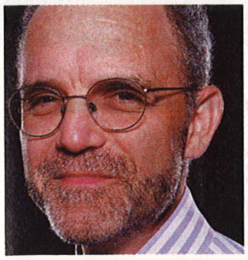
BY JASON ZWEIG



A tale of two Washingtons

Buy our stock, begs Washington Mutual. Learn our business, says Expeditors International of Washington. Who's right?

What kinds of information do stock investors have the right to know? Most companies tell us what they think we want to hear. But if the people who ran public companies thought about it, they would realize that they should tell us what they would want to know if they were in our shoes, on the outside looking in.

Imagine that you sank a good chunk of money into a local business called George's Café. Chances are you didn't invest in George's business just because you liked the growth prospects of his eatery. You also gave George the money because he's George, someone you know well enough to trust. When you ask for an update on the business, you expect George to tell you the truth—good and bad. After all, once you own a piece of George's business, his keeping you informed is not just a courtesy; it's an obligation. You have every right to expect more of George than a constant refrain of "Everything's great. Wanna put in a few thousand bucks more?"

The great investor Benjamin Graham put it best. "There are just two basic questions to which stockholders should turn their attention," he wrote in 1949. "1. Is the management reasonably efficient? 2. Are the interests of the average *outside* shareholder receiving proper recognition?"

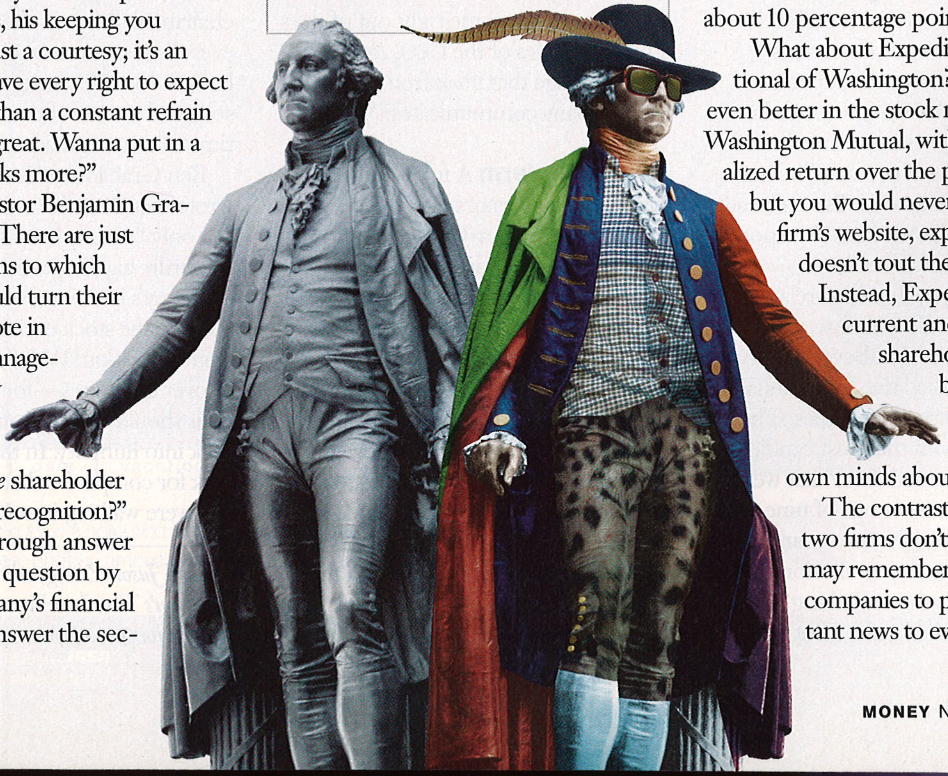
You can get a rough answer to Graham's first question by studying a company's financial statements. To answer the second one, you have to figure out whether the people running the business feel accountable to their outside owners. Since you stand little chance of ever knowing the CEO of a large public company personally, your best guide to his character and priorities is to see how the company talks to investors.

Let's move from the story of George to a tale of two Washingtons. One is Washington Mutual, the giant bank and mortgage lender founded in 1889 (2003 earnings: $3.9 billion). The other is Expeditors International of Washington, a shipping firm established in 1979 (2003 earnings: $122 million).

GRANITE OR GLITZ?

BEFORE YOU BUY, ASK YOURSELF:

- **Is management frank with shareholders, or is it focused on creating buzz for the stock?**
- **To answer that question, check out the company's website, annual reports and advertising.**



Viktor Koen

The two companies have headquarters barely two blocks apart in downtown Seattle, but they are light-years apart in how they talk to investors. With its shares up an average of 17% annually over the past five years (vs. a 1.3% annual average decline for the stock market), WaMu is unabashedly boastful about its stock performance. Its website (wamu.com) blares that WaMu is a "powerhouse…a high-performing company that is driving superior shareholder returns over the long term." Last year, WaMu ran a striking series of ads in big newspapers like the *Wall Street Journal* and the *New York Times* (see the next page), urging readers to buy its stock even at prices barely below their all-time high. (Pride goeth before a fall: WaMu has since trailed the market by about 10 percentage points.)

What about Expeditors International of Washington? It has done even better in the stock market than Washington Mutual, with a 25% annualized return over the past five years, but you would never know it. The firm's website, expeditors.com, doesn't tout the stock at all. Instead, Expeditors educates current and potential shareholders about its business. That way, they can make up their own minds about the stock.

The contrasts between these two firms don't stop there. You may remember that to force companies to publicize important news to everyone at once—rather than whispering it to a few pet analysts or big investors—the Securities and Exchange Commission adopted Regulation FD (for "fair disclosure") in 2000. Washington Mutual plays the disclosure game in a pretty standard way: In a quarterly conference call and webcast open to the public, its executives preen when things go well, beat themselves up a bit for bad results and provide "earnings guidance," nudging analysts toward higher or lower guesses of what WaMu will earn over the next year.

Expeditors bags the dog-and-pony show and the projections, opting instead for the most radically frank shareholder communications I've ever seen. (Don't believe me? Check it out yourself at investor.expeditors.com/fdarch.asp.) Every few weeks, the firm's managers, led by CEO Peter Rose, answer all the questions that come into the investor relations department and post them online. Ask a stupid question, and you'd better stand back: "We have no idea what you are talking about," snaps one response. But ask a smart or tough question, and you get a stream of substance—a multipage explanation of how cash flow works, or a detailed accounting of which costs Expeditors will and won't cut.

Stock talk vs. shop talk

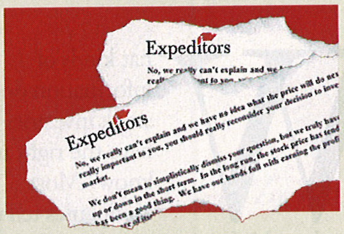
Wall Street traders may like it when managers focus on their company's stock price. Long-term shareholders want them focused on their business.

Washington Mutual

"...All of which makes this one stock that definitely has legs. It's no myth. Washington Mutual is for real."

—From a WaMu ad in the *Wall Street Journal*, July 2003

Expeditors Intl. of Washington



"We have our hands full with earning the profits. The stock price will have to take care of itself."

—From an Expeditors Form 8-K filing, August 2004

What's the message? The main signal that Washington Mutual's ads convey is that the company wants investors to buy its stock. Expeditors International of Washington, on the other hand, shows that it wants investors to be informed owners of its business. (WaMu declined to discuss its ad campaign; Expeditors did not respond to my requests for comment.)

Candor does pay. Investor-relations consultant Laura Rittenhouse, president of New York-based AndBeyond Communications, studied the 2002 annual reports of 100 major companies. The shares of those with the most candid reports outperformed those that were long on hype by an average of nine percentage points over the next year. "We've all bought into an illusion that the bottom line is the only thing that matters," says Rittenhouse. "But where does the bottom line come from? Accounting! Where does that come from? Judgment, because accounting rules can be applied so differently. What determines judgment? The values of the company, which come right out of the ethical attitudes of the CEO. And how can you judge that if *not* from the way the company communicates?"

Think long term A few other brave firms talk to investors like owners—among them, Coca-Cola, GoldenWest Financial, InterActive Corp., PepsiCo and insurer Progressive Corp. Christopher Davis, of the Selected American and Davis New York Venture funds, admires Progressive (and owns 9% of the stock) because, he says, it isn't focused on pumping up its short-term share price. Progressive refuses to give earnings guidance; instead, managers provide monthly business updates and bluntly discuss their mistakes. In the short run, that has made the stock more volatile. But as Meir Statman, finance professor at Santa Clara University, says, "Honest communication should pay off for long-term investors and long-term managers." For a quick take on a company's frankness, see if the chairman's letter in the annual report ever discusses mistakes—and look back at his 1999 letter to see if it sounded a note of caution during a time of market madness.

Ben Graham had it right when he wrote that CEOs have a duty to prevent not only "unduly low" stock prices but "absurdly high" ones as well. When a company's bosses come to believe that pushing the stock ever higher is their main obligation, Wall Street will go gaga over the shares—for a while. The rest of us should stay away until hubris fades back into humility. In the meantime, look for companies that treat you as if you were walking into George's Café.

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