

A Father Passes His Values On to His Sons

By Leslie P. Norton

Stuck on a fridge in a suburban Baltimore home is a fading Polaroid of a seven-year-old boy toting a Star Wars lunch box, vintage 1980, standing next to his 18-year-old brother. They're the sons of Gordon and Jane Croft. Investing was a frequent topic in their household. Gordon for a time ran the T. Rowe Price Growth & Income Fund, and he often talked about the investment themes for stocks like Exxon, IBM and T. Rowe Price itself. His eye for value went beyond stocks: He never bought tractors for the family farm for more than 80% of list price. Same went for cars. "He's always looking for bargains," says Kent Croft, Gordon's eldest son.

Today, Gordon, Kent, and his younger sibling Russell all follow the same value bent at Croft Leominster in Baltimore. Kent is the firm's president, having founded it with Croft pere in 1989. Russell and Dad are vice presidents. All three do research and portfolio management.

On Father's Day, the trio and their families can celebrate nice long-term results. The four-star-rated Croft Value Fund (ticker: CLVFX) has returned 4% a year over the past 10 years ended May, handily outstripping the Standard & Poor's 500 over the year-to-date, one-, three-, five- and 10-year periods. With annual turnover of just 15%, it's top-ranked by Lipper for tax efficiency. The firm now runs about \$800 million in assets.

Thanks to the turmoil in the global markets, there are plenty of good stocks to buy, says Kent, who also serves as chief investment officer. "We are fairly optimistic, even knowing all the headwinds. A certain amount of bad news has been discounted. You can find great, best-in-class, 'Steady Eddie' companies at very cheap valuations that are good entry points for the next three to five years." The economy will rebound further, he says, as it should after a severe recession. Around 10% of assets is in cash, ready to pick up bargains.

Among them is Becton-Dickinson (ticker: BDX), which Barron's featured positively last week ("A Booster Shot for Sluggish Times," June 14). The company, which sells syringes, scalpels, cancer-screening products and diagnostic tests, trades at 12.5 times forward earnings, not much above the market's 11.7. Says Kent: "They don't have much reimbursement risk, and more people being insured means more of their products will be used." The stock sports a 2% yield.

Another is MetLife (MET), a "best-in-class insurance company" which trades at just 7.5 times next year's earnings and below book. (The insurer is also the subject of a favorable story, in this week's Barron's; see page 19.) MetLife is buying one of

American International Group's (AIG) international insurance businesses at a good price, and will benefit, eventually, from an aging population opting to buy more life-insurance products. Book value gives MetLife some downside protection. The acquisition is likely to be accretive, so "1.2 to 1.3 times book is not unreasonable," says Kent.

Russell joined his older brother and father at the firm 12 years ago. "We have a staggered, generational management team," says Kent. At 77, Gordon puts in a nine-hour day, and is likely to answer the firm's phone if you call before eight.

Kent looks at technology and telecom companies; Cisco Systems (CIS), one of the firm's positions, is his pick. Russell, educated at the London School of Economics, looks at companies more as transnational entities. He's quick to say what's wrong with an idea during the firm's Monday investment meeting. "I call him a Philadelphia lawyer," Gordon laughs. Around the firm they refer to each other by their initials: "It seems more professional," Kent explains. But to his face, they call Gordon "Dad."

The family has owned a farm in southern Maryland since 1850; today, they grow corn and soy; however at one time, Kent raised tobacco to make money for college. They're fans of John Deere (DE) and Potash (POT), the largest North American producer of the fertilizer. "Class mobility in China means they're buying more corn from the U.S. Deere is in all the right places. Potash is a valuable asset in itself. These are cycles independent of the normal business cycle," says Kent.

They've built up considerable expertise in the energy sector, in names like Petrobank (PBG.Canada), which has hundreds of thousands of acres of Canadian oil sands and the technology to extract it; Ultra Petroleum (UPL), extracting gas in the Rockies, and Southwestern Energy (SWN). "We're looking for prolific fields and low-cost producers," Kent says. "Ultra is very conservative. These companies are worth at least 30% more than where they are today, and I'm trying to be somewhat conservative."

One thing they won't buy is BP (BP), despite its 50% decline. "There are too many intangibles," Kent explains. "A lot of people say they have a handle on the liabilities and the worth of the reserves. If you run the numbers like that, it's cheap. But I don't know how this will unfold. The spill itself is a wild card; they can't agree on what's coming out, where it will wash up. Look back at asbestos. There are so many other energy companies we feel better about. ■