



From Supporting Role to Romantic Lead

The online financial information industry could be one of the best secular growth industries to invest in for years to come.

BY MICHAEL MARKOWSKI

The Internet has changed media and its related industries. Before the Web, media was dominated by the motion picture, network broadcasting, newspaper, and cable industries. With the addition in the 1990s of three new industries — Internet information providers, online financial information providers, and entertainment software — the Web has gone from a supporting actor to a lead

rank within the top 50 of the 216 industries ranked by StockDiagnostics.com for both cash flow and revenue growth. Based on the most recently available 12 months of data, the online financial information industry increased its cash flow from operations by 33.6% over its latest 12 months, and it ranked 47th among the industry groups covered. Its revenue grew 23.4% for the same period and was ranked 21st.

are making their own investment decisions globally) and the industry's unique cash-flow dynamics, I believe that the online financial information industry could be one of the best secular growth industries to invest in for years. I also believe that the industry is recession proof. Having access to financial information will be more vital in volatile or down financial markets.

Before I give you my explanation of why I believe this industry will be a

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role on the stage of the global investment community.

Yahoo and 82 other online providers are now considered media companies. With the rise of the Internet, the media now commands a larger percentage of institutional investment capital than it did in the non-Internet world.

Of the six industries that comprise media, two are performing well, namely the online financial information and broadcasting industries. Both

Four industry companies are firing on all cylinders. All appear to be fairly valued or undervalued, and had their operating cash flow and free cash flow (cash flow minus capital expenditures) grow at more than 35% over their latest 12 months. They are Interactive Data (NYSE: IDC), Bankrate, Inc. (NASDAQ: RATE), Morningstar, Inc. (NASDAQ: MORN), and TheStreet.com (NASDAQ: TSCM). Given the rapidly changing demographics (in that more individuals

top performer for years to come, I want to disclose that I am intimately familiar with it, and I am directly or indirectly affiliated with three companies in the industry. One of them is, of course, StockDiagnostics.com, and another is TheRetirementSolution.com (OTCBB: TRES). The third is Newsgrade, the company I founded. Newsgrade has significant holdings in TheRetirementSolution.com and StockDiagnostics.com.

Why do I love the financial information providers industry? Here are six reasons:

- ★ 1. Its cash flow dynamics are second to none because most subscribers prefer to pay for a year in advance. Can you imagine any other industry having that advantage? Certainly not your cable TV, or your telephone service provider. Since the companies have no added cost in providing annualized service for upfront annual subscriptions, this enables them to create enormous cash flow.
- ★ 2. The industry enjoys high subscriber retention rates. Also, it's not uncommon for subscribers to prepay discounted subscriptions for five years or more.
- ★ 3. StockDiagnostics.com is batting a thousand on its recommendations in this industry. In 2002 and 2003, StockDiagnostics.com's newsletter recommended four companies in the industry. All four have multiplied in value. Two of them, Multex.com and Market-Watch.com, were acquired by Reuters and Dow Jones, respectively. Of the remaining two, TheStreet.com appreciated by more than 100%, and the other, Bankrate.com, recently appreciated from \$2 to \$40.
- ★ 4. Users of this information have the best demographics, bar none. They are the most affluent segment of the global population, so these companies command the highest advertising rates.
- ★ 5. The growth of the Internet information providers industry has stalled, and I predict that many will attempt to acquire the faster-growing companies within the online financial information industry.
- ★ 6. Two of the most established financial information and news companies, Dow Jones and Reuters, were acquired at all-time highs by savvy operators.

Broadcasting was actually ahead of the online financial information industry in cash flow growth and rankings. Over the latest 12 months, its cash flow grew 55.5%, giving it a ranking of 29. For its revenue growth (22.7%) and its ranking (23), it was slightly behind the online financial information industry.

Companies in the industry worthy of consideration include the Walt Disney Co. (NYSE: DIS), which increased its cash flow by 25.2% and its revenue by 8.9% over its latest 12 months. A small company that looks interesting is NTN Buzztime (AMEX: NTN). NTN's free cash flow grew by 553% over its latest 12 months and its revenue comparisons were understandably down because of a financial restructuring. NTN is using its excess cash flow to buy back some of its shares.

The entertainment software industry came in at 131 out of 216 industries, with a 7.2% decrease in its cash flow for its latest 12 months, with revenue growth of 1.1% and a ranking of 114. The only interesting play in the industry is Majesco Entertainment (NASDAQ: COOL). Its shares are currently around \$2. They traded at \$16 in early 2005 before plummeting to under \$2 by the end of that year. According to its annualized cash flow, revenue, and earnings over its last three reporting periods, a significant turnaround is underway for Majesco. Its revenue increase of 49% and its cash flow growth of 114% over its latest 12 months do not appear to be reflected in its share price. Activision (NASDAQ: ATVI) is one that does not look healthy. Its shares were recently trading near a multi-year high of \$19, and they have almost doubled from their low of \$10 in 2006. It appears that a turnaround in

earnings is behind the share advance, but its trend of declining cash flow is very negative. This is one that I would definitely avoid.

The cable TV and services industry's rankings were 167 for revenue growth and 87 for cash-flow growth. Cable increased its cash flow by 10.5% over its latest 12 months and its revenue declined by 14%. Tivo (NASDAQ: TIVO) would be the one to avoid in this industry. While it has generated consistent increases in revenue over the last five years, it has never generated any positive annualized cash flow. This tells me that it does not have a viable business model and that it will not be around for the long haul. Unless something changes drastically, I believe that it will either go out of business or be acquired by a cable operator for no premium or at a discount. The Direct TV Group (NYSE: DTV) looks particularly interesting. Its annualized cash flow and free cash growth have been above 100% since its fourth quarter of 2005.

A sleeper among the cable companies is Outdoor Channel Holdings (NASDAQ: OUTD). Its earnings have declined by more than 500%. However, its cash flow and free cash flow over its latest 12 months are at record highs. They are 100% higher than their previous peaks in March 2004. Back then, its shares traded for more than \$15, and recently they were trading at \$9.10.

The motion picture industry is the worst media performer, ranking 216th out of the 216 industries for revenue growth. It did not do much better for cash flow, coming in at 207. However, the industry has a couple of bright spots. New Frontier Media's (NASDAQ: NOOF) cash flow and free

Rankings and Select Annualized Financial Data for Media-Related Industries				
Industry	Cash Flow %	CF Rank	Revenue %	Rev. Rank
Broadcasting	+55.5%	29/216	+22.7%	23/216
Online Fin. Info.	+33.6%	47/216	+23.4%	21/216
Cable TV	+10.5%	87/216	-14.2%	167/216
Internet	-4.6%	124/216	+5.7%	85/216
Entertainment Software	-7.2%	131/216	+1.1%	114/216
Motion Pictures	-95%	207/216	+95%	216/216

cash flow grew more than 50% over its most recent 12 months, and its revenue gains of 35% are the best in five years. Macrovision (NASDAQ: MVSN) is another within the movie industry that looks interesting. After an extended period (the first quarter of 2004 through the first quarter of 2006) of inconsistent cash flow and free cash flow, it has changed course and both have increased by more than 48% over its latest 12 months.

The Internet information providers

industry was the biggest surprise since its growth is slowing considerably. Its revenue growth came in at 5.7% — the first time since October 2003 that the industry's annualized revenue growth dipped below a double digit growth rate — which gave it a ranking of 85. Its annualized cash flow declined by 4.6%. The industry's string of consecutive periods when it generated double-digit annualized revenue growth ended in July 2006.

Yahoo (NASDAQ: YHOO) is the

company to avoid in the industry. Its annualized cash flow has been declining at a rate of at least 16% since its December 2006 year's end. Two companies worth mentioning are Netflix (NASDAQ: NFLX) and Valueclick (NASDAQ: VCLK). Netflix was most recently trading at between five and six times its cash flow, increasing its revenue by 42.2% and its cash flow by 34.9% over its most recent 12 months. Valueclick increased its revenue by 58.2% and its cash flow by 129%. ■

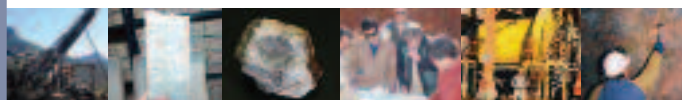
Online Financial Information Picks

Name	Symbol	Price	52wk high	52wk low	P/CF	CF% incr.	Rev% incr.
Morningstar	MORN	63.82	64.70	32.99	30.8	60.3%	39.6%
BankRate	RATE	42.96	53.14	25.16	33.6	80.6%	40.5%
Interactive Data	IDC	27.93	30.34	18.32	14.6	35.2%	15.5%
TheStreet.com	TSCM	11.48	13.26	8.15	21.4	70.5%	46.3%

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