Boyar research

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Wall Street likes to think of itself as a highly sensitive measuring device but, more often than not, it bears a greater resemblance to a pendulum gone haywire.

Not only does it tend to overreact hysterically in one direction or the other, but it swings wildly every time the winds of stock-selecting fashion change. A key mistake too many investors make is to assume that the latest fad will be permanent.

The most recent buzzwords have been "book value" — that is, the worth of a business as measured by its assets and liabilities, rather than by the market's changing appraisal of what the stock price should be.

There's nothing new about concentrating on "book value," but it has come back into fashion for two reasons: (1) so-called glamour stocks, selling at exceptionally high prices in relation to their annual earnings, have performed less well than stocks in general in most recent months; (2) in the same period, some of the best records have been compiled by investors who purchased stocks selling for less than their "book value" and at a very conservative multiple of their annual earnings.

Such results represent a useful phenomenon: the market's self-correcting mechanism. Excesses eventually come into balance. Stocks that sold, year after year, at fantastically high price-earnings ratios — and then failed to produce the earnings increases these ratios had assumed — inevitably had to come down. And they have: with a resounding "kerplop."

But the comfortable conclusion that successful investing now requires only the adoption of a newold system, "book value," seems equally likely to falter. First, the market is quirky; last month, for example, according to a study by Kidder, Peabody & Co., the 50 highest-multiple major stocks actually did slightly better than the market (the first such favorable comparison since November). Second, just as a low price-earnings ratio is no guarantee of investment profits, so a high "book value" can be a misleading recommendation (see, for example, some of the railroads). And third, the "book value" itself can be inaccurate.

As Mark A. Boyar, a skeptical student of the "book value" enthusiasm, told me, "To measure a company's value by utilizing stated book value is absolutely meaningless. Stated book value and what the assets of a corporation are, in fact, really worth can be poles apart.

Boyar is director of "Asset Analysis Focus," a research service he began in January 1975 to emphasize the difference between "book value" and what he terms "intrinsic worth." He believes that investment success arises from "taking advantage of favorable discrepancies between market value and intrinsic value" — which he defines as what the company would be worth if it went out of business or got sold tomorrow.

Isn't that precisely what the aficionados of "book value" have already determined? Not according to Boyar. "By employing the stated book value method of investing (even if the stated book value is accurate), an investor rarely finds the treasures that lie beneath the balance sheet . . . Hidden assets not appearing in a corporation's financial statements at current values may lead to disparities between market value and intrinsic worth."

As an example of "hidden assets" — which could include real estate, natural resources or undervalued inventories — Boyar cites Tiffany & Co., the New York jewelers, that he says carries its Fifth Avenue headquarters property on its balance sheet at a depreciated value of only about $3 million — way below current worth — and carries the Tiffany diamond on its books at cost, though "that diamond is worth many millions more."

Another of his examples is First Colony Life Insurance Co., which he says carries its 306 acres in California's Inglewood oil field at $83,000, though the field has been productive since early in this century and paid First Colony more than $850,000 in gas and oil royalties in both 1974 and 1975.

So "book value" may underestimate as well as overestimate. Neither it nor any other set of magic words will substitute for the painstaking task of individual company analysis — not to mention hope and faith. For the only permanent fashion on Wall Street is change.