

Instead, you would have bought the industry's dominant companies: hot stocks like Hupp, Packard, Pierce-Arrow, Road-Runner Auto and Stanley Motor. But other companies—like Hudson, Nash, REO and Studebaker, not to mention GM and Ford—quickly zoomed past the early leaders. Over the next 20 years you would have lost nearly all your money—even as the auto business was going through one of the great booms of all time. The same thing happened with radio in the 1920s.

Now imagine that it's 1982, and you sense that the PC will become the hottest technology product of all time. Which stocks would you buy? Not Compaq, which didn't go public until 1983; not Dell, which wasn't founded until 1984; not Microsoft, which was privately owned until 1986. No, you would have bought one of the computer industry's early leaders—Commodore, for exam-

ple. Nearly all of these companies, despite their "first-mover advantages," went bust; investors in several of these stocks lost nearly all their money.

The price is not right

The question is not whether the Internet will be a great growth industry—even I have no doubt about that—but whether it's worth paying up to 100 times the price of the average stock to participate in that growth. At Home Corp., for instance, is trading at 269 times its sales over the past year, with Broadcast.com, CMGI, eBay, Inktomi and Yahoo! at 128, 53, 284, 105 and 149 times their sales, respectively. Meanwhile, the average stock can be bought for just two times its sales.

That means there's no margin for error. Unless the Internet companies grow vastly faster than the average

stock—and sustain that growth for many years to come—they will turn out to have been terribly overpriced. While a handful of Internet stocks will go on to earn gigantic returns, I would not be at all surprised to see most of them lose at least 90% of their value.

Of course, I'd rather see you invest in the Internet through a long-term holding in a fund than by trading a few Internet stocks at a time. Funds are a lot safer. But the best approach—a broadly diversified index fund that would own nearly every available Internet stock—doesn't exist yet. And Paul Cook, lead manager of the \$1.2 billion Munder NetNet Fund, tells me he's got only 15% of his personal assets invested in his own fund. More than that, says Cook, "would not be a prudent allocation for me." That's a wake-up call if I've ever heard one, and one more reason why regular folks should consider a 5% position the absolute limit in this kind of fund. Personally, I'm keeping my position at zero for the foreseeable future. **ES**

Paul Cook
has only 15%
of his own
assets in his
NetNet fund.

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Susan L. Black
Portfolio Manager
Warburg Pincus
Capital Appreciation Fund

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Morningstar Overall Rating™ as of 1/31/99
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"With the no-load **Warburg Pincus Capital Appreciation Fund**, we emphasize growth-oriented, as opposed to cyclical, areas of the market. This focus has created a concentration on pharmaceuticals, financial services, technology and communications." Under the management of Susan Black, the fund has achieved an overall 5-star rating from Morningstar.

Morningstar proprietary ratings reflect historical risk-adjusted performance as of 1/31/99. The ratings are subject to change every month. Morningstar ratings are calculated from the fund's 3-, 5-, and 10-year average annual returns in excess of 90-day Treasury-bill returns with appropriate fee adjustments, and a risk factor that reflects fund performance below 90-day T-bill returns. Warburg Pincus Capital Appreciation Fund received 5 stars for the 3- and 5-year periods among 2,859 and 1,734 domestic equity funds, respectively, and 4 stars for the 10-year period among 741 domestic equity funds. The top 10% of the funds in an investment class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. Past performance cannot guarantee future results.

Returns are historical and include change in share price and reinvestment of dividends and capital gains. Return and share price will fluctuate, and redemption value may be more or less than original cost.

For more complete information, including charges and expenses, call for a Prospectus. Read it carefully before you invest.

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Average Annual Total Returns

1 Year
12/31/97-12/31/98 **25.77%**

5 Years
12/31/93-12/31/98 **22.27%**

10 Years
12/31/88-12/31/98 **17.83%**

Since Inception
8/17/87-12/31/98 **15.30%**

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