



Three Stocks That Can Leapfrog the Indices

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The indices are not where the action is in this cycle. The **Dow Jones Industrial Average**? It's just not important. Boring, even. The **S&P 500**? Snoresville, baby. Other than figuring out how many times you lap the S&P, you can ignore the index.

The excitement in this cycle resides deep in the trenches of the market, where, on a stock-by-stock basis, you can find bargains so compelling it'll make you dizzy. As I said late last year, "The mega-bear's ravaging saw cut a jagged, uneven path across stock prices. As a result, the bounce in the next cycle will produce disparate gains in stocks -- gains that range from modest to mind-boggling."

If you want mind-boggling gains, you're not going to find it in big companies. Big-cap stalwarts like **Wal-Mart** (WMT) , **Proctor & Gamble** (PG) and **Exxon Mobil** (XOM) haven't made a penny for investors so far this year. In stark contrast are the mind-boggling gains to be harvested from stocks that were smacked around in the bear market just past. In this cycle, squashed is beautiful. Pulverized is even better.

Before I give you three buy recommendations, each a smashed stock, a word of warning: For the rest of this cycle (two to three years), don't look at the lows in these stocks. It's only going to get you into trouble. You might refrain from buying **USG** (USG) at \$17 because you could have bought it at less than half that a few months ago. That would be a mistake. Just because we moved from once-in-a-century cheap to once-in-a-generation cheap doesn't mean the bull market is over. Far from it.

Instead of paying attention to the lows of a stock, look instead at its 2007 highs. It'll show you just how much firepower remains in this cycle. As you can see below, of the stocks on my Top Ten list for 2009, many are light-years from their 2007 highs, even after recent gains. Several of these can double or triple and still not come close to pre-recession price levels.

Name	Initial Price	Current	% Return	2007 High
Atlas Air	\$15.95	\$31.81	99.4%	\$61.10
Brink's	\$24.39	\$26.88	10.2%	\$68.50
Office Depot	\$2.70	\$6.16	128.1%	\$39.70
USG	\$8.32	\$17.54	110.8%	\$58.70
Harman	\$16.27	\$32.05	97.0%	\$125.10
Carmax	\$7.72	\$19.33	150.4%	\$29.40
Textron	\$12.82	\$19.25	50.2%	\$74.40
Expedia	\$7.74	\$24.14	211.9%	\$35.30
Raymond James	\$16.46	\$22.97	39.6%	\$37.60
Mueller Water	\$7.35	\$5.58	-24.1%	\$19.30
		Return	87.3%	

Here are three new buy recommendations based on a simple premise: Despite the turmoil in the financial markets, the world's infrastructure needs have not gone away. The long-term potential in infrastructure, particularly in emerging markets and Asia, is exceedingly bright. We're not talking about luxury condos in Florida here. This is about things that need to get done, and will get done, such as building power plants, refineries, facilities for mining and minerals processing, and much more.

Terex

As I mentioned above, don't look at the lows in a stock like **Terex** (TEX) . You'll say it has rallied a lot and miss the opportunity. The proper frame of reference is to compare the current stock price of \$19 with where it was in 2007: \$92 per share. As with the two picks to follow, it's down close to 80% from its 2007 high. I expect it will rebound to at least the \$40s by late next year.

Manitowoc

Down from a high of \$50 in 2007, **Manitowoc** (MTW) currently trades at \$9.70. The company generates a revenue base that is about two-thirds infrastructure (cranes) and one-third food service. Though my calculation indicates a value in the high \$20s, that's predicated on continued sluggishness in the company's end markets. When growth returns, as I anticipate, my valuation will be adjusted higher.

KHD Humboldt Wedag

Down from a high of \$45 in 2007, the current quote of \$12 for **KHD Humboldt Wedag** (KHD) is an amazing opportunity. This business is woefully mispriced by the market at \$370 million. Not only does the company have compelling long-term growth opportunities, its balance sheet is bulletproof, with over \$250 million in net cash (net of all liabilities). Look for at least a double in the stock over the next year.

At time of publication, Alsin and/or ACM was long KHD, MTW, TEX, MWA, RJF, TXT, KMX, HAR, USG, ODP, BCO and XOM, although holdings can change at any time.

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