



## Rich Offerings for the Value-Minded

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For value-centric investors, outperformance of the indices has been relatively easy in recent months. My Top 10 list for 2009, for example, is up 19% since it was [posted](#) on *RealMoney* in December; for the same time period, the **S&P 500** is down 3%. Other buy recommendations (17 in total, in [October](#) and [November](#) columns) have enjoyed similar outperformance, up 14% while the S&P declined, on average, by 7.5% for the same time period.

Not only do I expect the trend to continue, there's a good chance the performance gap will widen significantly from here. Index returns are muted, because many of the large companies that dominate the indices, such as **Wal-Mart** (WMT) , **Coca-Cola** (KO) and **McDonald's** (MCD) , are priced at modest discounts to value. On the other hand, scores of smaller stocks currently sell at a tiny fraction of value, providing investors with an opportunity to generate hefty gains over and above the indices.

### Checking the Top 10

Before I provide readers with a new buy recommendation -- a stock I expect to triple by next year -- let's review the Top 10 list for 2009.

It should come as no surprise that today's most compelling buys from the list are the stocks that have yet to make a significant move: **Office Depot** (ODP) , **Textron** (TXT) , **Raymond James Financial** (RJF) and, in particular, **Mueller Water** (MWA) . With a commanding share in the water infrastructure market, Mueller Water is set to thrive in the years to come. It's reasonable to expect the stock to trade in the \$10-\$15 range within a year or two.

Date	Name	Ticker	Initial Price*	Current Price	% Return
12/19/2008	Atlas Air	AAWW	\$ 15.95	\$ 24.34	52.6%
12/19/2008	Brink's	BCO	\$ 24.39	\$ 29.19	19.7%
12/19/2008	Office Depot	ODP	\$ 2.70	\$ 2.82	4.4%
12/19/2008	USG	USG	\$ 8.32	\$ 14.07	69.1%
12/19/2008	Harman	HAR	\$ 16.27	\$ 19.29	18.6%
12/30/2008	CarMax	KMX	\$ 7.72	\$ 12.51	62.0%
12/30/2008	Textron	TXT	\$ 12.82	\$ 11.20	-12.6%
12/30/2008	Expedia	EXPE	\$ 7.74	\$ 10.30	33.1%
12/30/2008	Raymond James	RJF	\$ 16.46	\$ 15.48	-6.0%
12/30/2008	Mueller Water	MWA	\$ 7.35	\$ 3.76	-48.8%
*price when column posted on Realmoney				<b>AVERAGE</b>	<b>19.2%</b>

For long-term investors, **CarMax** (KMX) and **Expedia** (EXPE) offer the best long-term potential. As I said in my [Dec. 30](#) column, CarMax is a "paradigm-changer." It's poised to capture large chunks of market share as the dominant player in its space.

Employing conservative assumptions, I expect their intrinsic value to grow to over \$70 per share in five to seven years. Expedia, as well, offers quite a bounty for patient investors, as my base case is a stock value north of \$30 per share in two to three years.

## A New Recommendation

If you're seeking a stock that has all of the attributes of a potential massive outperformer, look no further. First and foremost, you can find tomorrow's outperformers in stocks that have been unfairly crushed. **Liz Claiborne** (LIZ) certainly fits the bill, as the stock has sold off from \$37 per share two years ago to about \$4. My estimate of fair value is \$12 to \$15 per share.

The stock of Liz is emblematic of the damage wrought on certain smaller companies in the mega-bear market just past. It's as if the market assumes 2008's disappointing operating performance will be replicated each and every year for the foreseeable future.

Ah, but it won't happen. You see, businesses adapt. As the environment changes, companies change -- with the necessary time lag for implementation. Conservatively, if we assume an annual revenue run rate of \$3 billion for LIZ (actually, it should be closer to \$3.3 billion), and a normalized net profit margin of 4% or 5% in a couple of years (well below their historical norm), you're looking at a company that will generate annual earnings per share of \$1.20 to \$1.50. That equates to a \$12-\$15 stock, on the basis of 10 times earnings, or three times the current quote.

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**Know What You Own:** Other stocks mentioned in the table include **Atlas Air** (AAWW) , **Brink's** (BCO) , **Harman** (HAR) and **USG** (USG) .

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*At the time of publication, Alsin was long AAWW, BCO, ODP, HAR, USG, KMX, TXT, EXPE, RJF, MWA and LIZ.*

*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.*

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