



Four Stocks Set to Spring Back to Life

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Following every steep economic decline in the last 200 years is a symmetrical rebound -- robust growth always follows a severe decline. Given the chiseled-to-the-bone operating expense structures prevalent in corporate America, a significant economic pickup will cause earnings to explode and stocks to soar.

But maybe this time it will be different. Maybe we'll see an historic anomaly: sluggish growth following a dramatic decline. With the right stock portfolio, investors can still profit handsomely in such an economic scenario. Many companies have sized operations to be profitable in a moribund economy. In some cases, a tiny uptick in sales will result in profitability that approaches peak levels.

Below, I'll recommend four stocks that will reap gains for investors in a sluggish economy. I touted the first three in a column one year ago, back in the ditzzy days of the mega-bear market, when I observed, "scores of stocks have been pulverized to levels so low that, well, you need a damn magnifying glass to see their stock quote."

That's where the action is in this cycle -- in pulverized stocks -- not in stocks undamaged by the mega-bear. In the same column, I urged readers to avoid **Kellogg** (K) at \$50 per share just for that reason, because it "didn't get scuffed in the mega-bear market. So it's reasonable to expect it will be a big, fat snore in the retracement phase." Indeed, Kellogg's 4% gain since that column is snoresville, especially when compared with a 16% **S&P 500** return for the same period.

Office Depot (ODP): This stock is up 106% since I recommended it a year ago, to \$6.40 per share, and there is plenty of profit still to harvest from owning this stock. For now, I'll stay with my forecast from a year ago: "You should expect a rebound to the \$10-\$12 area. With a better economy over the next three to five years, Office Depot has an excellent chance to get back over \$20 per share." By the way, the risk of owning this stock has greatly diminished. Management has right-sized the operating structure to be profitable in a trough environment, and with \$693 million in cash, the balance sheet provides plenty of protection for investors.

Legg Mason (LM): Even though it's up 48% since I recommended it one year ago, vs. an S&P return of 16% for the same period, the stock of this asset manager continues to be severely undervalued. Though it is trading at \$30 per share, my calculation indicates that the intrinsic value is actually \$75. Publicly traded comparables are numerous: **Franklin** (BEN), **Eaton Vance** (EV) and **Blackrock** (BLK), to name a few.

Asset managers are worth roughly 2% to 2.5% of assets under management (AUM), though adjustments have to be made for factors such as the percentage of equity assets under management, which carry higher fees, versus fixed-income assets. For Legg Mason, I'm using a conservative 1.75% valuation on \$700 million in assets under management. Note that a P/E ratio is useless in valuing this stock. There's too much noise in recent quarterly reports. You'll see margins and earnings soar over the next few quarters, as cost cuts flow to the bottom line. When it happens, the stock will be a lot closer to \$75 than to \$30 per share.

Manitowoc (MTW): This company has businesses of roughly equal size in cranes and food-service equipment. While the financials have a lot of moving parts because of their Enodis acquisition, once you work through the numbers, you'll be impressed by just how much the stock is undervalued.

It's down about 8% since I recommended a year ago, a disappointing performance compared with the 16% S&P return. Not to worry. I'm more confident than ever that owners of this stock will enjoy a multi-fold return. I expect a quote of \$25-\$30 in the next three years, which, if I'm right, will be significantly higher than the S&P return.

NCR (NCR): Unlike the three stocks above, I didn't recommend NCR in my year-ago column, but it's worth mentioning here, if only because this is as easy of a 80%-100% return as you'll ever see. Trading at \$10.50 per share, this stock will be close to or slightly over \$20 by the end of next year.

A premier provider of ATM and point-of-sale technology, the company is enjoying solid growth in China and India. Domestically, it's at trough sales levels. Even if sales rebound modestly next year (as the company expects), the margin leverage built into the operating model will prompt a sizable improvement in earnings. I'll mention, too, that this is an appropriate stock for conservative investors, as the company has negligible debt and over \$400 million in cash.

Next Monday's Column

Look for my regular column again next week, when I'll name more stocks in the bargain bin. They'll be companies operating in industries where capacity has shrunk, competitors have disappeared and the survivors stand to profit.

At time of publication, Alsin and/or ACM was long ODP, MTW, LM and NCR, 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.