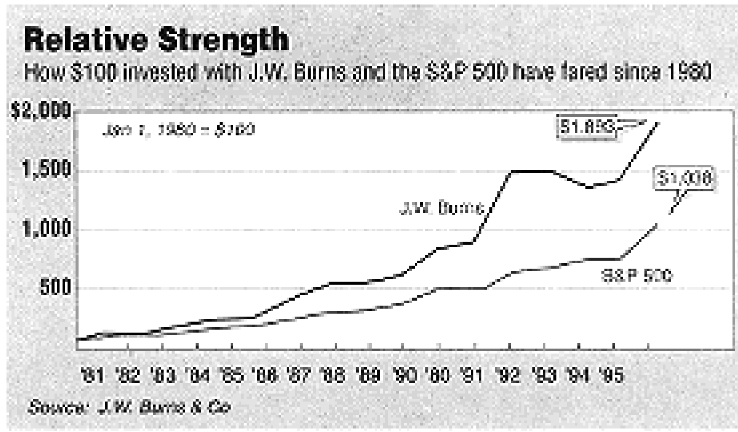
Investor's Business Daily

"For People Who Choose To Succeed"

Thursday, September 26, 1996

INVESTOR'S CORNER

Burns' Top Picks Are Tops In Their Fields



By Leo Fasciocco
Investor's Business Daily

Money manager John W. Burns believes the average investor's biggest mistake is jumping in and out of stocks.

One in an occasional series profiling top money managers

His strategy is to hold good stocks —often for years. He's an optimist and is fond of quoting John Paul Getty, once the richest man in the world, who said, "I never sold anything."

John Burns

Burns manages $150 million under the banner of J.W. Burns & Co., based in Syracuse, N.Y. He founded the firm 22 years ago and is proud to say some original clients are still with him.

Burns has racked up an impressive record.

His average return the past 17 years has been 20.6%. Money Manager Review ranked Burns 25th of 524 independent investment firms for performance over the past three years.

This year, his portfolios are up 17.5% compared with 11% for the Standard & Poor's 500. Last year, he was up 35.8%, in line with the S&P. In 1994, a tough year for money mangers, he finished 5.8% up compared with the S&P's 1.3%.

Burns, 65, always had his sights set on investing. He graduated from Tufts College with a finance degree. He joined the brokerage firm of Spencer Trask Co. in the mid-1950s and later moved on to do research at First Albany Corp. After 15 years at First Albany, he left to start his own firm.

"We are fundamentalist and not market timers," he said in a recent interview. "We place great emphasis on products and management's ability to use them to drive earnings. There is an old saying that Sperry Rand Corp. invented the computer, but IBM sold it.

"So, we want companies with a record of success selling and making money with their products.

"I prefer simple products I can feel and touch and taste," Burns added. "We've owned Gillette Co. for over 10 years. We also hold Coca-Cola Co., Hershey Foods Corp. and Wrigley."

That's not to say Burns is averse to new industries.

"We will buy stock in technology and drug firms after we've researched them thoroughly," he said. "We've owned Intel since 1990 (it was 12 then) and Microsoft Corp. with an average cost of 55."

Intel is now 95. Microsoft is 137.

Burns has 25 stocks he uses for all his portfolios. He has held at least half of them for more than five years. His discipline leads him to many large-cap stocks. But he'll buy Nasdaq growth issues that fit key criteria:

■ Earnings growth at least 10% a year.

■ Competent management.

■ Products that dominate a market.

■ Strong balance sheet.

■ High return on equity.

■ International presence.

Burns looks at the stock market as "a collection of businesses."

"Our job," he said, "is to find and invest in the best businesses and have our clients hold them for years. Every stock's price swings at least 30% a year. We don't feel successful investing can be done by trying to time all the swings. However, we will sell a stock if it doesn't meet our expectations."

The company sold International Flavors & Fragrances Inc. "because earnings were not progressing as we wanted," said Burns. "We also sold Pep Boys due to disappointing earnings."

One of Burns' favorites is Gillette. He said the company has shown consistent earnings growth and increases in dividends. Management has come out with new razors and shown an ability to make money with them.

He also notes Gillette is growing overseas. The same can be said for his other key holdings. Coca-Cola gets 70% of sales overseas and Wrigley 50%.

Burns also looks for blockbuster products. He took a stake in 1985 in Bristol-Myers Squibb Co. based on a product used to treat high-blood pressure. He said it worked out very well.

He currently likes Merck & Co. because of Fosamax, its promising treatment for osteoporosis. The drug was approved in late 1995 and has contributed $260 million to sales already. He says there are 45 million Americans suffering from the bone disorder.

Burns holds St. Jude Medical Inc., whose key product is heart valves. He feels it has the best product in the industry and describes the firm as a money machine.

A year-and-a-half ago, he noted, St. Jude bought a pacemaker unit of Siemens AG. He said St. Jude paid $500 million for the firm — half in cash and half in debt. St. Jude has now worked the debt down to $70 million.

Burns has seen many bull and bear markets. But he remains optimistic about the future and the current market. "No one knows about the short-term," he said. "I believe, though, that the world markets are on the threshold of great growth."

Burns' son, James C. Burns, a chartered financial analyst, works with the firm. Peter N. Bunitsky is director of research, and Patrick M. Dalton is a portfolio manager and analyst.