates. We may revisit the bottom, but I don’t see a material downside.

SM: *The average turnover for aggressive-growth funds is 144 percent. Your turnover is 2 percent. Doesn’t sound very aggressive.*

RF: I think the companies I buy are aggressive, but we don’t manage in an aggressive style. I joke that we should be called a passive-aggressive growth fund.

SM: *What are your criteria for the aggressive companies you passively hold?*

RF: The most important thing is finding a company with a product or service that I would buy myself, or if it’s a drug, it’s one that doctors must prescribe. Second, the company has to have a strong balance sheet, and number three, good management. A lot of people look at it the other way around.

SM: *Before you find the qualities you like, don’t you have statistical criteria?*

RF: Absolutely not. After I identify something that I

think has a great business future, then I want to see how it's being valued in the stock market today. To have low turnover, you must be confident about what you buy. If it's profitable, I don't want to pay more than one and a half to two times its expected three-year growth rate.

SM: *What have you bought lately?*

RF: Genzyme, Amgen and Biogen Idec. Genzyme is selling at 20 times 2007 earnings with a 20 percent growth rate and spends a lot on research. Amgen is the largest biotech stock, with a growth rate in the high teens and selling at under 20 times 2007 earnings. Biogen Idec is selling at 20 times 2006 earnings estimates, a good valuation even before new sales of its multiple sclerosis drug Tysabri.

SM: *What else do you like about them?*

RF: The ultimate goal is always earnings-per-share growth. So many companies have short-term earnings glitches. So you have to own companies capable of posting higher highs on their earnings per share.

SM: *How can you tell?*

RF: Forest Labs has been through several earnings transitions. One was in the mid-1990s, when it was changing from a generics company to a more proprietary drug company. More recently, its bestselling antidepressant, Celexa, was going off patent, and its successor drug, Lexapro, was under a legal threat. In both cases management bought back shares at low enough valuation that it added to earnings. Not that we always like companies that buy back shares, but we do like companies, like Forest, that make prudent use of their cash. Beyond that, it's just 23 years of doing this.

SM: *With a lot of ups and downs.*

RF: We were one of the largest owners of Forest, and it was pretty tough having a stock that was down during these periods. Something else: I second-guess myself every day in this business, and I'd be shocked if every manager doesn't do the same thing. I worry about the individual businesses. I worry about the earnings.

SM: *Have you tried Lexapro?*

RF: Very funny. I've also bought cable companies. People are infatuated with

new media. They lump cable companies with old media, and I don't understand that. Cable is supposed to be losing share to phone companies, but it's not. One-third of Cablevision subscribers are getting their telephony through their cable company. Cablevision is gaining market share, paid a \$10 special dividend, and its valuation is compelling. Comcast is growing dramatically and throwing off significant cash to pay down its debt.

SM: *What about tech? Do you like anything there?*

RF: We wanted to capitalize on the rise in digital cameras, and my colleague Evan Bauman, who comanages our \$11 billion in separate accounts, found SanDisk, which makes flash-memory chips. We bought it in 2001, when the company was just breaking even. It'll earn \$2.50 a share this year and sells under 20 times that estimate. This company has excellent management and an underappreciated growth potential, in excess of 20 percent.


SM: *Have you been in on the runup in energy?*

RF: The only way out of the energy crisis is more drilling. I've added to Anadarko Petroleum. The oil exploration and production company is going through a transformation with the acquisition of Kerr-McGee and Western Gas Resources. There's a huge disparity between the valuation of the company's reserves and actual value. Anadarko's oil and gas reserves are valued by the market at \$12 a barrel versus \$73 for a barrel of oil equivalents.

SM: *So what have you done for us lately? Last year you trounced the averages, but right now your fund is down 0.2 percent to the S&P 500's 3.4 percent gain. On the other hand, you are ahead of the large-growth category by 3.4 percentage points.*

RF: I'm not a fan of relative results. It's a lousy year. A lot can happen between now and year-end. Those stocks that hurt me in 2002 [when the fund trailed the market] helped me the next year.

SM: *That would mean the 2007 helper lineup might be UnitedHealth Group, Anadarko, Amgen, Genzyme and Biogen Idec.*

RF: That's why we call ourselves portfolio managers, not stock pickers. Earnings estimates have risen for all of these companies. If we're right on earnings, the stock price will take care of itself. 

FREEMAN'S PICKS

Naming his favorite stocks is like naming his favorite children. Below, four Freeman loves equally well.

Company (Ticker)	Price
AMGEN (AMGN)	\$66
ANADARKO PETROLEUM (APC)	46
GENZYME (GENZ)	67
SANDISK (SNDK)	46

Prices as of 8/11/06.

SOURCE: THOMSON FINANCIAL