

## Anatomy of a Collapse: Eastman Kodak

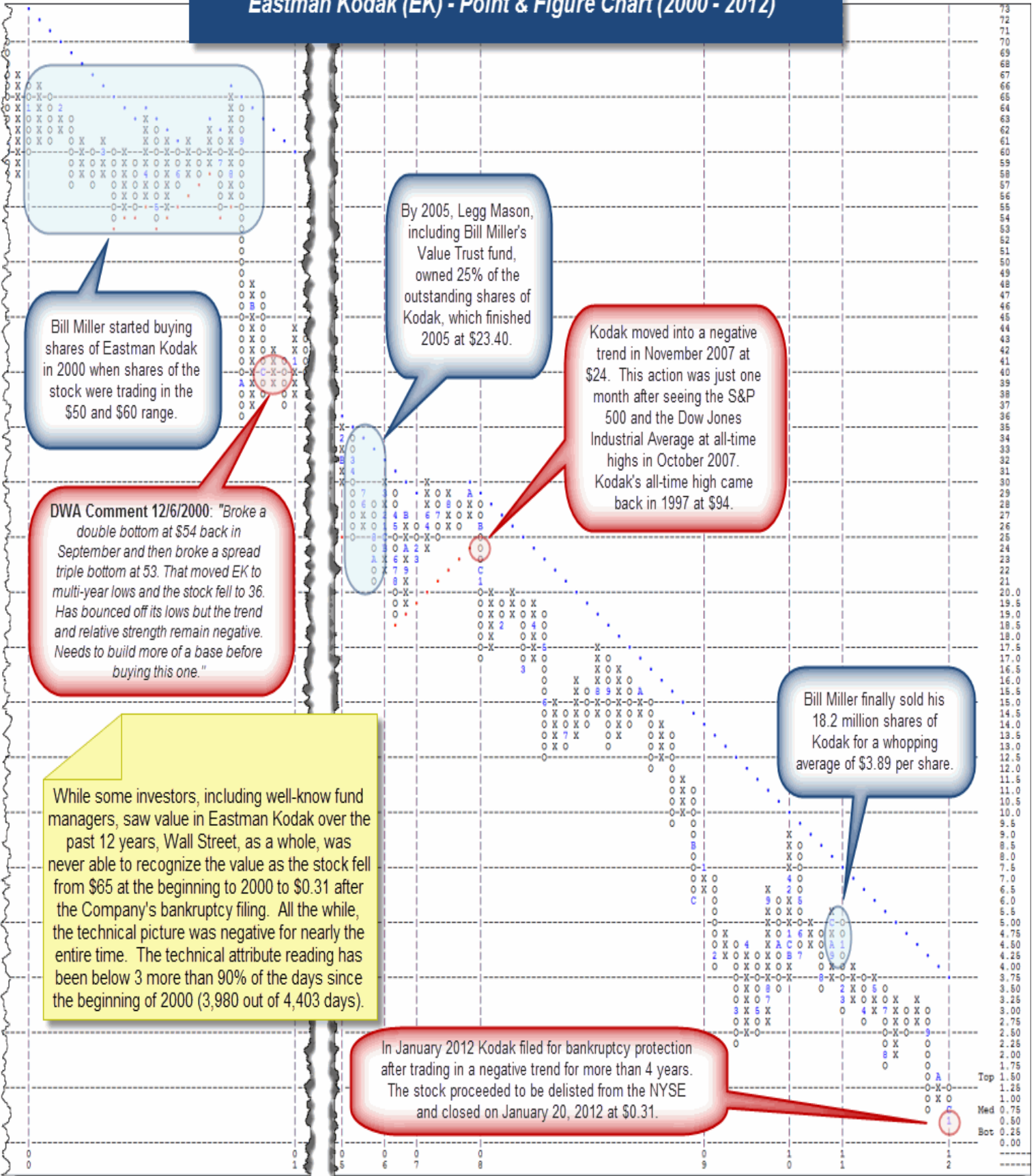
One of the most effective presentation tools that we have used over the years to explain the importance of incorporating technical analysis in some capacity within an investment game plan is the "Anatomy of a Collapse". The concept is very straight forward, but leaves a client or prospect with a very clear understanding of how differently technical and fundamental research is developed. We begin by looking for a widely-held, S&P 500-ish, stock that has endured a substantial decline in recent months with enough headlines such that the average investor has likely read something of the matter. Examples over the years have included [Citigroup \(C\)](#), [General Motors \(GM\)](#), [Marsh & McLennan \(MMC\)](#), [Krispy Kreme \(KKD\)](#), [Martha Stewart Living \(MSO\)](#) and [Fannie Mae \(FNM\)](#), each of which experienced very public un-doings, with the "cause" of said decline being revealed only after the stock was already un-done. The reality of these collapses runs counter to the way most investors like to envision the stock market which is typically as an efficient machine with information being equally shared and quickly incorporated into the price of a stock. What we find, however, is that the technicals very often foreshadow the coming demise of the fundamental picture in such extreme cases as those mentioned earlier. From time to time we like to provide new examples for you to use in prospecting campaigns, and perhaps the most recent example of this would be none other than Eastman Kodak [\[EK\]](#).

Unlike many of the other examples mentioned above, the "unraveling" of Kodak didn't necessarily come over a few days or weeks, rather, the "unraveling" of the stock has taken place over the matter of years. The company needs no introduction, a pioneer in the photography space in the '80's and '90's, so much so that by 1997 shares of Eastman Kodak were trading hand for \$94, a gain of more than 200% since the stock began trading in 1985. Unfortunately, that is about where the positive news for Kodak's stock end.

As a matter of fact, since the start of the 2000's shares of Kodak never exceeded \$65, and there were only a couple of brief trips north of \$60 in the year 2000. This is the same year in which the legendary mutual fund manager, Bill Miller, began to buy shares of Kodak in the Legg Mason Value Trust Fund in a year when the price of Kodak hovered around \$50 and \$60 for much of the year before falling into the upper 30's by October. In the eyes of value investors, Kodak was a great value in 2000, the only problem is that Wall Street as a whole was unable to recognize the value.

Over the early 2000's the stock experienced rallies, but these rallies were muted and were simply a part of a downwardly trending chart. In 2005 value investors, including Bill Miller, were still averaging down, continuing to buy shares of this stock as the price continued to decline. An article from *Bloomberg* reported that in 2005 Legg Mason, and Miller's fund, [owned 25% of the outstanding shares of Kodak](#). Kodak finished the year 2005 trading hand for \$23.40 after beginning the year at \$32.25. Through thick and thin, Bill Miller stood by his selection of Kodak, until late 2010 that is. Miller began to unload shares of this one time giant in the industry, and when all was said and done Miller sold his 18.2 million shares of Kodak for an average price of \$3.89.

# Eastman Kodak (EK) - Point & Figure Chart (2000 - 2012)



Bill Miller started buying shares of Eastman Kodak in 2000 when shares of the stock were trading in the \$50 and \$60 range.

By 2005, Legg Mason, including Bill Miller's Value Trust fund, owned 25% of the outstanding shares of Kodak, which finished 2005 at \$23.40.

Kodak moved into a negative trend in November 2007 at \$24. This action was just one month after seeing the S&P 500 and the Dow Jones Industrial Average at all-time highs in October 2007. Kodak's all-time high came back in 1997 at \$94.

**DWA Comment 12/6/2000:** "Broke a double bottom at \$54 back in September and then broke a spread triple bottom at 53. That moved EK to multi-year lows and the stock fell to 36. Has bounced off its lows but the trend and relative strength remain negative. Needs to build more of a base before buying this one."

While some investors, including well-know fund managers, saw value in Eastman Kodak over the past 12 years, Wall Street, as a whole, was never able to recognize the value as the stock fell from \$65 at the beginning to 2000 to \$0.31 after the Company's bankruptcy filing. All the while, the technical picture was negative for nearly the entire time. The technical attribute reading has been below 3 more than 90% of the days since the beginning of 2000 (3,980 out of 4,403 days).

In January 2012 Kodak filed for bankruptcy protection after trading in a negative trend for more than 4 years. The stock proceeded to be delisted from the NYSE and closed on January 20, 2012 at \$0.31.

Bill Miller finally sold his 18.2 million shares of Kodak for a whopping average of \$3.89 per share.

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