



Add these Picks From 2009 to Your List

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Though one my picks in my Top 10 list for 2009 was a mistake - it has underperformed by a wide margin -- it's now a wonderful buying opportunity. Since the potential rake is at least 100%, you should back up the truck and load up on this stock, as I'll explain later in this column.

I updated my Top 10 list for 2010 in my [column](#) last week, and as I said then, I continue to recommend every pick. The 2010 list, at only three months old, is just getting started, and it's already up 21.2% vs. an **S&P 500** gain of 5.2%.

The 2009 list is a different story. Given the age and maturation of the list, several positions can no longer be considered bargains. There are still three nuggets worth buying today, including the mistake that I alluded to above. Before we get to those worth buying, let's dispense with the stocks from the 2009 list that you should take a pass on. Though each of these stocks has more to go on the upside, you can make more money elsewhere. By way of comparison, the S&P 500's return was 32.7% for the same time period.

Falling Off the List

Name	Ticker	Initial Price	Current Price	% Return
Atlas Air	AAWW	\$15.95	\$49.82	212.40%
Office Depot	ODP	\$2.70	\$8.17	202.60%
Harman	HAR	\$16.27	\$43.59	167.90%
Carmax	KMX	\$7.72	\$24.22	213.70%
Expedia	EXPE	\$7.74	\$22.90	195.90%
Raymond James	RJF	\$16.46	\$27.97	69.90%
USG	USG	\$8.32	\$16.19	94.60%

Here are the three stocks from the 2009 list that I'd still recommend buying at today's prices. The spread between price and value for these companies is quite wide, and as a result, I anticipate upside of 50% to 100% or more over the next two to three years from these stocks.

Still in Play

Name	Ticker	Initial Price	Current Price	% Return
Mueller Water	MWA	\$7.35	\$4.89	-33.50%
Brink's	BCO	\$24.39	\$27.49	12.70%
Textron	TXT	\$12.82	\$22.51	75.60%

It's not the negative return from **Mueller Water Products** (MWA) that has me kicking myself for including it in 2009's Top 10 list. It's entirely possible to render a perfectly sound analysis and, because of a variety of reasons -- anything from bad luck to unforeseeable trouble, and more -- the stock does not perform. But my original work was faulty in the case of Mueller, as I didn't appropriately discount its debt issues. Now that the debt problem has been addressed and solved, the stock is compelling buy. Indeed, you can buy it at a fraction of the price at which I recommended it in December 2008.

Now, let's dig a little deeper into Mueller Water Products, the business, so that you can see what I see. There's very little long-term risk here. The company manufactures water infrastructure products that will be relevant for decades to come. It operates in duopoly markets that have high barriers to

entry. These markets have a lengthy regulatory approval process, and because of the ongoing demand for replacement parts, distributors favor suppliers that have a large installed base.

A key variable with all cyclical businesses is staying power. Mueller's financial situation has improved dramatically since my original recommendation. Net debt has declined from almost \$1.1 billion at the end of 2008 to \$737 million at end of 2009. While part of the decline is a result of an equity raise last September, much of it is due to a leaner cost structure and improved working capital management.

Here's a key: At the bottom of a business cycle, Mueller has been able to generate positive free cash flow. It's only going to get better from here. At a minimum, it's reasonable to expect a stock quote north of \$10 in the next two to three years, and as high as the mid-teens for those who are willing to hold it for three to five years.

Brinks (BCO) is another bargain from the 2009 list. What's not to like about this business? It has a long operating history (over 150 years), a growing presence in emerging markets, an investment-grade balance sheet, stable cash flows and No. 1 market share. Some undervalued situations are recognized quickly -- **Expedia** (EXPE), for example, rocketed to the \$20s shortly after my recommendation and hasn't done anything since -- while others require patience. Brinks is a slower-growing stock. It will appreciate in due course, and investors will be pleased with a 50%-100% gain from here over the next couple of years.

Textron (TXT) is not that hard of a situation to figure out. It ran into trouble with its finance division, fixed it, and now it's all about waiting for a pickup in demand. While this \$22 stock has a chance to rebound all the way back to its 2007 high of \$71 per share, you can conservatively expect a move back to the mid-\$40s. By the way, when Textron raised capital through a convertible issue last May, the company hedged much of it to prevent dilution to shareholders if the stock recovered. This hedge merits a well-deserved salute, since it saved shareholders a lot of money.

After a decade-long cycle of underperformance by stocks, a cycle that started with the bursting of the **Nasdaq** bubble and ended with the worst bear market in 80 years, it's understandable if you're leery of investing in equities. Look back at history, though, and you'll see that such decade-long disasters are invariably followed by decade-long cycles of outperformance. We're still early enough in this cycle for you to get back in the market. At least you can't say you don't know what to buy -- between my column last week and the picks above, I've provided you with 13 compelling opportunities.

At time of publication, Alsin and/or ACM was long HAR, USG, MWA, BCO and ODP, although holdings can change at any time. Arne Alsin is the founder and principal of Alsin Capital Management, a California-based investment adviser. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks. Alsin appreciates your feedback; [click here](#) to send him an email.
