

# Lehman Brothers Is Bullish, or Is It Bearish? Or Both?

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By WARREN GETLER  
And WILLIAM POWER

Staff Reporters of THE WALL STREET JOURNAL  
NEW YORK—This much is guaranteed. Lehman Brothers is right about the stock market.

On Monday, the investment bank's two leading stock market commentators—Elaine Garzarelli and Katherine Hensel—came out with what appear to be two very different declarations.

"Stock Market Correction Is Over," blared the headline on Ms. Garzarelli's dispatch.

"Market Is Up But The Coast Is Not Clear; It's Time To Raise More Cash," warned the missive from Ms. Hensel.

Well, which is it?

Yesterday, Lehman officials were at pains to explain the divergent market calls. Ms. Garzarelli is a so-called quantitative analyst focusing on numbers, they explained, while Ms. Hensel is more "intuitive" in her use of fundamental stock analysis. Their boss, research chief Fred Fraenkel, says: "We have different strategists who use different disciplines to get to their conclusions. We do not ask these people to homogenize their views."

This is what happens on Wall Street when a stock strategist (in this case, Ms. Garzarelli) becomes a media superstar, free to say whatever she wants even if it conflicts with the firm's chief investment strategist (Ms. Hensel). Such conflicts have happened before on Wall Street, including at Lehman. But this one has an added flavor because Monday's reports were so different — and because both came

## The Two Faces of Lehman



'Downside potential could be between 10% and 14% and, consequently, raising cash now seems appropriate...All scenarios that we can contemplate lead to a flat or declining market.'

Katherine Hensel,  
Chief stock strategist,  
Aug. 29, 1994

'Stock market correction is over...We believe any corrections should be limited to no more than 4% to 7% from here.'

Elaine Garzarelli,  
Director of Sector Analysis,  
Aug. 29, 1994



from women who are among Lehman's brightest stars.

Mr. Fraenkel says he knew on Friday the "nature" of each analyst's report but didn't see the headlines. But he argues that the reports aren't in as much conflict as they appear.

Really? The Wall Street Journal faxed both reports to Douglas Kass, the head of research at JW Charles/CSG in Boca Raton, Fla., who often focuses on the absurd side of Wall Street. What did he make of the reports? "They're 180 degrees separate," said Mr. Kass. "They're totally antithetical in their conclusions."

Mr. Kass cracks that for Lehman,

it's a win-win situation. "They can point six months from now to either individual: If it goes down, Ms. Hensel made a brilliant call and they can probably put it in a full-page ad." But if stocks go up, he says, Ms. Garzarelli gets to polish her reputation as a market guru.

Robert Stovall of New York's Stovall/Twenty-First Advisers says he noticed the conflicting reports on Monday. His conclusion, tongue in cheek: "They're hedging themselves without the use of derivatives."

Both reports are dated Aug. 29. In the Garzarelli report, investors are urged to buy on any dips; the analyst predicts that any further corrections "should be

limited to no more than 4% to 7% from here." The star analyst opines that "fair value" for the Dow Jones Industrial Average at current interest rates "remains at 4200," or about a 7% gain from current levels.

Ms. Hensel, whose media profile has been on the rise but is nowhere near Ms. Garzarelli's, cautions that investors should move some of their money out of the stock market and into cash. Lehman is "increasing our cash allocation to 20% from 15% and reducing our stock allocation from 50% to 45%," in the company's model portfolio, she announces to begin her report. She warns that the market is "modestly overvalued" based on current trends for interest rates and earnings, and the downside potential is 10% to 14%—twice the percentage conceded by her colleague Ms. Garzarelli.

At every turn, Ms. Garzarelli takes the positive view, as she has for some time, while Ms. Hensel is the skeptic. Any declines in the stock market "remain buying opportunities," says Ms. Garzarelli. But Ms. Hensel warns ominously of an approaching "capitulation in stocks" in which cash will be "the best place to be."

Lehman said yesterday that both  
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