

Washington Mutual (NYSE: WM) | Ian Lopuch | The Blyth Fund
 Watch List Proposal
 1/23/03

Numbers and General Information

Washington Mutual Inc. is a financial services company that serves consumers and small to mid-sized businesses. Through its subsidiaries, Washington Mutual engages in consumer banking, mortgage banking, commercial banking, financial services and consumer finance. The Company's principal banking subsidiaries are Washington Mutual Bank, FA, Washington Mutual Bank and Washington Mutual Bank fsb. The banking subsidiaries accept deposits from the general public, make, buy and sell residential loans, consumer loans, and commercial loans and engage in certain commercial banking activities. The Company originates, purchases, sells and services specialty mortgage finance loans through its subsidiaries, Washington Mutual Finance Corporation and Long Beach Mortgage Company. In January 2002, the Company acquired Dime Bancorp, Inc. On March 1, 2002, the Company acquired certain operating assets of HomeSide Lending, Inc., the United States mortgage unit of the National Australia Bank Limited. *(From Yahoo! Finance)*

Price (1/22/03):	34.40	Div/Shr:	1.16
52-wk Range:	27.80-39.98	Yield:	3.29%
EPS (ttm):	4.05	ROA (ttm):	1.36%
EPS (est):	4.33	ROE (ttm):	19.89%
P/E:	8.72	Debt/Equity:	N/A
P/S:	2.35	Cash/Shr (mrq):	5.37
Market Cap:	33.950B	Book Value (mrq):	\$21.14
Operating Margin:	54.0%	Net Margin (ttm):	23.9%

Reasons To Watch / Dividend History

Given that stock price appreciation over the coming years is likely to be low, investors are going to purchase high quality, more traditional dividend plays as a safe bet. Dividends are important for several reasons: (1) companies that pay dividends are generally more shareholder oriented, delivering superior performance over the long term; (2) companies that pay dividends are generally more frugal when it comes to wasting money on unnecessary expenses; (3) dividends represent cash in the investor's hand on a quarterly basis, something that is tangible in this age of fraudulent accounting and corporate misconduct. Over the next five or so years, the conservative investor ought to expect around 6-8% ROI on an annual basis in the stock market. It makes a lot of sense to get 3.3% of that return guaranteed as a dividend. Moreover, dividends will hopefully be worth even more if Bush's dividend tax cut materializes. WM has one of the strongest records of increasing dividends of any publicly traded company, increasing dividends every quarter.

Historical Performance / Earnings / Management

Management has delivered strong results for the past decade, both in terms of earnings and stock price performance compared to the S&P 500, with no signs of letting up. WM released earnings on Tuesday, January 21, beating expectations and raising earnings 15% over the comparable quarter last year on strong loan volume. Loan volume increased 80% this quarter led by home lending loans. Earnings in 2002 mark a 25% increase over 2001. WM executives indicated that they expect this performance to continue in 2003 and expect both strong top and bottom line growth driven by additional acquisitions and a "targeted cross-sell of products and services to mass-market consumers." WM, planning to open 250 new financial centers in 2003, marked its confidence by raising the annual dividend by \$0.04. Management has consistently rewarded shareholders by increasing the dividend over the past decade and has had shareholder interests at heart. Also highlighting WM's stellar management is its effective advertising and marketing campaign, winning over a multitude of business.

CEO Killinger was paid \$6.4M and exercised \$918K in options last year. While this sounds like a lot, top executives at some of the larger firms are flat out stealing shareholder money: Weill, CEO and chairman of Citigroup, received compensation of \$26.7M and if that wasn't enough he exercised \$15.9M in options last year; Harrison, CEO and chairman of J.P. Morgan Chase was compensated with a salary of \$17M and exercised \$5.5M in options during 2002. While these institutions are of a larger scale than WM, this comparison gives you a little idea of the interesting compensation picture in the financial industry. Tracking WM against other financials over the long term gives a clear indication in the effectiveness of WM's management.

Valuation

WM's PEG ratio based on trailing twelve months earnings of 4.05 and a five year growth rate of 12.5% is 0.68. Few companies that have delivered consistently and pay such a handsome dividend are trading at this kind of valuation (if any). Based on Graham and Dodd value investing and the notion of PEG, WM is an incredible value at current prices. Being a little more risky and using WM's projected earnings of 4.33 for 2003 (which will be met or exceeded most likely), we get a PEG ratio of 0.64. The margin of safety is incredibly high at current levels, presenting the investor with little to no downside risk, a plus in today's market. Given the Bush dividend tax cut goes through, high yielding equities should appreciate to reflect the increased value of the dividend.

Potential Risks

WM has been on a buying spree for the past decade or so, fueling its explosive growth through acquisition after acquisition. This has been a very profitable and reliable strategy for WM in the past, as it has achieved incredible EPS growth over the long term (19.2% over the past 5 years). Analysts predict WM to achieve 12.5% EPS growth over the coming 5 years, a more conservative number. While WM is likely to hit this number, two risks are present that may prevent it from doing so: (1) integration and communication issues and (2) a lack of quality potential acquisitions. When WM was smaller and more nimble, integrating acquisitions was a relatively easy task. Now, with a market cap of 33.950B, each acquisition has the potential to be a lot less synergistic than in the past as it becomes more difficult to integrate and fully exploit each new acquisition. Profits are undoubtedly lost due to such issues as communication. The question here is will the internal network get too complicated, creating a real problem? Further, WM is a large institution, a stalwart in its industry. With a 33.950B market cap, how many more acquisitions can it possibly make? Will WM be able to grow through more internal means? Even though these risks are present, one only need look at WM's valuation and the fact that not much growth (if any) is priced into its share price to realize that WM makes a solid investment for the long term shareholder at this price.

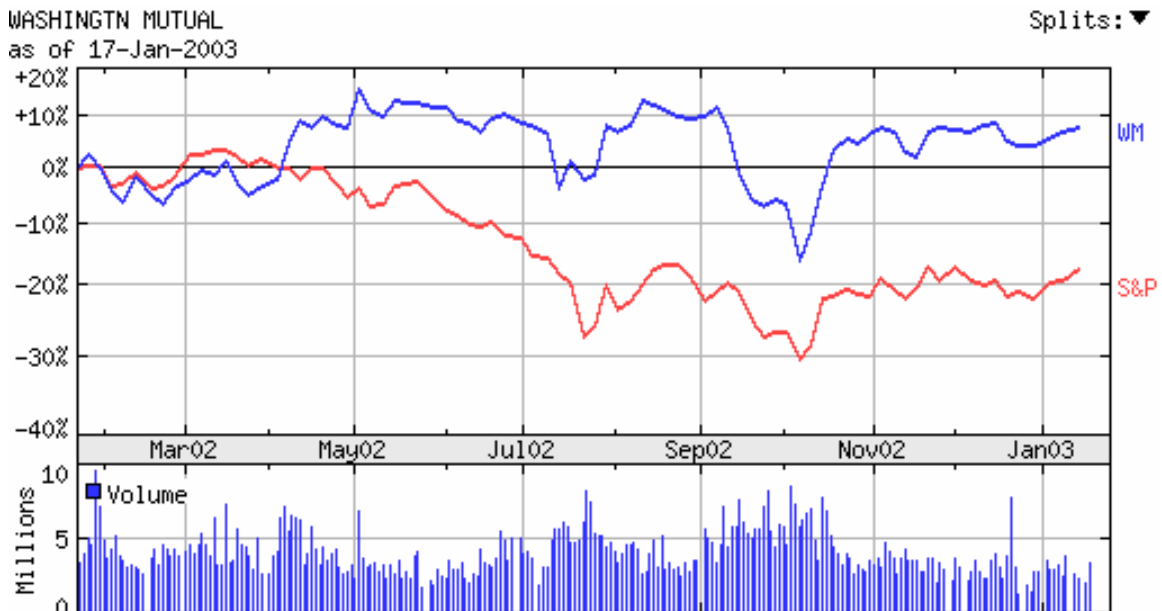
Dividend History

Declared	Ex-Date	Record	Payable	Amount	Type
10/15/02	10/29/02	10/31/02	11/15/02	\$0.28	Regular Cash
7/16/02	7/29/02	7/31/02	8/15/02	\$0.27	Regular Cash
4/16/02	4/28/02	4/30/02	5/15/02	\$0.26	Regular Cash
1/15/02	1/29/02	1/31/02	2/15/02	\$0.25	Regular Cash
10/16/01	10/29/01	10/31/01	11/15/01	\$0.24	Regular Cash
7/17/01	7/27/01	7/31/01	8/15/01	\$0.23	Regular Cash
4/17/01	4/26/01	4/30/01	5/15/01	\$0.22	Regular Cash
1/16/01	1/29/01	1/31/01	2/15/01	\$0.21	Regular Cash
10/17/00	10/27/00	10/31/00	11/15/00	\$0.20	Regular Cash
7/18/00	7/27/00	7/31/00	8/15/00	\$0.19	Regular Cash
4/18/00	4/26/00	4/28/00	5/15/00	\$0.19	Regular Cash

1/18/00	1/27/00	1/31/00	2/15/00	\$0.18	Regular Cash
10/19/99	10/27/99	10/29/99	11/15/99	\$0.17	Regular Cash
7/20/99	7/28/99	7/30/99	8/13/99	\$0.17	Regular Cash
4/20/99	4/28/99	4/30/99	5/14/99	\$0.16	Regular Cash
1/19/99	1/27/99	1/29/99	2/12/99	\$0.15	Regular Cash
10/20/98	10/28/98	10/30/98	11/13/98	\$0.15	Regular Cash
7/21/98	7/29/98	7/31/98	8/14/98	\$0.14	Regular Cash
4/21/98	4/28/98	4/30/98	5/15/98	\$0.13	Regular Cash
1/20/98	1/28/98	1/30/98	2/13/98	\$0.13	Regular Cash
10/21/97	10/29/97	10/31/97	11/14/97	\$0.12	Regular Cash
7/15/97	7/29/97	7/31/97	8/15/97	\$0.12	Regular Cash
4/15/97	4/28/97	4/30/97	5/15/97	\$0.12	Regular Cash
1/21/97	1/29/97	1/31/97	2/14/97	\$0.11	Regular Cash
10/15/96	10/29/96	10/31/96	11/15/96	\$0.11	Regular Cash
7/16/96	7/29/96	7/31/96	8/15/96	\$0.10	Regular Cash
4/16/96	4/26/96	4/30/96	5/15/96	\$0.10	Regular Cash
1/16/96	1/27/96	1/31/96	2/15/96	\$0.09	Regular Cash
10/17/95	10/27/95	10/31/95	11/15/95	\$0.09	Regular Cash
7/18/95	7/27/95	7/31/95	8/15/95	\$0.08	Regular Cash
4/18/95	4/21/95	4/27/95	5/15/95	\$0.08	Regular Cash
1/17/95	1/25/95	1/31/95	2/15/95	\$0.08	Regular Cash

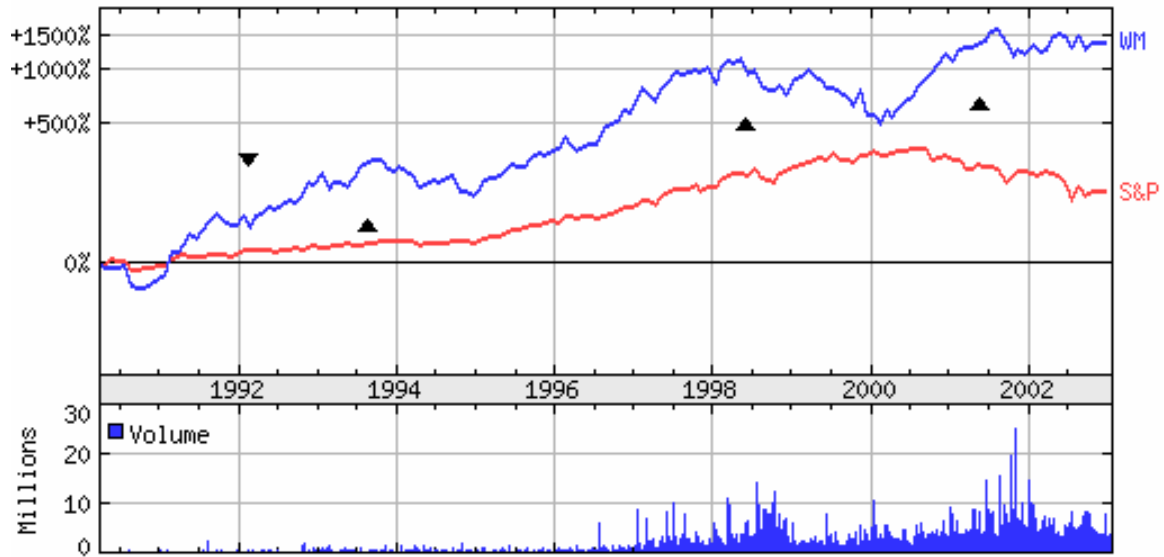
(From wamu.com)

Charts



WASHINGTON MUTUAL
as of 17-Jan-2003

Splits: ▼



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