

Relative value securities

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Relative Values Securities Win Smith should close Jupiter Venture: Jupiter Management's total revenues for the year ended 1990 are significantly lower than many of its nearest competitors, such as Dreyfus, Franklin Resources, and T. Rowe Price. Its operating income and net income rival T. Rowe Price, but fall well short of the standard set by Dreyfus and Franklin Resources. Also, Jupiter Management's income statements over the last three years show a worrying trend, that is a negative one. While there was a significant increase in net income from 1988 to 1989, 1990 figures show that the company's growth has stalled somewhat. Total operating expenses remain the same, yet total revenues have decreased by a small margin. Another factor to mention is the operating income, which has experienced the same kind of trends. An additional worrying sign is that the fund underperformed the S&P 500 by 2% during the first quarter of 1991. This is in stark contrast to the exemplary performance over the preceding five years. Jupiter Venture was only one of two mutual funds that had outperformed the S&P 500 year on year since 1985. The opportunity to take the Sensormatic offer is an attractive one, but there is no guarantee that Sensormatic would continue to grow at its current pace. Sensormatic is looking to move away from the soft-goods market and turn to hard-goods protection. However, the gross margin of hard-goods EAS systems is only around 30%, which is half of the figure for soft goods. The hard goods market is extremely competitive, and there is no guarantee that Sensormatic would come out on top. Win Smith should close Jupiter Venture and get out while he still can.

Win Smith shouldn't close Jupiter Venture:

Although the short-term prospects do not look good for Jupiter Venture, there is no reason to suggest that the company's long-term viability is under

threat. While the income statement and comparative financial data show that the company is stagnating, so are many of its nearest competitors. The boom of the mid to late 1980s is over, and Jupiter Venture needs to reinvent itself to prepare to expand going into the 1990s and beyond. The company's balance sheet shows an encouraging sign—total liabilities only make up about 15% of the company's total assets (total liabilities of \$12.2 million compared to total assets of \$83 million). Jupiter Venture's total long-term debt is only around half of this figure. These figures show that while the company may take a hit in the short-term, the foundations of the company are strong because it does not rely on debt to finance its operations. Looking at the comparative performance data for selected Jupiter Funds gives even further hope to the company's long-term prospects. Jupiter Fund, Jupiter Opportunity Fund, and Jupiter Venture Fund all experienced high levels of growth between the years 1988 and 1989. Likewise, all of these Jupiter Funds have experienced negative growth of close to it. The positive thing is that compared to the S&P 500, every one of these funds are doing far better. When the industry experienced huge growth up until 1989, the growth rates for Jupiter Funds were far superior to the S&P 500. In the same manner, when the market took a hit during 1990, the S&P 500 experienced a higher negative growth rate than all of the Jupiter Funds. Win Smith should not close Jupiter Venture because all the signs point to long-term sustained growth.