



## Tomorrow's Treasure

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Investors take note: You're looking an extraordinary bull market, the likes of which you'll never see again. Embrace the right strategy -- a strategy that I'll explain below -- and you can run circles around the **S&P 500**. Forget about beating the index. I'm going to tell you how to *crush* it.

The seeds for outperformance were sown during the mega-bear market that ended in March. Understand it, and you'll understand how to lap the S&P. Why was the bear market over the top in severity? It wasn't just because of the economy. While the bear market approximated the inflation-adjusted losses suffered during Great Depression, we're in a very different economy now. We're not going to see 10,000 banks fail, and we're not going to see unemployment soar to 25%.

There was a reason stock prices got smashed to excess: liquidity evaporated virtually overnight. The decline was also brutally uneven -- scores of stocks were ruthlessly taken down by 80% or more, while others barely got nicked. The differentiating factor was liquidity. Stocks that could absorb the liquidity demand -- the stable big-cap names, for example -- suffered much less damage than less-liquid names, such as small-caps.

The path to outperformance is this: Fill your portfolio with stocks that were unfairly pummeled in the last cycle, and avoid names that suffered only a scratch or two. As I wrote in a *RealMoney* column in December, "Stocks that suffered the most from liquidity-induced selling will rebound the most. That means, of course, that you'll make the biggest return from smaller, less-liquid stocks."

So far, the buy-the-pummeled strategy is going great guns. It's evident in the performance of my Top Ten list for 2009 -- every one of which was a smashed stock. Posted exclusively for *RealMoney* subscribers last December, those 10 stocks are up 81.4% vs. a gain of just 19.8% in the S&P 500 over the same period. It's also evident in the 17 other smashed stocks I recommended in *RealMoney* columns last fall. They're up similarly, by a total of 82.9% vs. an S&P gain of 14.2%.

The good news for investors who have missed the boat is that this strategy has legs. Long legs. The sheer enormity of the carnage inflicted on many stocks suggests that the returns to come will continue to be mind-boggling. The key here is that it is selective. It's not broad-based. As I said late last year, "**Kellogg** (K) barely got nicked in the mega-bear market just past. A 50% retracement of its itty-bitsy decline will get you an itty-bitsy profit. On the other hand, **Office Depot** (ODP) shares fell from \$20 to \$2. A 50% retracement of the decline, to \$11 per share, amounts to a 450% return."

Even today, at more than \$6 a share, I'd rather own Office Depot than any of what I called "wet noodle" stocks last fall, namely Kellogg, **Johnson & Johnson** (JNJ), **General Mills** (GIS), **Nike** (NKE) and **Kraft** (KFT). Those five stocks have returned 10.94% since I panned them in two columns, lagging the S&P 500 return of 18.8%.

The only game in town -- the only game with gusto, that is -- is to load up on the fallen, the pulverized, the smashed. Though it's counterintuitive (and often misunderstood), it's less risky to buy stocks that have cratered than stocks that have held up, because the gap between price and value is wider. It's a credo every value-centric investor understands: The more that value exceeds price, the greater your margin of safety.

Look for my columns over the next several weeks, as I'll have many new smashed stocks to recommend, as well as a few pans -- what I'm now calling "lawn bowling" stocks (an apt name, given their potential for excitement). In the meantime, let me reiterate a buy recommendation I made on **Liz Claiborne** (LIZ) in late April. At \$5.93 a share, it's up 35% since that column, but it's just the beginning for this stock that was trading at \$37 in 2007.

I can't pound the table hard enough for this stock. How's this for gusto? Not only do I expect it to reach my target of \$12 to 15 target in the not-too-distant future, recent operational improvements at the company have led me to increase my two-year target to the low- to mid-\$20s.

Stay tuned.

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*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.*

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