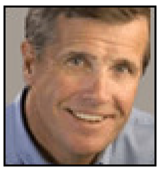
TheStreet.com RealMoney



Top-10 for 2009: Part One

By Arne Alsin

12/19/2008 1:00 PM EST

URL: http://www.thestreet.com/p/rmoney/investing/10454228.html

At the inception of a bull market, the initial move is usually fast and furious. Already up by more than 20%, the new bull market that started Nov. 20 promises much more to come. The mountain of cash piled up on the sidelines is earning tic-tac-sized yields. What will drive that cash back into the market? Envy. Over the next two or three years, as investors compare their cash yields -- yields you can see only with a magnifying glass -- to what others are making in the new bull market, they'll eventually buy back into stocks (at much higher prices).

The most interesting aspect of the mega-bear market just past was the wholesale dumping of smaller stocks. Perfectly viable companies -- businesses that are certain to survive and thrive in the new cycle -- were hurled overboard like so much rubbish. The hurlers will be flush with embarrassment in a few years, when they look back and realize they willingly chucked assets at 25 cents on the dollar.

If you sift through the rubble of crushed stocks, you'll find scores of once-in-a-lifetime bargains, especially among smaller stocks. My list of top 10 stocks for 2009 is dominated by small companies. Below, I list the first five of those picks.

Atlas Air (AAWW) : This company, a leader in the global air cargo business, owns the largest fleet of 747 freighter aircraft in the world. The stock trades at about $16 a share, down from $66 earlier this year. Normalized earnings of $4 a share are achievable next year, especially in light of the sizable drop in oil prices. The company's new 20-year deal with **DHL** makes a rebound in operations that much easier. I expect the stock to return to the $40-$50 range by 2010.

Brink's (BCO) : Brinks is the oldest and largest player in the cash logistics and secure transportation space. The spinoff of **Brink's Home Security** (CFL) earlier this year adds a layer of complexity to the calculation of value -- there is a lot of number noise to sort through. In reality, though, this is a very simple business. Like a lot of the cheap stocks currently in the market, the current discount applied to this $23 stock is inexplicable. My calculation of value indicates its worth over $60 a share.

Harman (HAR) : The stock of this worldwide manufacturing leader of audio components for automobiles has been pulverized. **Goldman Sachs** (GS) and KKR tried to buy the stock for $125 in 2007, before the economy cracked. Today, post-crack (and pre-rebound), you can buy the stock for $16.50. While I can't make the numbers work to justify the $125 buyout offer, I can't fathom the current quote, either. The truth, as they say, is somewhere in between. With earnings power of $4 to $5 a share, this stock should trade to $40 or $50 in the next year or two.

Office Depot (ODP) : While I already recommended this stock in my Oct. 30 column, I will repeat it here because this stock is amazingly cheap. ODP is trading at $2.65 a share, down from $20 -- you're looking at a multi-bagger square in the face. For now, my target is a rebound to between $10 and $12 in the next two to three years. It might be a little bit less ($8-$10) or a little bit more ($12-$15), but when you're talking multi-baggers, who cares? Load up and enjoy the ride.

USG (USG) : This leading maker of gypsum wallboard is a steal at $9.29, down from $40 a year ago and nearly $60 two years ago. While it's easy to state the premise -- be nervous when times are good and opportunistic when conditions are terrible -- it's difficult to act on. If you believe in cycles, as I do, you have to buy when it seems like an industry will never recover. Even if we assume the next housing cycle will see subdued growth rates, this company should earn about $5 a share, taking the stock back up to $40 and beyond.

Look for part two of this column next week, when I'll name five more companies to watch, completing my top 10 list for 2009.

Please note that due to factors including low market capitalization and/or insufficient public float, we consider Atlas Air to be a small-cap stock. You should be aware that such stocks are subject to more risk than stocks of larger companies, including greater volatility, lower liquidity and less publicly available information, and that postings such as this one can have an effect on their stock prices.

At time of publication, Alsin and/or ACM was long Office Depot, Brinks, Harman and USG, 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.
