

## WHAT WOULD WARREN BUY?

he expects Wall Street will have come around to the stock, boosting its P/E to as much as 22, from a recent 17, which would drive the stock north of \$75.

### UPS (UPS, \$67)

■ SHARES OF BIG BROWN fell 10 percent in a single session this past summer after the company missed earnings estimates and lowered its forecast. Higher fuel costs and a slowing economy are starting to check growth at the world's largest package-delivery company, which handles nearly 15 million boxes and letters a day. It also faces pressure from FedEx and DHL, especially in domestic ground deliveries, which have been UPS's historical stronghold.

No, the immediate future isn't rosy for UPS, but the company's airtight balance sheet and strong brand make the stock attractive at this price.

UPS generated \$3.5 billion in cash flow last year and is one of only six companies that earns S&P's top credit rating. Jeff Auxier, the bargain-hunting manager of the Auxier Focus fund, thinks the stock market isn't rewarding UPS as it should for such a stellar balance sheet. He says that will change as interest rates rise and UPS is able to borrow money at lower rates than competitors. UPS has been developing its extensive logistics network, which includes every



### AN ICONIC COMPANY:

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address in the United States, for nearly 100 years, and it's expanding around the world. "It's basically a proxy on global trade," Auxier says. He doesn't think UPS will return to its average multiple of 24, but expects the shares to trade at 20 times 2007 earnings of an estimated \$4.30 per share, up from \$3.86 and a P/E of 17 this year. That would add nearly \$20 to the share price in 18 months.

### Scotts Miracle-Gro (SMG, \$38)

■ THE LAWN- AND GARDEN-CARE industry, a \$5 billion business, faces not one, but two headwinds: a weakening housing market and a decline in consumer spending. It's no surprise then that Scotts, the do-it-yourself market leader with products like Miracle-Gro and Ortho, is off 24 percent from this year's high of \$50. The company also has had to digest higher costs on raw materials such as natural gas, which is used to make fertilizer. "It's a tough economic cycle now, but the long-term picture is good, especially with the country's demographics," Auxier says. "Baby boomers love to garden."

Scotts's stable of brands is impeccable. Each one is the leader in its category, with a collective market share of more than 50 percent. The company has spent five years trimming debt, and with the cash saved on interest, Scotts started paying a dividend last year and plans to buy back \$500 million worth of stock. Management's interests are firmly aligned with those of shareholders. Chief Executive James Hagedorn and Director Katherine Littlefield, children of Miracle-Gro creator Horace Hagedorn, own about one-third of the company with their siblings.

## GOOD BUSINESSES AT GREAT PRICES

Buffett says investors should think like owners, and these firms are worth owning for the long haul.

Company (Ticker, Price)	2005 Sales (\$bil)	2006 Est. Sales (\$bil)	2005 EPS (\$)	2006 Est. EPS (\$)	2006 Est P/E	ROE Five-Yr. Avg.	Dividend Yield (%)
Berkshire Hathaway (BRK/B, \$3,100.00)	53.5	56.0	103.00	150.00	21	8%	—
HSBC (HBC, \$90.09)*	60.2	68.0	6.75	7.67	12	14	4.1
American Express (AXP, \$51.80)	24.3	26.9	2.85	2.99	17	20	1.2
United Parcel Service (UPS, \$66.51)	42.9	47.7	3.47	3.86	17	24	2.3
Scotts Miracle-Gro (SMG, \$37.57)**	2.3	2.6	2.21	2.62	13	12	1.3
Mohawk Industries (MHK, \$66.77)	6.6	8.1	5.62	6.37	11	17	—
Wal-Mart Stores (WMT, \$44.69)†	315.6	351.3	2.68	2.92	14	21	1.5

Data as of 8/11/06. \*American Depository Receipt. \*\*Fiscal year ends 1/31/07. †Fiscal year ends 9/30/07.

SOURCES: BASELINE; ZACKS INVESTMENT RESEARCH