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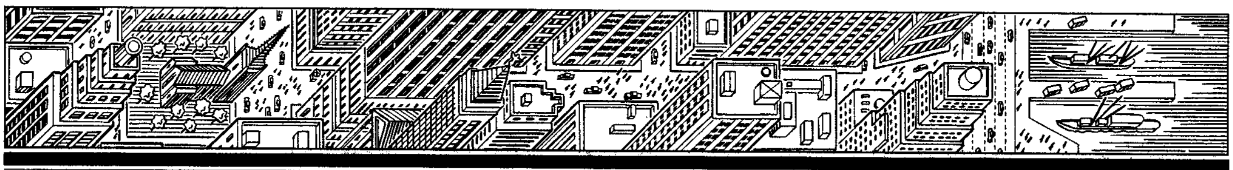

Rodica Prato for Barron's

UP & DOWN WALL STREET

Cloud Cover

BY ALAN ABELSON

(the following has been excerpted:)

JAYE SCHOLL, OUR INTREPID AND ACcomplished explorer of the dangerous and murky world of hedge funds, has come up with a terrific way to play both the reconstruction of the immense physical damage inflicted by the terrorists and the change in consumer behavior wrought by the attack. She has done so through the agency of Alexander Roepers, who runs Atlantic Investment Management, which encompasses two hedge funds, Cambrian Fund and AJR International.

Jaye is quite taken with Alexander, describing him as "not very humble but wonderfully animated when he gets going on stocks." And anyway, what's not to like with a record like his: Both funds are up around 20% this year, and since starting up in October 1992, AJR has enjoyed compounded growth of 23.2%, including over 50% last year and around 20% so far this year, while Cambrian, with similar fat gains this year and last, over the past nine years has compounded its portfolio by a cool 34% annually. And those sparkling performances are after the obscene fees that hedge funds exact.

Alexander has a yen for low-tech companies with market caps of less than $5 billion and more than $500 million, companies, as Jaye puts it, small enough to amass enough stock to assure that management "takes his phone calls." And he isn't, Jaye adds smilingly, shy about picking up the phone and telling management what it should do to enhance shareholder value, especially when he happens to be one of the larger shareholders.

Okay. Not to keep you in suspense, the company Alexander's hot on (and Jaye, after chatting with the CEO and other key officials, heartily seconds Alexander's enthusiasm), is **Harsco**, a Big Board number that has been around forever. Jaye calls Harsco the poor man's GE or Tyco: a global industrial conglomerate with outposts in 400 locations in 40 countries. Under Derek Hathaway, who took over the reins seven years ago, Harsco has transformed itself from a company 60% manufacturing to one that's 75% services. Acquisitions have been important in this metamorphosis, and Harsco has taken on debt to swing them; thanks to hefty free cash flow, Jaye reports, that indebtedness is now being steadily whittled down.

Lending some credence to Jaye's labeling of Harsco as the poor man's GE is that, following the famous Welch dictum, the company is a leader in every one of its markets. Granted these are niche markets, but as Hathaway points out, the niches are quite big.

Among the things the company is the leading supplier of is scaffolding. In fact, Hathaway notes that after the 1993 bombing of the World Trade Center, Harsco was called in to shore up the damaged tower. Its capabilities in construction, which extend beyond scaffolding, make it an obvious and important beneficiary of the rebuilding of Lower Manhattan and, for that matter, any big public-works programs that are likely to be launched by Washington to pump life into the ailing economy.

Meanwhile, another division, Harsco Track Technologies, No. 2 in railroad-maintenance equipment, is a natural to cash in on the post-attack surge in rail ridership, which even if it ebbs some as the months go by, is bound to remain substantially greater than it had been before September 11. In this vein, Amtrak has importuned Congress for billions to modernize and expand, and it's not inconceivable that our chosen representatives will allot a tidy sum to bring the nation's rusty railroad network into the 21st century.

It should be noted that even before the terrorists' strike, Harsco was doing quite well while so many industrial outfits were going from bad to worse. By Alexander's reckoning, Harsco should earn $2.52 a share this year, up from $2.42 in 2000. And next year, he's looking for $2.80-plus, not counting a 30-cent-a-share contribution from an accounting change. The stock closed Friday at $27 and change. Alexander's target is $44.

Harsco, CEO Hathaway grouses, doesn't get much respect on Wall Street because "we don't quite fit any particular specification." But, he reasons, "if we continue to post the numbers, we'll get people's attention." He can say that again. ■