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The Mortgage Maven

Stephane Fitch, 09.05.05

Sam Lieber


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Alpine U.S. Real Estate Equity Fund

Sam Lieber's advice: Stop worrying about bursting bubbles and get a piece of the housing boom. Buy shares of mortgage companies.

As risky investments go, shares of mortgage companies are up there. The companies buy interest-sensitive mortgages and mortgage-backed bonds, meaning they can get slammed when rates climb. They finance the purchases with oceans of leverage. They lure in investors with fat dividends, sometimes too fat to sustain. Most mutual funds won't touch mortgage stocks, especially with rates rising.

Samuel Lieber, a cheery fellow who lives with these beasts, is not afraid of being devoured. Under Lieber since 1993, the Alpine U.S. Real Estate Equity Fund has admirably weathered a lot of chaos in the bond market. Over the past five years it's the second-best-performing U.S. fund, with a 35% annual return (first is BlackRock Global Resources, which is closed to new investors); over ten years Alpine Real Estate is sixth best, at 21%. While Alpine is a tad pricey, charging 1.22% of assets annually for fees, the results seem to justify the high tariff.

Son of Stephen Lieber, who founded the Evergreen Asset Management family of mutual funds, Sam Lieber has a contrarian streak. The compact 48-year-old eschews fancy offices, pads around in khakis and a tweed jacket and happily works the phones long after hours. "My dad always espoused, 'Don't follow the rest of The Street,'" he shouts over the whir of vacuum cleaners manned by the evening cleaning crew.

Lieber, who studied architecture and urban planning at Wesleyan

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and Columbia, initially didn't want to go into the family business. After college he honed his expertise in real estate by becoming a leasing agent in New York. But after the property market collapsed in the early 1990s, he decided the time was ripe to join his father's firm and started a fund specialized in the corner of the stock market he knew: real estate financing. In 1998 he struck out on his own, founding Alpine and taking his funds with him.

Lousy timing. The debt markets tanked and Alpine Real Estate lost 21%. Cash was so tight that he had to pour a chunk of his own dollars into the company (then with three funds). Now sponsoring nine funds, his Alpine group is headquartered in suburban Purchase, N.Y., nowhere near a mountain range; it takes the name from his dad's all-season funds.

Lieber partly credits flagship Alpine Real Estate's success to judicious plays in mortgage stocks, which have returned an average 44% a year since 2000. His $840 million fund keeps 5% of its assets in mortgage issues, and Lieber thinks there's still good money to be made by selectively buying them now and holding them.

Shares of companies that issue, hold and/or service mortgages are down 6% this year, even including their big dividend payments. Lieber has treated the pullback as an opportunity. "People are saying, ‘Gee, the housing market may slow down, the mortgage market is slowing down, so mortgage stocks feel overplayed,'" he says. "It may be legit to say they'll have a tougher time, but the market has overdone the whole slowdown."

After all, property values are still strong. Most mortgage stocks go for less than ten times projected 2005 earnings and offer dividend yields near 10%. And 17 new mortgage companies have gone public since 2003, bringing to 42 the number of stocks to choose from. "You have a relatively stable economy that's growing a bit, relatively low interest rates, a housing market that's healthy even if the growth is a little slower--this really isn't that dangerous a place to be," says Lieber.

What if there is a severe downturn? Lieber believes a few companies will be capable of holding on. Later these survivors will take advantage of their weakened rivals, buying their assets at hefty discounts.

Lieber looks for companies with a long, smooth track record of gradually rising dividends, earnings and share price. Then he picks the stocks with the lowest price/earnings ratios and highest yields, with an eye toward low payout ratios--meaning the dividend is well covered by earnings. Lieber's five picks appear in our table, along with several companies he doesn't care for.

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