



Top-10 for 2009: The Final Five

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If you live long enough -- like another century or two -- you might see another market like the 2008 disaster. We witnessed action you'd expect to see in an emerging third-world country, not in the market of a mature superpower.

The Russell 2000 -- an index that could be considered a proxy on America's future -- was heaved overboard, dropping 50% in only 45 trading days (ending on November 20). A decline of that magnitude is impossible, right? Apparently not.

Against the bewildering backdrop of 2008, it's perfectly understandable if you view 2009 with trepidation. It's tough to have confidence in a market after seeing companies worth tens of billions of dollars vanish overnight. How can you get comfortable when price volatility is the worst since the 1800s?

In spite of it all, I've got good news for you. While it's difficult to measure market value in the aggregate for indices like the **S&P 500**, on a case-by-case basis there are scores of once-in-a-lifetime opportunities in the market.

Here's my admittedly overly simplistic recipe for how to find these bargains -- call it the slice-and-dice approach. When you build a spreadsheet for a particular company, chop 15% off sales, then carve a chunk out of operating margins while simultaneously fattening up SG&A expenses. Slap a price-to-earnings ratio of, say, 10 on net income and compare that to the stock value. If your estimate is 100% higher than the stock value, congratulations, you've found a bargain.

While valuation analysis is more complicated than that, the above illustration is not that far from reality. Even after you severely pinch operating expectations, you can still find bargains that'll make you weak in the knees. They come, however, with the proviso that you have to be patient. The easy two- and three-baggers will likely require holding periods of at least one year and maybe longer.

In part one of my list of 10 bargains for 2009, I recommended **Atlas Air** (AAWW) , **Brink's** (BCO) , **Harmon** (HAR) , **Office Depot** (ODP) and **USG** (USG) . Below, these five bargains complete my list.

CarMax (KMX) : Wouldn't it be cool if you identified a paradigm-changer in retail, like a **Dell** (DELL) or a **Wal-Mart** (WMT), in its early days? Here's your chance. Study this model so you fully appreciate the company's enduring competitive moat, then load up on the stock. I recommended the stock in a November column at \$8.36; yesterday it closed at \$7.44. It's worth over \$20 right now, and the intrinsic value should grow to 10 times the current quote over the next five to seven years.

Textron (TXT) : At \$3 billion, this is the largest company by market capitalization on my list. Textron is a conglomerate, with a large percentage of sales coming from aircraft (Cessna) and defense, including Bell helicopters. With yesterday's close of \$12.75, down from \$70 at the beginning of 2008, the stock discounts a horrible economy two or three times over. Do the slice-and-dice dance here and you'll arrive at operating metrics that justify a stock quote of \$25 to \$30 per share.

Expedia (EXPE) : Down from over \$30 at the beginning of the year, I originally recommended this online travel business in a mid-October column at \$10.72; yesterday it closed at \$7.50. Far and away number one in its category, this is a model that will endure and thrive in the years to come. While it's reasonable to expect a bumpy ride in the short term, it's also reasonable to expect a return to \$30 per share over the next two to three years.

Raymond James Financial (RJF) : Down from a high of \$38, the stock of this regional broker closed yesterday at \$16.30. You should make 50% fairly quickly on this stock, as brokers invariably lead the way out of bear markets. Within a couple of years, I expect it will double.

Mueller Water Products (MWA) . At yesterday's close of \$6.96, the stock of this water infrastructure company is amazingly cheap. It's the no. 1 or 2 player in the bulk of the markets it competes, and the stock will at least double over the next couple of years.

At time of publication, Alsin and/or ACM was long MWA, EXPE, KMX, ODP, HAR, USG, DELL, WMT, AAWW and BCO, although holdings can change at any time.

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