

Talking With Dan Chung

Chief Executive
Fred Alger Management

This Bull Isn't Done

By Leslie P. Norton

DAN CHUNG IS BULLISH—AND, DEEP INTO third-quarter earnings season, the numbers bear him out. Many of his favorite companies are beating Wall Street forecasts, buttressing his belief that the stock market still has room to run.

“We’ll see more fundamental upside [earnings] surprises in the third and fourth quarters, and the wall of cash on the sidelines” that’s fetching “terrible” yields will eventually spur investors back into the market, says the amiable, animated Chung, 47 years old. “A 5% reallocation from cash and short-term bonds could drive a 17% appreciation in the stock market,” he adds.

Also pushing earnings higher: overseas operations. “We are at the tipping point where international business at many companies can drive growth and actually overcome weakness in the U.S.,” says Chung, CEO and chief investment officer of Fred Alger Management, advisor to Alger Funds, which oversees a total of \$11.5 billion.

More stock-market gains would be additional good news for Alger shareholders, many of whom already enjoy top-tier returns. At the end of the third quarter, Alger had at least one top-10 fund in each of the following categories: small-, mid- and large-cap growth; world stock; and health sciences. Among those, two funds—**Alger Spectra** (ticker: SPECX), a large-cap growth fund that has had an



Alger's Chung: The “terrible” yields on cash will eventually spur more investors back into the stock market.

Evan Kafka for Barron's

11.17% return over five years, and **Alger China U.S. Growth** (CHUSX), a world stock fund up 11.98% in that time—were in the top 1% over five years. Chung personally manages the China U.S. Growth and **Alger MidCap Growth** (AMGAX) funds, and co-manages **Alger LargeCap Growth** (ALGAX) and **Alger SmidCap** (ALMAX)—a small- and mid-cap fund near-term improvement, however, could encounter some headwinds in the second half of 2010, when the “very easy” comparisons with the first half of 2009 start expiring, says Chung. That could pose a problem if the economy struggles as stimulus programs wind down, raising questions about whether the U.S. economy can grow without further federal assistance. Earnings and sector growth are likely to become bigger concerns at that time, he notes.

He expects earnings to grow 25% in 2010, but that’s after “two disastrous years for the economy and financials,” says Chung. So even at the recent mar-

ket multiple of just 15 times 2010 earnings—less than the growth rate—stocks aren’t a screaming buy. Going into 2010, Chung says, “it’s very much a stock-picker’s market” that may otherwise be range-bound. Even so, he believes, “investors will make money from here.”

Chung and his fellow stockpickers at Alger follow the model pioneered by the firm’s namesake, Fred Alger. They look for companies undergoing dynamic changes that will drive either high unit volumes or margins, or whose shift in strategy is a catalyst for profit growth.

The firm values extensive experience in its analyst team. One of Alger’s researchers was chief medical resident at a major hospital; another holds a Ph.D. in material sciences. Chung himself has a law degree from Harvard. In 2001, as Alger’s Internet analyst, he was dubbed an “unsung hero” by Barron’s (“Super Talents,” Jan. 8, 2001)—one of the little-known analysts who helped drive performance at their firms.

(over please)

Chung believes the sharp economic downturn has upended entire markets, destroying competition and allowing survivors to grow at superior rates. In retailing, that's J. Crew Group (JCG), which appeals both to people of modest means and to wealthier consumers who want to be more frugal. In banking, it's JPMorgan Chase (JPM), whose clean balance sheet allowed it to buy Washington Mutual and Bear Stearns at attractive prices. J. Crew has raised its earnings forecast due to strong sales and wider margins. And Morgan, notes Chung, "will actually exceed peak earnings" as growth in nonperforming assets slows. He sees the bank earning \$5 a share for 2011; it was trading at about 44 last week.

What appeals to Chung now? The personal-computer industry, which he thinks is the subject of "a significant misperception" about demand. In March, most investors believed demand would decline or stay flat. But Alger's analysts, through

checks of the supply chain and corporate customers, believe it will strengthen. Earnings estimates have since started to catch up, but are still too low, says Chung. He thinks demand will pick up next year with strong foreign growth, a new replacement cycle, the renewal of corporate demand, and more sales of Microsoft's (MSFT) new operating system.

One beneficiary: Dell (DELL). Analysts believe Dell will earn \$1.27 a share next year, up from a projected \$1.06 this year. But those estimates are "a little too low for an up-cycle," says Chung, given that Dell posted earnings of \$1.35 last year. Dell has net cash of \$6 billion, or about 20% of its market value of \$28.9 billion. At a share price of 15 last week, says Chung, Dell is "well-positioned to surprise on the upside." Its forays into services—it recently bought Perot Systems—will be accretive in 2011. He thinks Dell will earn \$1.35 a share next year. "More importantly," he says, "with free cash flow of \$1.60, Dell trades at just 7.5

times enterprise value to free cash flow per share, excluding cash.

He's also a fan of chip makers like Atheros Communications (ATHR) that benefit from increasing wireless connectivity. Atheros makes wireless, for local-area network (LAN), chips, and 40% of its production goes into notebooks, which he sees growing at a 30% rate next year. Atheros chips also go into networking equipment. Its acquisition of Intellon will help it sell to telecom carriers serving residential customers who don't have Ethernet wiring. Chung thinks Atheros' earnings will be \$1.85 this year, topping analysts' expectations of \$1.25. His price target is 40; shares were trading at 25 last week.

One other pick: Skyworks Solutions (SWKS), which is gaining share in the smartphone segment owing to top-rated handsets. Chung thinks Skyworks' earnings per share, \$1 in 2010, can grow 20% in 2011. His price target is 20, or about twice the shares' recent level of 10. ■

ALGER

Inspired by Change, Driven by Growth.

Fund Name & Ticker Symbol	Morningstar Category	Percentile Ranks 9/30/09				Average Annual Total Returns as of 9/30/09								Gross Expense Ratio	Inception Date
		Morningstar Percentile Ranking Fund Rank/No. of Funds in Category				Returns without Sales Charge				Returns with 5.25% Sales Charge					
		1YR	3YR	5YR	10YR	YTD†	1YR	5YR	10YR	YTD†	1YR	5YR	10YR		
Alger Spectra A * SPECA	Large Growth	1% 13/1788	1% 3/1515	1% 1/1255	25% 165/653	45.13	15.65	11.17	1.1	37.51	9.58	9.98	0.56	1.46	9/19/68
Alger China-U.S. Growth A CHUSX	World Stock	24% 176/734	4% 22/536	1% 1/440	—	45.44	3.86	11.98	-	37.81	-1.59	10.78	-	2.15	11/3/03

† Not Annualized

Source: Morningstar

The performance data quoted in this material represents past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Recent performance has been impacted by an unusually strong period in the U.S. equity market and there is no guarantee that such conditions will be repeated.

©2009 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. During certain of the referenced time periods, the Funds experienced periods of negative performance results. Investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Investing in the stock market involves gains and losses and may not be suitable for all investors. Morningstar percentile rankings are based on the total return percentile rank (excluding sales charge) within each Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. If sales charges were included, performance would be lower and the rank may be lower. See next page for the complete ranking and performance information.

* Historical performance shown is that of the Fund's Class N shares, which were redesignated as Class A shares on 9/24/08. In order to engage in a short sale, Alger Spectra Fund arranges with a broker to borrow the security being sold short. In order to close out its short position, the Fund will replace the security by purchasing the security at the price prevailing at the time of replacement. The Fund will incur a loss if the price of the security sold short has increased since the time of the short sale and may experience a gain if the price has decreased since the short sale.

The performance information in the article has been calculated at NAV throughout the period referenced. Class A shares are subject to a front-end sales charge of 5.25%. The Funds listed above may impose a redemption fee of 2% on shares purchased and redeemed (including by exchange) within 30 days of purchase, which, if applied, would reduce the performance shown. The calculation of total return assumes dividends were reinvested at market value. The table does not reflect a deduction for taxes that may be payable on fund distributions or on the redemption of fund shares. The Funds listed above can leverage (borrow) to achieve its investment objectives. The cost of borrowing money to leverage could exceed the returns for securities purchased or the securities purchased may go down in value; leverage may, however, cause the Fund's net asset value to decrease more quickly.

Growth stocks tend to be more volatile than other stocks, as the prices of growth stocks tend to be higher in relation to its companies' earnings and may be more sensitive to market, political, and economic developments. With respect to the Alger China-U.S. Growth Fund, investing in foreign securities involves additional risks (including currency risk, risks related to political, social or economic conditions, and risks associated with the Chinese markets, such as increased volatility, limited liquidity, and lack of industry diversification) and may not be suitable for all investors. Small- and mid-capitalization stocks are subject to greater risk than larger stocks owing to such factors as limited liquidity, inexperienced management and limited financial resources.

Companies mentioned comprised the following percentage of firm assets under management as of 9/30/09: JPMorgan, Inc., 0.63%, J Crew Group, 0.40%, Microsoft Corp., 1.44%, Dell, Inc., 0.06%, Atheros Communications, 0.58% and SkyWorks Solutions, 1.21%.

Before investing, carefully consider the Funds' investment objective, risks, charges, and expenses. For a Prospectus containing this and other information, or for the Funds' most recent month-end performance data, visit www.alger.com or call (800) 992-3863. Please read the Prospectus carefully before you invest. Distributor: Fred Alger & Company, Incorporated. Member NYSE Euronext, SIPC. NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.