

CORPORATIONS WE LOVE TO HATE by Si Frumkin

I am convinced that oil companies are the most disliked business entities in the U.S. Just a few days ago I saw a car with a bumper sticker saying, "This Car is Fueled by Blood". The implication is, of course, that blood is being shed in Iraq because of oil. Many – maybe most – Americans believe this to be true in spite of the fact that Saddam was eager to sell his oil to us at a discount and we not only refused to buy it but imposed sanctions against others buying it. Today Iraqi oil wells and refineries are barely producing and there is no profit there for anyone.

Many believe that our foreign policy is controlled and directed by Big Oil in spite of America – unlike Europe – being among the very few nations that support and help completely oil-less countries like South Korea, Taiwan and Israel. I suppose this just makes the mystery of Big Oil's evil schemes that much more sinister.

But let us leave Big Oil for a moment and go on to another question. If Big Oil is the most disliked, what then is number two? I can see heads nodding in agreement with my choice: Big Pharma! We know that pharmaceutical companies make obscene profits, they overcharge us while selling identical products for less to foreigners and they are taking in undeserved billions of dirty dollars while the average American cannot afford the medications he needs.

Big Pharma is bad. It is disgusting, immoral, evil, wicked and despicable. Its earnings are enormous, it is rich, rich, rich and it deserves our contempt and enmity. Right?

Well, here is my story. In a way it is almost as mysterious as U.S. support of countries with no oil.

There was a time when I too was convinced that Big Pharma was a money machine. What got my attention was Viagra. It was patented in 1996, approved in 1998 and became an immediate success: its 1999-2001 sales exceeded \$1 billion! Comedians made jokes about the little blue pill, shortages of Viagra were reported in the less fortunate countries and many relationships were made happier.

“Aha”, I thought to myself. “This is a great investment opportunity – I better get in on it while the price is right and enjoy some of that Big Pharma wealth!”

And so I did. I sold some of my mutual funds, cashed in some of my retirement fund and invested in the shares of the creator of Viagra: Pfizer Pharmaceuticals.

And then a strange thing happened – and it still is happening: nothing! Like the Baskerville hound that didn’t bark that fateful night, the Pfizer stock didn’t go up! I wasn’t worried at first – just stupidity, I thought, pretty soon everyone will realize what a great buy Pfizer is and I will become a rich member of the Big Pharma crowd.

After a few years, as the stock didn’t rise, I did what I should have done to begin with – I checked the financial histories of other, supposedly also ultra successful and much disliked major pharmaceuticals. And here are the shocking results for the last 6 years.

I bought Pfizer in October 1998 for \$32 a share (*actually I paid \$95 but it soon split into 3 shares for each share so that my cost was about \$32.00*)

By January 2001 each Pfizer share sold for \$40 – but in February 2007, 6 years later, after supposedly incredible profits, the same share sells for \$26.80

Another Pharma giant, Merck, sold for \$63.53 in January 2001 and is selling now for \$44.73.

The 3rd major and allegedly obscenely rich pharmaceutical corporation, GlaxoSmithKline, did a little better: its stock actually gained! It sold for \$43.33 in January 2001 and by February 2007 has gone up to \$55.81! Hoo-ha! Almost 25% increase in 6 years –over 4% a year!

Ah, you might say, but what about the dividends? Didn’t they pay tremendous dividends out of these gargantuan earnings? Well, actually no. Pfizer paid out 44 cents (1.11%) a share in 2001 and 96 cents (3.58%) in 2006. Merck didn’t do much better: \$1.36 (2.14%) a share in 2001 and a princely \$1.52 (3.39%) in 2006. And the GSK whose stock did go up paid \$1.14 (2.63%) in 2001 and in 2006, just \$1.80 or 3.22 %. Actually, you could do better in any bank savings account.

So don't believe everything you read in the papers. Hating the large corporations is very popular in the U.S. – it requires no effort, no knowledge, no research – we just know that if they are big and sell and advertise a lot, well, they must be evil, greedy, irresponsible and if I only had some money to invest I too could join them and fly to the Riviera on my private jet.

So would you like to make me an offer on my Pfizer shares? I will be happy to sell them at the price I paid in 1998. As for me, I would rather buy a lottery ticket.

One more thing. In doing research on this piece I discovered that only about 3%-4% of the total healthcare cost is for drugs and medications- the remaining 90+% is to pay for the hospitals, physicians, procedures and equipment. Maybe, just maybe, the expensive drugs are really a bargain? And maybe we shouldn't believe everything the media – and the bumper stickers – tell us?