# Not Your Father's Utility Stock: When It's Not Just A Name Change

## Introduction

In the late 1990s, many publicly traded firms used their stock to buy up other firms. Investors who had held sleepy stocks for decades overnight found themselves holding concentrated positions in speculative stocks.

Respondents fallaciously argue that a Claimant's history with a concentrated stock position shows that she knew the company better than her broker and that she refused to sell her stock.

We illustrate the error in Respondents' rhetoric with the acquisition of Frontier Telephone by Global Crossing on September 30, 1999 but the argument applies much more generally.

## Frontier (Rochester Telephone)

Rochester Telephone changed its name to Frontier Corp in 1992. Frontier operated thirty-four regulated telephone utilities in thirteen states in 1998, concentrating in the same bread and butter business it had been engaged in as a public company since 1920.

Frontier, the quintessential low-risk utility stock, was held in highly concentrated positions in its retired employee's portfolios. In some cases, these large concentrated positions had been in the family for decades.

Frontier had $2.6 billion in revenues in 1998. It had been profitable year-in, year-out. It had a low price/earnings ratio and a low market to book value. Its stock paid a $0.89 dividend, had a low standard deviation and a low beta.

## Global Crossing

Global Crossing, a technology flyer of mythic proportions, was the antithesis of Frontier. Its primary business was sinking boatloads of dark fiber optic cable deep under the oceans.

Global Crossing began operations in March 1997. Sponsored by Salomon Smith Barney, it IPO'ed in August, 1998. In only seven months, touted by Jack Grubman, Global Crossing's stock price increased 5-fold by the time it announced its acquisition of Frontier.

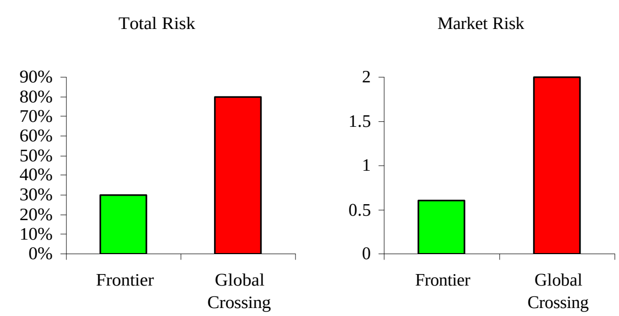
Global Crossing had little revenue and large losses in its limited operating history and losses as far into the future as the eye could see. It had a high market to book value, a high beta and a high standard deviation. It paid no dividends.

## FrontierGlobalCrossing?

In their P&Ls, Respondents describe Global Crossing positions received in exchange for Frontier stock as "Frontier \ Global Crossing" as if Frontier just changed its name to Global Crossing on September 30, 1999.

Respondents' rhetoric is extremely misleading, allowing precipitous losses in Global Crossing to be offset with years' of steady returns from holding Rochester Telephone.

It would be hard to find two stocks more different than Global Crossing and Frontier. Frontier's standard deviation was about 30% and its beta was 0.60. On the other hand, Global Crossing's standard deviation was over 80% and its beta was over 2.0.




## Conclusion

Exchanging a conservative stock for a speculative stock can dramatically increase the risk in an account. Financial advisors must recognize this material event.

An investor's history holding a concentrated position does not explain or justify holding the much riskier acquiring firm's stock. Respondents' rhetoric obscuring this point can easily mislead a panel.

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