The Turnaround Letter

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TIME TO GO ABROAD?

Americans tend to have a rather insular view of the world, even in the best of times. When times get tough, we can be even more parochial, particularly where our money is concerned. Recently, many of us have been so focused on the economic problems here in the U.S. that we are virtually ignoring the rest of the globe.

From an investing perspective, that's a mistake because international investments can add considerable value to any portfolio. They always provide an extra measure of diversification, which is very beneficial. And right now, the overseas markets may have even greater rebound potential than the markets here in the U.S.

The latter point is shown by the table to the right. We thought things were tough here in the U.S. stock market over the last 20 months or so, but you can see that they were even worse in many other markets around the globe. And while most global markets have enjoyed substantial rebounds recently, just as we have here in the U.S., they are still down significantly from their peaks.

Market	% Decline from High to Low	% Still Off High
Europe	-64.3	-45.4
Japan	-58.2	-49.0
China	-66.6	-46.6
India	-63.7	-34.5
Latin America	-67.8	-44.2
U.S. (S&P 500)	-57.4	-40.6

The popular view on geographic diversification has changed – several times – over the years. For the first 20 years or so after mainstream American investors first became aware of foreign markets in the 1970's, the benefits of international diversification were widely touted. By the 1990's, when U.S. markets outperformed most of the foreign bourses for several years, the gurus had begun to change their tune. Business, they said, had become so global, that the benefits of diversifying abroad had disappeared. They pointed out that many "American" companies, such as Coca Cola, get increasing portions of their revenues abroad, while many "foreign" companies, like Nestle (headquartered in Switzerland), do a huge amount of business in the U.S.

Of course, as soon as the gurus proclaimed that the benefits of international diversification had disappeared, international stocks began to outperform U.S. stocks, and this outperformance lasted from 2002 through 2007. Then by last year, everyone was so focused on the crises in their

(Continued on next page)

IN THIS ISSUE:

Investing Abroad (continued)

local markets, that nobody gave much thought to international diversification, one way or the other.

Now that markets appear to be stabilizing again, we believe that investors should consider adding more foreign exposure to their portfolios. For most individual investors, the best way to do that is through mutual funds. It is certainly possible to buy individual foreign stocks, but researching and tracking those stocks is a more onerous task than many investors want to take on.

In the paragraphs that follow, we discuss a number of the major foreign markets. In each case we offer two suggested ways to play that market: a passive index fund or ETF and an actively managed fund. The passive funds usually offer lower fees. However, because research on foreign stocks is more difficult, many people feel that in the international markets the active managers can provide superior performance.

World ex-US: Investing in a broad-based world index reduces risk, including both localized economic and political risk, while providing access to the returns offered by some of the world's most rapidly growing regions.

Europe: The increasing cohesiveness provided by the European Union and its common currency, the Euro, is making Europe an ever more formidable commercial power. Moreover, American investors often take comfort from Europe's well established legal and regulatory systems.

Pacific Asia ex-Japan: Pacific Asia-ex-Japan is largely a Chinese story. Though economic statistics from this highly controlled economy may be suspect, there is no doubt

Time for More Foreign Exposure?

Region/Fund	Symbol	Recent Price	52-Week Range	Total Assets $bil.	Daily Volume 000 shs.
World:					
Dodge and Cox Int'l Stock	DODFX	25.21	45.80–15.80	24,555	
Vanguard FTSE ex-US	VEU	35.97	58.62–23.32		758
Europe:					
Fidelity Europe	FIEUX	24.53	40.89–16.94	2,409	
iShares S&P Europe 350 Index	IEV	32.40	55.89–21.18		471
Pacific Asia ex-Japan:					
T. Rowe Price New Asia	PRASX	11.71	16.93– 6.76	1,669	
iShares MSCI Pacific ex-Japan	EPP	31.30	50.32–19.48		1,304
Japan:					
T. Rowe Price Japan Fund	PRJPX	6.54	10.73– 5.03	182	
iShares MSCI Japan Fund	EWJ	9.44	13.83– 6.84		36,058
Latin America:					
Fidelity Latin America	FLATX	38.44	71.78–21.35	2,518	
iShares S&P Latin America 40	ILF	35.04	61.02–19.64		2,058
Emerging Markets:					
T. Rowe Price Emerging Markets	PRMSX	22.13	41.62–13.09	2,345	
Vanguard EM St Id	VWO	31.40	52.27–18.50		4,931

that China is going to provide dramatic growth for many years to come.

Japan: Japan has been mired in its own particular malaise for much of the time since its stock market peaked in the late 1980s. Though Japan's stock market rallied strongly in the roughly four years ending mid-2008, the world-wide meltdown brought prices back down to lows not seen in at least a quarter century. On a positive note, for the first time in three years the Japanese Government recently raised the outlook for the country's economy.

Latin America: Latin America has its share of country-specific problems, ranging from drugs and swine flu in Mexico to threats of further nationalizations in Venezuela, but the region also has tremendous promise. Much of the region will be a beneficiary of rising oil prices, especially the larger economies such as Brazil and Mexico. And the potential for consumer driven growth is considerable.

Emerging Markets: Not everyone's definition of an emerging market is going to be the same, but generally you'll find the likes of India, Russia, Africa, Southeast Asia and the Pan Arab economies on the list. While the headlines coming out of these countries are not always reassuring to investors, there is little doubt that they will generate a significant share of future world growth. After falling harder than most developed markets last year, many of the emerging markets have also rebounded more strongly this year, but they still have plenty of long-term potential.

INSURANCE FOR YOUR PORTFOLIO?

The stocks of property and casualty insurance companies tend to go through wide price swings that are often quite independent of broad market movements. Frequently, the insurance stocks are driven by headlines about major disasters, such as hurricanes or fires, that can lead to massive amounts of claims. Recently, however, they have been pounded by different kinds of headlines.

The whole group has been hurt by negative press about a few specific companies. The most flagrant headline grabber in the sector has been AIG, which has been in the news frequently since last autumn when the government rescued it from massive losses in financial products (which had little to do with its core property and casualty insurance business). Then earlier this year, the media focused on the weak performance of Berkshire Hathaway, the holding company controlled by legendary investor Warren Buffett.

Moreover, the P&C insurance stocks suffered from guilt by association to other insurance sectors that have had problems. Last year several companies that insured financial products, such as Ambac, MBIA and Radian, got into well-publicized trouble. More recently, life insurance companies have had difficulties because of their exposure to certain kinds of annuities or guaranteed-return investment products. None of these problems really applied to the property & casualty companies who stuck to the basic business of insuring homes, businesses and cars, but their stocks suffered nonetheless.

On the theory that investors will eventually differentiate between those insurers who got into trouble by venturing too far from their core business, such as AIG, and those who stuck to their knitting, we've highlighted below a number of large P&C insurance companies with good franchises in traditional insurance. *(Continued on next page)*

Property & Casualty Insurers; Protecting your portfolio?

Company	Symbol	Recent Price	2-Year Range			Market Cap. mil.	Price to Sales	Div. Yield
Ace Limited	ACE	43.94	64.32	–	30.92	$14,760	1.04	2.3%
Allstate	ALL	26.27	63.07	–	13.77	14,090	0.48	3.0
Arch Capital	ACGL	56.47	80.47	–	44.68	3,420	1.20	0.0
Berkshire Hathaway cl. B	BRKB	2908.00	5059.00	–	2241.00	138,350	1.32	0.0
Chubb Group	CB	38.95	69.39	–	33.47	13,710	1.07	3.6
Hartford Financial Svcs	HIG	15.02	106.23	–	3.33	4,890	0.38	1.3
Loews	L	25.76	53.46	–	17.40	11,210	0.89	1.0
PartnerRe	PRE	66.08	84.75	–	47.70	3,740	0.95	2.8
Progressive	PGR	15.96	25.16	–	12.10	10,870	0.85	0.0
The Travelers Group	TRV	40.26	56.97	–	28.91	23,570	0.97	3.0

Ace Limited is a Swiss-based global insurer. Revenues declined in 2008 and may not rebound much in 2009 due to generally weak economic conditions. But management reports that prices are firming and that the company is gaining market share. Management expects a solidly profitable 2009, and the dividend was recently raised.

Allstate, with 13 major lines of insurance including auto and property, is the nation's largest publicly held personal lines insurer. It has one of the best known brands in the industry. On the strength of its balance sheet, the company has been repurchasing stock and raised the dividend. It is also worth noting that Allstate turned down the offer of TARP money from the federal government.

Arch Capital targets primarily commercial clients, mostly in the U.S. but also in Europe. Management seeks to capitalize on the firm's expertise by focusing on specialized lines of coverage, thus avoiding the more competitive, commodity-type markets.

Berkshire Hathaway is at its core an insurance company. Its GEICO subsidiary is the nation's third largest auto insurer, while General Re and Berkshire Hathaway Reinsurance Group are two of the world's largest reinsurers. Berkshire is sitting on some $25 billion in cash and cash equivalents; no TARP money needed there!

Chubb Group offers three lines of insurance: personal (33% of 2008 premiums), commercial (42%) and specialty (25%). With one-fourth of the company's business overseas, recent results were dampened by the strength in the U.S. dollar, but management reported a firming of prices. And for the first time in a while, renewal rates in the commercial and specialty lines were positive.

Hartford Financial Services' stock tumbled nearly 97% from May 2007 to March 2009 largely because of its outsized exposure to variable annuities. The company needed a $2.5 billion infusion from German insurer Allianz SE in late 2008, and the CIO and CEO have been replaced. New management has committed itself to focusing on its strengths as a U.S. property and casualty provider.

Loews is similar to Berkshire in that while it is primarily an insurer (59% of 2008 revenues were from the firm's 90% owned CNA Financial insurance unit), it also has interests in a variety of other industries, including offshore drilling, hotels and natural-gas pipelines. And it is closely controlled by the Tisch family. The investment package is buttressed by a strong balance sheet with cash exceeding debt by $1.4 billion.

PartnerRe provides reinsurance across multiple lines in 150 countries. The company's stock has held up better than most probably because of the firm's conservative capital structure. In what management describes as stabilizing capital and reinsurance markets, the company reported strong results for the first quarter of 2009.

Progressive is primarily a provider of personal auto insurance. With driving curtailed first by high gas prices and then by the weak economy, auto claims are down. The auto insurance business remains very competitive, but Progressive's management team has a solid reputation, and the firm's financials are among the strongest in the industry.

The Travelers Companies was formed via the 2004 merger between St. Paul and Travelers. Of its $21.7 billion of premiums in 2008, business insurance accounted for 52%, personal lines 32% and financial, professional and international lines 16%. The company experienced a solid first quarter despite the challenging investment markets, and it is seeing positive trends in its business insurance segment. The company is quite strong financially and has a powerful brand.

RECOMMENDATIONS

Purchase Recommendation: Williams Companies

Category: Mid-Cap ($9.7 Bil)

Symbol: WMB **Exch.:** NYSE

Business: Natural Gas

Annual Rev.: $12.2 Bil. (12/31/08)

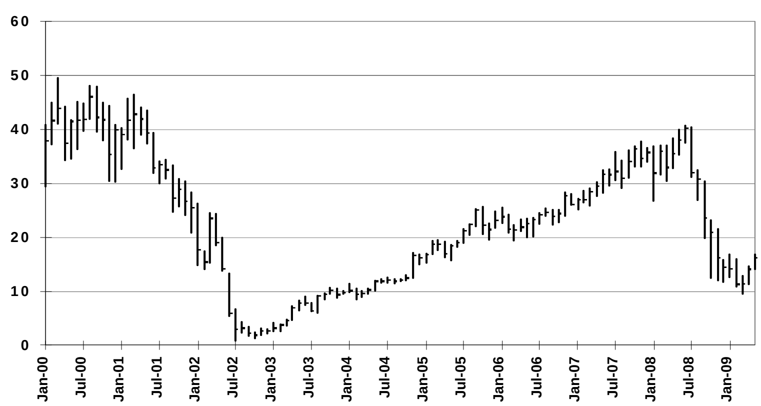
Earnings: $1.22 Bil.

5/28/09 Price: 16.25

12-Mo. Range: 40.75 – 9.52

Max. Rec. Price: 25

Est. Div. Yield: 2.8%



Address: One Williams Center, Tulsa, OK 74172, Telephone (918) 573-2000

Internet Site: www.williams.com

Background: Begun in 1908 as a pipeline construction company, Williams is now a major, integrated natural gas company. It produces, gathers, processes and transports natural gas throughout the United States.

In the 1990's, Williams branched out into new businesses, including telecommunications (initially by running fiber optic cable through decommissioned natural gas pipelines), electric power generation and energy trading. Much of this expansion was funded by debt, and by the end of 2002, the company's debt burden had brought it close to bankruptcy. Williams sold off assets, reduced debt and refocused on natural gas. The company prospered again for several years until natural gas prices fell sharply in 2008, driving Williams' stock down from above 40 last June to below 10 in March of this year.

Analysis: Williams has some of the premier assets in each of its business segments: exploration & production, mid-stream (gas gathering and processing) and pipelines. When natural gas prices recover, the company's profits should increase significantly across all of its lines of business.

In exploration & production, Williams is one of the lowest cost producers in the U.S. Moreover, the company has been steadily adding to its reserves. In the mid-stream sector, Williams' large scale generates industry leading margins. The pipeline business is steady but still has attractive growth prospects.

While the price of natural gas is suffering from a temporary imbalance of supply and demand, its longer-term fundamentals look attractive. On the supply side, the drop in prices has driven some of the weaker players out of the market. On the demand side, natural gas is viewed as a preferred energy source for the future because of its lower environmental impact and its domestic availability. As the economy improves, natural gas prices should rebound, particularly as other energy sources such as coal and nuclear face increasing regulatory issues.

Williams has the financial strength not only to survive the current downturn but to grow and prosper. Although the company does have a fair amount of debt, it has strong cash flows with which to service that debt. Moreover, it does not have any significant debt maturities until 2011. And its processing and pipeline businesses provide a steady stream of revenue and cash flow even if natural gas prices stay low.

Williams is one of the leading players in all aspects of the natural gas markets. While those markets have been depressed recently, we expect them to rebound which should drive Williams' stock significantly higher. <u>We recommend buying Williams up to 25.</u>

Sale Recommendation: Visteon

Visteon filed for Chapter 11 on May 28. Since it is unlikely that shareholders will recover any value from the bankruptcy proceedings, we recommend selling Visteon stock at this time.

NEWS NOTES & UPDATES

Conexant continues to struggle to such an extent that its bonds have traded down to 20 cents on the dollar. We think that the stock has option value at current levels, but we would not buy more right now. As a result we are making the stock a "hold."

Bank of America has raised most of the capital required by the federal government's "stress test." The stock has moved up in recent weeks, but we think it has a lot further to go, and we're raising our maximum buying price to 17.

Six Flags has offered to exchange stock for many of its outstanding bonds. If the exchange goes through, current stockholders will only own 5% of the equity, but the company's capital structure will be much more manageable. While there is risk that the company will file for bankruptcy if the exchange does not go through, we recommend continuing to hold the stock (but not adding more) to see what happens.

PERFORMANCE

The tables below and on the next page show the performance of all of our currently active recommendations, plus recently closed out recommendations. The categories are based on market capitalization on the recommendation date, except that recommendations made prior to August, 2004 are categorized by their 8/20/04 market cap. For copies of past recommendations, at $15 per copy, please call (617) 573-9550 ext. 550.

SMALL-CAP (under $1 billion) - CURRENT RECOMMENDATIONS

Recommendation	Symbol/ Exch (1)	Rec. Issue	Price at Rec.	5/28/2009 Price	Total % Return (3)	Current Status (2)
Bristow Group	BRS/N	11/86	0.75	29.83	+3877	Buy (35)
Kadant Inc	KAI/A	4/02	14.28	12.93	-9	Buy (16)
Primedia	PRM/N	6/03	19.80	2.53	-85	Buy (4)
On Assignment, Inc.	ASGN/O	1/04	5.15	3.29	-36	Buy (8)
Zhone Technologies	ZHNE/O	5/05	2.28	0.27	-88	Buy (1)
Presstek	PRST/O	6/05	8.58	1.86	-78	Buy (4)
Newpark Resources	NR/N	6/06	5.65	2.86	-49	Buy (10)
Six Flags	SIX/N	7/06	5.37	0.31	-94	Hold
Electro Scientific Ind.	ESIO/O	2/07	21.24	8.39	-60	Buy (15)
Conexant	CNXT/O	5/07	15.10	1.18	-92	Hold
RehabCare	RHB/N	6/07	16.07	21.31	+33	Buy (25)
CTS Corp.	CTS/N	11/07	12.54	5.83	-52	Buy (11)
Visteon	VC/N	12/07	4.36	0.08	-98	Sell
Midas	MDS/N	7/08	13.50	10.08	-25	Buy (20)
Solutia	SOA/N	9/08	15.58	4.80	-69	Buy (12)
Teradyne, Inc.	TER/N	12/08	3.79	7.13	+88	Buy (8)
US Airways	LCC/N	5/09	3.79	2.56	-32	Buy (7)

MID-CAP ($1 billion to $10 billion) - CURRENT RECOMMENDATIONS

Recommendation	Symbol/ Exch (1)	Rec. Issue	Price at Rec.	5/28/2009 Price	Total % Return (3)	Current Status (2)
ADC Telecom.	ADCT/O	1/02	31.78	6.99	-78	Buy (11)
Perot Systems	PER/N	6/02	18.40	13.75	-25	Buy (22)
Eastman Kodak	EK/N	12/02	36.82	2.53	-85	Hold
Parametric Tech	PMTC/O	5/04	11.63	11.25	-3	Buy (16)
Newell Rubbermaid	NWL/N	6/04	23.24	11.23	-36	Buy (15)
Goodyear Tire	GT/N	7/04	9.14	11.34	+24	Buy (17)
Rite Aid	RAD/N	8/04	4.87	1.22	-75	Hold
Tenet Healthcare	THC/N	9/04	10.27	3.21	-69	Buy (4)
JDS Uniphase	JDSU/O	2/05	17.52	5.17	-70	Buy (8)
Janus Capital Group	JNS/N	8/05	15.27	9.69	-35	Buy (12)
Portland General	POR/N	11/06	25.70	17.71	-22	Buy (33)
Interpublic Group	IPG/N	12/06	11.94	5.06	-58	Buy (10)
Tellabs	TLAB/O	2/08	6.66	5.47	-18	Buy (10)
RadioShack	RSH/N	4/08	15.87	13.08	-16	Buy (23)
Federal-Mogul	FDML/O	5/08	21.00	10.00	-52	Buy (15)
Old Republic	ORI/N	6/08	14.64	9.85	-28	Buy (20)
Qwest Communications	Q/N	11/08	2.74	4.35	+65	Buy (5)
Flextronics Itn.	FLEX/O	1/09	2.27	3.65	+61	Buy (5)
Terex Corp.	TEX/N	2/09	12.57	13.62	+8	Buy (25)
Tyco International Ltd.	TYC/N	3/09	20.05	26.92	35	Buy (27)

LARGE-CAP (over $10 billion) - CURRENT RECOMMENDATIONS

Recommendation	Symbol/ Exch (1)	Rec. Issue	Price at Rec.	5/28/2009 Price	Total % Return (3)	Current Status
Carnival Corp	CCL/N	1/01	30.50	24.39	0	Buy (30)
AT&T, Inc.	T/N	5/03	23.05	24.63	+42	Buy (44)
Bristol-Myers Squibb	BMY/N	8/03	26.07	19.57	-1	Buy (35)
Ford	F/N	12/03	13.00	5.56	-50	Buy (8)
Schwab	SCHW/O	3/04	12.20	17.15	+55	Buy (20)
Time Warner	TWX/N	12/04	53.46	23.55	-50	Buy (40)
Campbell Soup	CPB/N	4/05	28.14	27.87	+11	Buy (42)
Taiwan Semiconductor	TSM/N	12/05	9.29	11.14	+34	Buy (14)
Sara Lee	SLE/N	4/06	15.28	9.00	-32	Buy (18)
Microsoft	MSFT/O	10/06	27.94	20.45	-22	Buy (40)
Pfizer	PFE/N	3/07	25.84	14.69	-33	Buy (25)
General Electric	GE/N	7/07	38.12	13.19	-60	Buy (25)
Motorola	MOT/N	8/07	16.95	6.01	-63	Buy (8)
Amgen	AMGN/O	10/07	56.56	50.08	-11	Buy (70)
DuPont	DD/N	1/08	45.07	27.79	-33	Buy (40)
Sprint	S/N	3/08	8.09	5.14	-36	Buy (7)
Kraft	KFT/N	8/08	31.82	25.82	-16	Buy (40)
Bank of America	BAC/N	10/08	35.00	11.30	-67	Buy (17)
Disney	DIS/N	4/09	19.06	23.99	+26	Buy (26)

RECENTLY CLOSED OUT RECOMMENDATIONS (ALL CATEGORIES)

Recommendation	Symbol/ Exch(1)	Rec. Cat.	Buy Issue	Price at Buy	Sell Issue	Price at Sell	Total % Return (3)
Playtex Products	PYX/N	Small	3/06	10.30	11/07	18.30	+77
Gateway	GTW/N	Small	9/06	1.79	11/07	1.90	+7
Solectron	SLR/N	Mid	8/06	3.03	11/07	3.89	+29
Sony	SNE/N	Large	10/05	33.53	12/07	55.00	+65
Dow Jones	DJ/N	Mid	3/05	37.44	12/07	60.00	+66
Baxter Int.	BAX/N	Large	9/03	26.95	2/08	60.17	+136
Royal Dutch	RDS-B/N	Large	10/04	51.26	5/08	76.20	+63
Gemstar-TV Guide	GMST/O	Mid	1/06	2.74	6/08	4.14	+51
Hewlett-Packard	HPQ/N	Large	7/99	37.08	6/08	46.52	+32
Restoration Hardware	RSTO/O	Small	11/05	5.82	7/08	4.50	-23
Sun Times Media Group	SUTM/O	Small	1/07	4.88	12/08	0.07	-99
Hercules, Inc.	HPC/N	Mid	9/07	21.21	12/08	20.26	-4
Allied Waste Ind.	AW/N	Mid	4/07	12.70	1/09	10.17	-20
Hartmarx Corp.	HMX/N	Small	7/93	5.63	2/09	0.03	-99
Nortel Networks	NT/N	Large	5/06	27.20	2/09	0.32	-99

Footnotes:
(1) Exchanges: N = New York; A = American; O = OTC
(2) Maximum recommended buy prices in parentheses
(3) Total Return includes dividends as well as price changes

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