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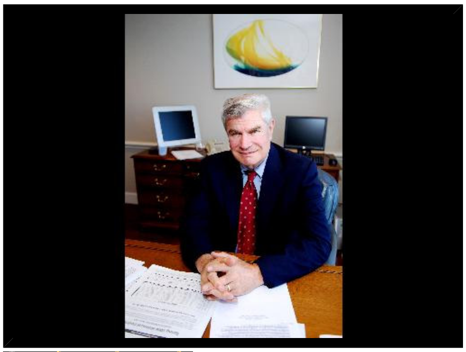
Heebner Sees Fund Gains More Challenging as U.S. Economy Slows

By Sree Vidya Bhaktavatsalam and Pimm Fox



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Dec. 28 (Bloomberg) -- Kenneth Heebner, the top-ranked U.S. stock fund manager, said grain and steel shares will be among the biggest gainers in 2008 as a weaker economy makes investing more challenging.

``The U.S. economy is slowing down, other parts of the world are growing,'' Heebner said yesterday in a Bloomberg Television interview in Boston. ``I am more conservative at this point.''

Heebner, managing partner of Capital Growth Management LP, said he'd be happy with a 10 percent to 20 percent return for his $3.5 billion CGM Focus Fund next year, after an 83 percent jump in 2007. That's the biggest increase of any diversified equity manager, according to Chicago-based research firm Morningstar Inc.

``As I look into '08, I won't have a year like this,'' Heebner, 67, said. ``It is a more challenging environment than the last year.''

Heebner, who has run CGM Focus since its inception in 1997, is bullish on agricultural shares after corn prices advanced 17 percent this year on demand for ethanol, and soybean prices soared 80 percent. Wheat prices surged 82 percent as demand outpaced production.

``Farming will be permanently elevated,'' Heebner said. ``Grain prices will be more elevated, and that is benefiting a lot of U.S. companies.''

Heebner said he bought shares of Moline, Illinois-based Deere & Co., the world's largest maker of tractors and harvesters, which rose 90 percent in 2007. He also owns Luxembourg-based ArcelorMittal, the world's largest steelmaker, whose stock climbed 81 percent.

Steel Forecast

China, the largest steelmaking nation, has slowed approval for new mills to limit pollution and its trade surplus.

``As they slow the production of steel in China, we could see stronger steel pricing,'' he said.

Steel prices in the U.S. may rise to more than $600 a ton in the second quarter of 2008, according to Goldman Sachs Group Inc. Hot-rolled steel sheet, used in cars and appliances, fell 5.8 percent to an average $532 a metric ton in November from $565 a year earlier, according to Purchasing magazine.

CGM Focus held 2.9 million shares of ArcelorMittal as of Sept. 30, its seventh-biggest holding. Heebner also owns shares of Pohang, South Korea-based steelmaker Posco, which gained 83 percent this year.

CGM Focus's five biggest holdings at the end of the third quarter doubled on average in 2007. The largest, U.S. oilfield- services provider Weatherford International Ltd., surged 69 percent.

Sold Vale

Heebner said today that he sold his stake in Brazilian mining company Cia. Vale do Rio Doce, which had been the fund's second-biggest holding, after the shares more than doubled.

``They will be raising the price 30 percent or more next year,'' Heebner said, referring to what Vale charges for iron ore. With the increase reflected in the company's stock price, `I don't know anything more about CVRD than anyone else that makes it exciting,'' he said.

Cnooc Ltd., China's biggest offshore oil producer, is the fund's third-largest holding. Cnooc advanced 75 percent this year. Russian wireless carrier OAO VimpelCom and Canadian fertilizer maker Potash Corp. round out the top five. Vimpelcom rose 175 percent this year, while Potash tripled.

As of Sept. 30, the fund had 35 percent of assets in oil and gas production and services companies, 17 percent in mining stocks, and 9 percent in iron and steel producers. Engineering firms accounted for 11 percent of assets.

Shorting Countrywide

Heebner has also profited from declines at Countrywide Financial Corp. and Sears Holdings Corp. as mortgage lenders and retailers are hurt by a slump in housing. CGM Focus Fund tripled its short position in Countrywide to 12.3 million and sold short 1.3 million Sears shares, according to a Nov. 21 regulatory filing. A short sale is successful when shares that were borrowed are sold then bought back after the price has fallen.

Heebner, known for his rapid moves in and out of stocks in a few industries, earlier this year dumped his 15 percent stake in investment banks and brokerages, saying they would be hardest hit by the global credit freeze that began when delinquencies on mortgages to the riskiest borrowers rose.

The 30-member Standard and Poor's 500 Diversified Financials Index has declined 21 percent this year, dragged down by companies such as Citigroup Inc., Merrill Lynch & Co. and SLM Corp.

Financials Outlook

The outlook for financial stocks has improved, although earnings will be hurt next year as clients such as hedge funds and private-equity firms scale back their activities.

``The earnings from private equity and hedge funds are much diminished,'' he said.

Heebner concentrated on homebuilders from 2001 to 2005 and airlines in the late 1990s. He also bet against technology and telephone stocks in 2000, prior to the collapse that slashed the Nasdaq Composite Index by 71 percent from March of that year through December 2002.

The money manager, a Philadelphia native, began his career in 1965 as an economic forecaster with consultants A&H Kroeger in New York after receiving a master's degree in business from Harvard Business School. He co-founded Boston-based Capital Growth Management in 1990.

To contact the reporters on this story: Sree Vidya Bhaktavatsalam in Boston at **sbhaktavatsa@bloomberg.net** ; Pimm Fox in New York at **Pfox11@bloomberg.net**

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