



Beaten-Down Bargains Will Rebound

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This core principle of investing can make you a lot of money, and, perhaps more importantly, it can save you a lot of money: The market always overshoots.

The obvious example on the upside occurred in the late '90s, when the market recognized the transformative power of the World Wide Web. Tech stocks deserved to be marked up, but an enthusiasm-crazed market overshoot by a country mile, taking the **Nasdaq** to over 5000.

Given the seriousness of the credit crisis last year, the market was right in taking stock prices lower. When a full-blown liquidity panic was added to the mix, though, the resulting carnage was nothing short of breathtaking, particularly among smaller, less liquid stocks. Smaller stocks that should have been discounted by 20% or 30% were blasted to smithereens, crushed by 80% and 90%.

Embedded therein is the strategy that has outperformed all others since I first articulated it one year ago, in a [series of columns](#) for *RealMoney.com*. It's the strategy behind the remarkable performance of my Top 10 list for 2009, which is now up 104% vs. an S&P return of 24%. The strategy: Fill your portfolio with stocks that were unfairly crushed during the mega-bear market.

Here's why it works. Historically, the average stock recovers 50% to 100% of its decline within two years after a bear market. A sixth grader can do the math. You'll get a whopper of a return owning a stock that was crushed from \$20 to \$2 in the bear market if it retraces just one-half of its decline. And you'll get a wimpy return owning stocks that barely got nicked during the mega-bear, even if they retrace 100% of their decline.

In this and upcoming columns (posted every Monday), I'm updating the 27 stock picks that I made late last year as they reach their one-year anniversary. Each one of those recommendations was a smashed stock, unreasonably discounted during the bear market. And many of the picks, including those discussed below, continue to be compelling buying opportunities.

Before discussing two buy recommendations from a year ago, I'll comment on stocks I [panned in the same column](#): **Johnson & Johnson** (JNJ), **Kellogg** (K) and **General Mills** (GIS). While these are wonderful companies, they are not where the action is in this cycle.

Last year I said these three stocks would "underperform" and that with "a bit of luck, you might generate a 10% to 12% total return from these stocks." They've done slightly better than that, returning 15% (inclusive of dividends), though they have underperformed by a wide margin the 25% **S&P** return for the same time period.

Expect more of the same for the next couple of years. Stable, large-cap companies, like the three mentioned above, didn't get smacked around during the bear market, and as a result, their upside is limited. The action has been, and will continue to be, in the smaller, less liquid names that were pulverized during the mega-bear, like in the two names I recommended a year ago:

Men's Wearhouse (MW) : I [said](#) this stock would "outperform by a wide margin," and that the then-\$12 stock would "bounce to the \$20s over the short term (by next year)." So far, so good. The stock currently trades at \$26 per share, up 106% since my recommendation. I also said "the upside is much bigger if you can stay the course -- over the next three to five years, the stock should get back to the \$50s." It is one year later, and I'm confident the stock will reach the \$50s within the prescribed time frame.

IDT Corp. (IDT) : If you're a nerd (like me) who enjoys analyzing companies that are inordinately complex, this is the stock for you. Up 102% since I [recommended it one year ago](#) at a reverse-split adjusted price of \$1.89 per share, it continues to

be a compelling buy. IDT is a holding company that owns a variety of businesses in energy and telecom. It has sold, spun-off and closed businesses recently while adding others, making it quite a challenge to value. By my estimation, the doubling of the stock is just the beginning, as my calculation indicates a value that's 6-8 times the current quote.

Send Your Ideas

Do you have a Top 10 idea? I'm already culling candidates for my all-new Top 10 list for 2010, to be posted exclusively on *RealMoney.com* in December. While the 2009 list has been a barn-burner, plenty of stocks are still selling at bargain-basement prices. If you have an idea that you'd like me to consider, I'd be happy to hear from you. Send your idea to me [here](#), and I'll check it out. In particular, if your idea is a stock that was smashed to smithereens in the mega-bear market, I'll take an especially close look.

At time of publication, Alsin and/or ACM was long IDT, 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.
