

# The More Things Change, The More They Stay The Same

By: Jonathan Norwood

*Exclusive Online Article*

used with permission from

---

**BENEFITS AND PENSIONS**  
**MONITOR**

[www.bpmmagazine.com](http://www.bpmmagazine.com)

## **Perspectives**

### **The More Things Change, The More They Stay The Same**

**By: Jonathan Norwood**

Well, it's official. In rather anti-climatic fashion, both GM and Chrysler have now filed for Chapter 11 bankruptcy protection. And quite frankly it is hard to feel any empathy for either. After all, their arguably obtuse management teams still had Hummer and Hemi on the brain while the Japanese were introducing their second generation of hybrid vehicles into North America. Talk about being behind the curve, or out of touch with social trends. Sure they eventually clued in, but too little too late. In many senses they wagered the future of their franchises on the crumbling foundation of yesterday's technology.

### **Monster Truck Fanatic**

Newsflash GM: not everyone is a closet NASCAR and/or Monster Truck Fanatic ...although I am secretly a fan of the Hummer H2 and new Chevrolet Camaro.

In any case, I still remember my barber's comments earlier this year when I was having my hair cut and discussing the markets with him. He said (through his thick Greek accent) "...they make ugly cars, pay their CEO \$14 million a year, and the average (UAW) employee earns something like \$70 an hour" (in cash and benefits). "No wonder they are bankrupt!" he quipped. The irony is that here is man who has no MBA or CFA; has never even looked at GM's bloated balance sheet, spotty earnings history, or massive pension liabilities; and yet he can see the writing on the wall.

So why were some of the sharpest investment minds in the world (Cerebus, Kirk, Kerkorian, etc.) still invested in and subsequently ravaged by their North American auto stock holdings? Your guess is as good as mine. At least Kerkorian was smart enough to dump his GM shares at circa \$30, which incidentally had the financial media baffled at the time. However, he still took a bath on his Ford holdings after riding the stock down some 50 per cent.

Sometimes you have to wonder whether 'Professional Money Manager' is an oxymoron. Legendary investor Peter Lynch said that "...I continue to think like an amateur as frequently as possible."

In any case, everyone makes mistakes. The key is to learn from them. There is no such thing as a hereditary knack for picking stocks. Fundamentally the automotive sector is and will always be a train wreck. It is a sick, commodity type business.

Let's face it, both Ford and GM manufacture and sell pretty much identical trucks. If one is a lot cheaper than the other, you will likely buy it. Occasionally an auto manufacturer will hit a home run with a hot new vehicle, such as the Minivan. Yet, pretty soon excess demand will be met with supply, and profit margins will drop.

### **Abreast Of The Competition**

For the periods that they do manage to make money, it is usually spent upgrading plants and equipment to keep abreast of competition.

In the auto business, standing still for a second provides your competition with the time they need to destroy you. Hence these stocks are not for keeping, only for trading (which is precisely what Cerebus and Kerkorian had in mind).

Remember this. The same can be said for airlines, the lumber industry, paper manufacturers, etc.

*Jonathan Norwood is vice-president and portfolio manager at Louisbourg Investments.*