



The Age of Outperformance

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If you're camped out on the sidelines, kicking yourself for missing the recent move in stocks, I've got good news for you: We're still in the early stages of a multiyear cycle and there is much more to go on the upside.

As history shows, the depth and breadth of a bull market is symmetrical to the damage incurred during the antecedent bear market. It should come as no surprise that the biggest, baddest (in a good sense) bull market of the 20th century -- up 372% over five years -- started in 1932 right after the biggest, baddest (in a nasty sense) bear market.

But this is not your garden-variety bull market. As wonderful as they are in a normal upturn, you're not going to generate a 372% return buying index funds. As I detailed in an Oct. 27 column, "We're on the cusp of a cycle that is the polar opposite of 1982-1987," when you could have let a "blindfolded monkey pick your mutual fund."

Instead of a buy-anything market, you're looking at a stock-picker's cycle like nothing you've ever seen. Not only is it easy to beat the market, but a well-crafted portfolio will scorch the indices.

For example, my top 10 picks for 2009 posted in December for *RealMoney* are up 38% vs. an **S&P 500** gain of 3%. My 17 buy recommendations in October and November columns are up 40% vs. an S&P 500 gain for the same period of 1%. **Liz Claiborne** (LIZ) , is up 42% since it was touted in last week's column.

This age of outperformance was set up by the mega-bear, which cut a ragged, uneven swath through stock prices. Some companies were nicked by 10% while others were pulverized by 90%.

Just like the current bull, the bear market we witnessed was aberrational -- a one-of-a-kind cycle. A pinch in liquidity resulted in disproportionate price damage among stocks. The way to beat the indices without breaking a sweat is to fill your portfolio with stocks that were unfairly crushed during the mega-bear.

You certainly don't want to own companies that barely suffered a scratch during the downturn like **Johnson & Johnson** (JNJ) , **Kellogg** (K) and **General Mills** (GIS) . They're terrific companies to be sure, but it's illogical to expect them to outperform. They're down 9% since November vs. an S&P 500 decline of 1% for the same time period.

NCR (NCR) , my latest buy recommendation, is of the same ilk as my other picks -- it was beaten to excess during the last cycle. A leader in ATMs and self-service technologies, NCR stock is currently priced at \$10.50, down from a high of \$28 last year.

By my calculations, the intrinsic value of the business is \$20 to \$25 and normalized earnings power is \$1.50 to \$1.75 per share. The carnage inflicted on the stock is unwarranted, given the company's balance sheet strength and competitive position: NCR sits on a hefty \$700 million in cash amount of cash and is no. 1 in virtually every end market it serves.

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