Make the Telecom Trend Your Friend

Q&A ticker.com

Although media and telecommunications stocks have experienced rough sledding for nearly three years, the T. Rowe Price Media & Telecommunications Fund, managed by Robert Gensler, still scores high on the Lipper rankings over a five-year period.

Q: Since this is a specialty fund that combines media and telecommunications stocks, how do you strike a good balance?

A: I own related technology stocks at certain times that are enablers to each group, predominantly telecom equipment, and sometimes software. But how do I balance? It's really about growth versus valuation and prospects. I look at all companies the same way across industries. There are a lot of linkages and at different times the prospects are different. Right now, the fund is about 42% in telecom services, about the same in media and about 10% in technology stocks. But that moves around, predicated on where the valuations are and where the prospects are. I always look at it as the next six months to a year's time frame when thinking about the prospects.

Q: What is the fund's strategy and investment philosophy?

A: Obviously to invest in media and telecommunications and the enabling technologies one has to look at the prospects for each. For example, media companies generically are just great business models, led by advertising, but so are subscription companies like radio, magazines or newspapers. What is shared across most of the media, except cable, is great returns on capital, great free cash flow, and relatively stable growth. In a good economy, most media companies have 7 to 8% top line growth. In a bad economy, as bad as it's been last year, most media companies had flat revenue. And even with flat revenues, most of them delivered up earnings, because they're very stable franchises. Right now with the economic cycle improving, these are the companies that will get the benefits. You get great positive leverage with these companies, because the extra dollars of revenue flows straight through to the bottom line. They're selling a service. The cost of the good sold is already fixed. We have a big position in the radio industry, which will directly benefit from the advertising cycle and broadcasting. Within advertising, the areas gaining market share are cable networks and radio. Even Disney has great economic leverage in an improving economy. We own some ad agencies, some of the newspaper stocks. Although newspapers aren't growing as much, if help wanted advertising comes back, if classified comes back, they have a tremendous leverage from just a little bit of revenue growth. For telecom services, for all of the problems the industry has had for almost three years, it's actually created a situation where the future is actually quite good. The telecom services industry is rather low growth, but the winners and losers have been sorted out. And the winning companies are big, stodgy, low-growth companies like Verizon. It's no question that all the competition that was thrown at it didn't kill it. Now, you get into a time of modest growth, good free cash flow, good dividend yields, and good returns on capital, etc. Within telecom services, the fund is invested internationally. In many ways, there are much better investments overseas than there are domestically. Three quarters of the telecom

T. Rowe Price Media & Telecommunications

Fund Facts		
Symbol	PRMTX	
Website	www.troweprice.com	
Address	T. Rowe Price Funds, 100 E. Pratt Street, Baltimore, MD 21202	
Tel. No.	800-638-5660	
Inception	10/14/93	
Portfolio		
Total Net Assets *		$420.00
Avg Mkt Cap ($ Weighted) *		$30,200.00
Average Price/Earnings Ratio		---
Average Price/Book Ratio		2.91
Turnover Ratio		241.00%
Investment Information		
New Investment		Open
Min Initial Investment		$2,500
Min Subsequent Investment		$100
Min Initial IRA Investment		$1,000
Risk (Against Std Index - 3-yr Average)		
	PRMTX	**Category Avg.**
Alpha	4.26	-12.04
Beta	1.43	1.40
Returns vs. Lipper Telecom Fund Index		
	PRMTX	**Index**
1 Year (Cum.)	-19.79%	-34.85%
3 Year (Ann.)	-19.50%	-33.62%
5 Year (Ann.)	4.96%	---
Returns vs. S&P 500		
	PRMTX	**Index**
1 Year (Cum.)	-19.79%	-23.02%
3 Year (Ann.)	-19.50%	-13.84%
5 Year (Ann.)	4.96%	-1.33%
Fees and Expenses		
Max Sales Charge - Front		0.00%
Max Sales Charge - Deferred		0.00%
Redemption Fee		0.00%
Total Expense Ratio		1.08%
Portfolio Manager		
Robert N. Gensler		01/14/00
** millions*		*Data through: 01/31/03*
Source: Company Documents; Lipper		

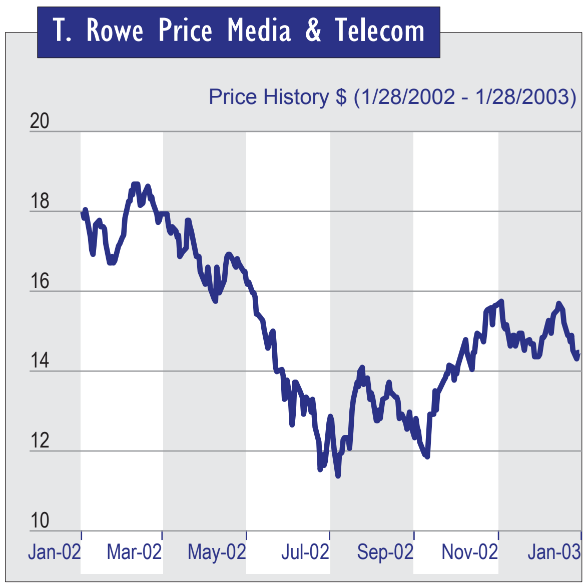
service holdings, or little over 30% of the fund, are actually international names, the largest being Vodaphone. And the reasoning is that many of the names outside the U.S. trade cheaper, have better regulatory environments and they have less competition. Some of them in emerging markets, quite frankly, companies like a Telmex that trades at only nine or ten times earnings versus a Verizon that trades at 15 times earnings. Telmex actually has better growth prospects and an easier regulator, a higher dividend yield, buys back more stock, paying off more debt, etc.

Q: How do you arrive at valuations and stock selections?

A: I actually go through every company and ask what's their near-term growth, and what's their longer-term growth because they very often are different. Then I look at every industry or company and I ask what's their structure and position in that industry. Is it getting better or worse? Are there too many competitors? Is the company gaining market share or losing share? Is their subindustry gaining share, like radio is gaining share in advertising? What are their margin trends? These are the things I look at. Market share trends and pricing power are important to me. Product cycles are important. Those are some of the things I look at from a long list. If all of those things score well, I'm willing to pay a premium. If they tend to score poorly, even if something looks really cheap, I am cautious.

Q: Do you have a team of researchers backing you?

A: We have about 40 in worldwide research. Between media, technology and communications, because I also manage a technology fund, we have about a dozen analysts that work with us around the globe. Four are in Europe. One is in Asia. And the rest are here, all in different disciplines. We are quite blessed with a pretty good team. I spend over 100 days a year on the road. How can you figure out whether to own Nokia unless you visit China? China is almost 25% of all the handsets sold in the world. China is the largest wireless handset market in the world with over 190 million subscribers. It's the fastest growing, with 60 million new customers last year and there's only 140 million in the world that are new.



Q: This suggests that you don't rely heavily on wirehouse research.

A: No. We work with them. What they're good at is information flow and access to companies. We have wonderful access ourselves, but Wall Street firms can help enhance that. Very often they're closer to the knowledge than we are, but we still have to process it.

Q: What about the U.S. wireless carriers?

A: In the U.S. you have six wireless carriers beating each other's heads. Overseas, you typically only have three in most markets. Wireless is a commodities business, with the dominant carrier having a 50% market share. American Mobile, the Mexican wireless carrier has a 78% market share. Its margins are expanding, it has better growth than the U.S. and it trades at only two-thirds of the valuation of a U.S. company. Telecom Italia Mobile in Italy has a 58% market share. There are only three competitors. The reason for such a global approach to telecom services is the issues are the same everywhere, but the regulators are different. In many places you have much better structure of industry regulation. Regulation is getting a little better in the U.S. but it's still much worse than internationally. Wireless has six players. We have hopes for consolidation, but it's only hopes. Elsewhere we have reality.

Q: What is the outlook for the technology enablers that currently make up only a small portion of total holdings?

A: If you look at the technology holdings, 10% is quite low. It could be as high as 40 to 50%. Telecom service companies are going to grow modestly. Their capital spending can only grow as fast as their own revenues. Meanwhile, many technology companies that sell into them are trading at north of 30 times earnings, double the valuation of a telecom company. The prospects are really no different. Their overall growth is like a food chain. If your customers aren't growing, you can't grow. With the recent rally in the market and the hopes and dreams going on now, a lot of these companies have gone too far, too fast. We own Cisco in data. Nokia and Qualcomm are the dominant players in wireless, but wireless and data are taking share from fixed services.

Q: There is a speculation underway about changes in regulations that will benefit them.

A: The FCC regulations will change and the Bell operating companies will have a victory. I will grant you that, but it won't be a complete victory. If you actually look at what the attributes of that victory will do, the tough regulation in the U.S. has a lot to do with reselling residential lines. It's called unbundled network elements. It's forcing the incumbent company to resell those lines. It's not affecting their enterprise or commercial businesses. It's really affecting their residential business. When they get that regulatory relief, it's not going to affect line growth. I think the exuberance stemming from the potential regulatory relief is flawed. The reason it's flawed, is even with the relief, line growth isn't going to change. The whole substitution effect of data and mobile and what it's doing to the fixed network is not going to change one iota. The regional Bell operating companies are not going to spend more just because they have relief; they're just going to make more profits.

Q: So, some of the growth in telecom is in mobile and data services and equipment.

A: Yes. The growth from telecom is coming from mobile and data. They will spend on them, but they're spending on them right now. Where they're constraining and cutting their spending is on their fixed voice networks. There will be some benefit in DSL to the home, but Alactel will be the big winner there, not Lucent nor Nortel because it already has over an 80% share of DSL in North America. To the extent that data growth is a little better, that's more Cisco. I play bottom up and top down, but the top down part of how I'm playing it is where the revenue pie is headed. We know it's headed to data, mobile, and wireless. In media, it's headed out of radio and into cable networks and away from publishing, etc. If the trend is your friend, then you pick the best stocks at obviously reasonable valuations. Players that are gaining market share. You can do powerfully better. A Lucent and a Nortel, they actually sell into markets that are shrinking. It's hard for them.

***Q:** This idea that the world would covert to fiber optics hasn't materialized.*

A: Long haul transport is very important. It's wonderful. What happened is the technology is so good that we have a tremendous capacity, more than we need. It's funny. When the technology gets so good, all the optical companies were able to put in so much capacity so fast that there's not a lot more needed. Where there is tight capacity is in the mobile networks because they've given you all these buckets of minutes. But even in mobile, if you look at the equipment vendors, they've seen technology leaps in the past 12 to 18 months so you can get 70% more capacity for the same spending. The beauty of technology is that it gives you more for less. The problem for an equipment vendor is selling more for less isn't good. So I'm much more biased to the service providers and media companies than I am toward the technology enablers.

***Q:** The fund has a high turnover rate, roughly 200%.*

A: I'm very valuation centric. As they rally, I tend to trim and wait for the bad days and I tend to buy them back.

***Q:** You have some micro cap stocks in the fund. Is there growth in them?*

A: No. I invest in anything I find interesting. But with the smaller cap names you don't want to make them your biggest positions because they're so illiquid. Honestly, I have to admit that I learned that the hard way earlier on in my career. If you find a small interesting company that you love, you can own 1% of it in the fund. If you love Verizon, or Viacom or Vodaphone, it's okay for it to be 5 or 6% of the fund. If you wake up and find that you're wrong, you can manage the position. The smaller names aren't there to watch them. I have just as much conviction with them; it's usually a liquidity thing, or a prudent man rule, I'm observing.

*"**I play bottom up and top down**, but the top down part of how I'm playing it is where the revenue pie is headed."*

Robert Gensler

Robert N. Gensler and a global research team constantly weigh out the prospects for companies in a dynamic industry with an eye for spotting both near-term and longer-term trends. Mr. Gensler has been with T. Rowe Price since 1993 serving first as a telecom analyst before assuming the role as lead portfolio manager. He has a B.S. from the Wharton School, University of Pennsylvania, and M.B.A from Stanford University.

Dave Jennings