

Cash Flow Winners & Sinners

Wrap-Up, 2006

BY MICHAEL MARKOWSKI

Now that a new year has begun, it's time to take a look back at last year's picks, in order to update my list of winning and losing companies for 2007. For last year, I picked 23

Winners and eight Sinners.

Winners are companies whose stock price is expected to rise because they have accelerating cash flow momentum, while Sinners are companies whose stock prices are expected to drop because they are generating profits, but are not generating cash flow.

Of my Winners, 14 went up and nine went down as of the 2006 year-end closing prices. The Winners were led by Greenfield Online, which increased by 142.8%, and Sirna Therapeutics, which increased by 133.8%. Infocrossing, my pick for the annual EQUITIES Magazine "Favorites of the Famous," came in third with a return of 92.9%. The worst performing Winner was Glenayre Technologies, which fell 52.5% after its cash flow metrics turned and remained negative.

Remarkably, four of my Winners and one of my Sinners were acquired, or merged in 2006. These four Winners include my second best performer, Sirna, as well as Identix, Onyx Software and Main Street Restaurant Group. One of the Sinners, SBS Technologies was also acquired but at a price of \$16.50, which was only \$0.07 per share above this Sinner's published sell price of \$16.43.

My eight Sinners (stocks picked to go down during 2006) also performed generally as predicted. The prices of three of them declined and the shares of four of the other five underperformed admirably against the returns generated by the major indices such as the Dow 30 and the S&P 500. The Sinners were led by Homebuilders, Centex and DR Horton which both declined by 20.5% and by 26.8% respectively. One disobedient Sinner, Time Warner, however, increased by 35.2%.

Overall, an equally weighted portfolio consisting of only my Winners appreciated by 20.2%, and an equally weighted portfolio of my Sinners declined by 1.3%.

Update For 2007

After doing some year-end house cleaning I have removed all of my 2006 Sinners and am only staying with five of my 2006 Winners for 2007. They are Greenfield Online (Nasdaq:SRVY), Biosphere Medical ((Nasdaq:BSMD), Grey Wolf (Amex:GW), Specialized Health Products International (Nasdaq:SHPI) and Numerex (Nasdaq:NMRX). Medifast (NYSE:MED), one of my 2006 Winners, is now a 2007 Sinner because it has generated cashless earnings for its two most recent quarters.

After researching StockDiagnostics.com's proprietary financial statement and price ratio metrics, I approached 2006 with caution. In examining the same metrics for 2007, I am optimistic about the Dow Jones 30 and the S&P 500.

My Winners appreciated by 20.2%

The trailing twelve month cash flow from operations (CFFO) for the Dow Jones Industrial components has increased and has been accelerating for the last three quarters. The aggregate CFFO for the group hit an all time high of \$291.3 billion. This compares to \$204.4 billion for the same period in 2000.

The Industrial components of the S&P 500 mirror the Dow. The CFFO of the S&P Industrial components has increased and has been accelerating for the last five consecutive quarters. It recently hit an all time high of \$841.8 billion, which compares to \$475.7 billion for 2000.

The price to cash flow multiples of the aggregated Dow Jones and S&P 500 industrial components is something to get excited about. The Dow recently stood at 11.35, which is much closer to its 10 year low of 9.82 in October 2002 than it is to its 10 year high of

18.86 in January 1999. The range for the multiple from July 1997 to April 2002 was between 13.41 and 18.86. The S&P 500 multiples and historic highs and lows are similar to the Dow's. Its multiple came in at 11.07. This compares to a 10 year high of 18.11 in April of 2000 and a 10 year low of 9.11 in October 2002. During the peak or bubble years of 1999 and

2000, the S&P's multiple ranged from 15.42 to 17.2.

Given the accelerating growth and the historical low price to CFFO valuations for the two major indices, I believe that both the Dow Jones Industrials and the S&P 500 will perform better than expected for at least the first half of 2007.



About the Author:

Michael Markowski is the founder of StockDiagnostics.com and utilized its CFFO (cash flow from operations) and OPS (operational cash flow per share) metrics to predict the bankruptcies of several large companies and in EQUITIES in early 2005 General Motors' looming serious credit problems. StockDiagnostics.com publishes current and historical cash flow metrics on over 8,000 companies.

* For new Winners & Sinners, take a look at my analysis of alternative energy companies on page 36.

2006 Winners (stocks picked to go up due to accelerating cash flow metrics)				
Symbol	Name	Published price	Price 12/31/06	% Chg
APLX	APPLIX INC	7.7	11.34	47.27
BSMD	BIOSPHERE MEDICAL INC	5.78	6.68	15.57
CTLM	CENTILLIUM COMMUNICATIONS INC	3.09	2.14	-30.74
EDGW	EDGEWATER TECHNOLOGY INC	6.36	6.11	-3.93
EGY	VAALCO ENERGY INC	8.18	6.75	-17.48
GEMS	GLENAYRE TECHNOLOGIES INC	5.39	2.56	-52.5
GW	GREY WOLF INC	7.5	6.86	-8.53
HNR	HARVEST NATURAL RESOURCES INC	13.65	10.63	-22.12
IDNX	IDENTIX INC	6.41	7.16	11.7
IFOX	INFOCROSSING INC	8.45	16.3	92.9
MAIN	MAIN STR RESTAURANT GROUP INC	5.05	6.4	26.73
MED	MEDIFAST INC	9.09	12.57	38.28
NMRX	NUMEREX CORP PA	7.51	9.42	25.43
NOVA	NOVAMED INC DEL	6.39	7.57	18.47
ONXS	ONYX SOFTWARE CORP	4.63	5	7.99
PKD	PARKER DRILLING CO	7.1	8.17	15.07
RNAI	SIRNA THERAPEUTICS INC	5.56	13	133.81
RUS	RUSS BERRIE & CO	12.51	15.45	23.5
SAMC	SAMSONITE CORP NEW	1.03	1.01	-1.94
SHPI	SPECIALIZED HEALTH PRODS INT	0.46	0.72	56.52
SRVY	GREENFIELD ONLINE INC	5.89	14.3	142.78
UNTD	UNITED ONLINE INC	14.79	12.47	-15.69
WSTL	WESTELL TECHNOLOGIES INC	4.07	2.5	-38.57