

Favorites of the Famous 2008

Our Intrepid Analysts Reflect on a Brutal Year



For over 20 years, *EQUITIES* has brought you Favorites of the Famous, wherein our team of well-known trading professionals' stock picks are tracked and analyzed.

Hundred-dollar oil, sub-prime loans, big-bank troubles, foreclosures, unsold homes, sliding house prices, plunging confidence index, middle America barely getting by, dollar lows, Middle East turmoil, inflation, gloomy corporate profit forecasts, retail sales, industrial production slumping, double-digit plunges in the stock market, a looming recession, uncertainty, chaos, mayhem...

Last year was ugly, but who better than *EQUITIES*' stock pickers to cope with a hostile investment landscape? They know that adversity creates opportunity. But admittedly, 2007 was rough on almost everyone.

Fred Kobrick

Fred Kobrick remains bullish on his 2007 pick, **iRobot** (NASDAQ: IRBT), a leading producer of military, security, and law enforcement robots programmed to

do a host of tasks, such as disarm bombs in Iraq, patrol borders, vacuum floors, and engage in oceanographic and medical research. It's an early-stage leader in an industry that is going to become gigantic, and it is coming out with a wave of new products.

Sun Hydraulics (NASDAQ: SNHY) is Kobrick's new selection. "A fabulous little company!" he says enthusiastically. "Manufacturers love them!" Sun Hydraulics makes products called screw-in

hydraulic cartridge valves—a high-tech product used in the industrial machinery, transportation, construction, agriculture, utility and oil-drilling industries.

The cartridge-valve industry comprises only one-third of the total valve industry, but is growing twice as fast. Kobrick summarizes his five reasons to buy into it: rapid shipping to customers, a continuous flow of new products, products with multi-function capabilities, an international reach with rapid growth in Asia, a great website designed for customers and engineers (similar to the way Cisco marketed its products in the early days). “The market cap is \$480 million—it’s not a big company,” he says.

Mario Gabelli

Mario Gabelli’s 2007 pick of **Myers Industries** (NYSE: MYE) is on target. For its nine months ending Sept. 30, Myers earned \$1.04 a share—well on its way to Gabelli’s forecast of \$1.30. Myers is a classic Gabelli stock; it’s an industry leader in the international manufacture of polymer products and the largest wholesale distributor of tools, equipment, and supplies to the tire, wheel and under-vehicle service industry.

Currently, Gabelli likes **Lin TV** (NYSE: TVL), owner and operator of 31 television stations in 18 markets in the U.S. and Puerto Rico. It has an enterprise value of about \$1.3 billion and is controlled by Hicks Muse, which had it up for sale in the summer of 2007, but the debt market collapsed under them. Looking out over the next 12 months, Gabelli expects Lin TV to benefit from advertising from the presidential campaigns and the Olympics. “That’ll give them very good cash flow, and I think the company will be sold and we’ll make 50%,” says Gabelli.

Max Bowser

Max Bowser, publisher of the *Bowser Report* and the *Bowser Directory of Small Stocks* hangs out with a small but lovable crowd—micro-cap companies where great ideas are hatched and bigger companies get their start.

Not many gurus have the guts or savvy to survive in this game. Bowser’s portfolio averaged gains of 254% annually over the last 10 years. Unfortunately, his 2007 pick, **eOn Communications** (NASDAQ: EONC), was not one of the winners.

Bowser’s new selection is **Global Med Technologies** (OTC BB: GLOB), a provider of management software and support services to the health-care industry. Global has two products: SafeTrace and SafeTrace TX. SafeTrace assists community blood centers, hospitals, plasma, and outpatient centers in complying with FDA quality and safety standards for the collection and management of blood. SafeTrace TX is a management system used by hospitals and transfusion centers to help ensure the quality of blood. Revenues for 2006 were \$12.4 million, up 10.3% from 2005. Six months revenues were \$7.7 million, on target for another double-digit increase in 2007.

Michael Markowski

It looks like Michael Markowski, co-editor of StockDiagnostics.com and long-time *EQUITIES* columnist, had another big winner in 2007. It was **NetScout Systems** (NASDAQ: NTCT), a provider of integrated network performance solutions, which was up 50% recently on heavy buying before a sharp fall in the market dropped it back to 27%.

Markowski places a heavy emphasis on cash-flow analysis, which is far more revealing than earnings per share. It was a combination of free cash margins, return on equity, and profit margins that intrigued him with NetScout, as well as its steady sales growth. This fall, it soared to a 2007 high of \$15.54 before profit takers trimmed its sails.

Markowski’s new pick is **Transcend Services** (NASDAQ: TRCR). “I like the company because it is in the business of editing and storing physician-dictated medical records,” says Markowski, “and as a result, it is recession-proof, especially since it has a proprietary technology that enables it to perform these services at a dramatically lower cost than their mom-and-pop competitors.” Transcription services include typing, editing, formatting, and distributing electronic copies of these documents. Essentially, it converts physicians’ voice recordings into electronic medical records. Medical transcription is a \$5 to \$7 billion industry.

Tom Putnam

It didn’t take long for Tom Putnam, of Fenimore Asset Management, to put points on the board with his 2007 pick of

Florida Rock Industries (NYSE: FRK). Our winter issue was off the press for only a couple of months when **Vulcan Materials** (NYSE: VMC) made a tender offer for FRK at \$65 a share, up 54% from his recommended price.

Putnam’s appetite has been whetted by a 60% plunge in the stock of **Ambassadors Group** (NASDAQ: EPAX), an organizer and promoter of international and domestic programs for students, athletes, and professionals that enable them to visit domestic and foreign destinations to learn about their history, culture, and government. An uncharacteristic drop in bookings in 2007, possibly due to a flawed marketing contact list, is expected to adversely impact Ambassadors’ current earnings. The company has authorized \$20 million to continue to purchase its own shares. “Longer-term, four or five years, I think you can make significant money,” Putnam says.

John Rogers

The merger of **ACCO Brands** (NYSE: ABD) and General Binding Corporation (NASDAQ: GBND) made a lot of sense to John Rogers, founder of Ariel Capital Management, since ACCO, his 2007 pick, combined a world leader in branded office products with a leader in binding, laminating, and the display of information. He believes he was right—it just needs more time for the benefits to come to the surface.

A drop in the price of his new pick, **CB Richard Ellis Group** (NYSE: CBG), from \$41 to the \$20 area, puts this commercial real estate development, advisory, capital markets, real estate institutional money management, and valuation services company on Rogers’ bargain list, especially since it has no residential housing exposure. Its clients are internationally based in the Americas, Middle East, Africa, and Asia Pacific and include owners, lenders, occupants, and investors in office, retail, industrial, and multi-family real estate.

“We think they have been overly punished because any company that has real estate in its portfolio is getting pounded because of the subprime lending problems and mortgage mess,” he explains, noting that it is now only about eight times next year’s projected earnings—extraordinarily cheap.

Peter Schliemann

Rutabaga Capital's Peter Schliemann seized on a plunge in the shares of **Cott Corp.** (NYSE: COT) to \$14 from \$26 to assess the prospects for a turnaround by new management, starting with reinstating its operating margins. But sudden increases in the cost of raw materials—plastics and aluminum and corn syrup—could not be passed on to its beverages enough to offset the adverse impact on earnings. Year-end tax selling has added additional downward pressure to COT's shares. It is dominant in the private label beverage industry, and that's a good place to be. At this point, Schliemann thinks buying for the longer term would be rewarding.

"What we look for are companies that dominate their market, which brings us to **Lionbridge Technologies** (NASDAQ: LIOX)," says Schliemann. LIOX is a beneficiary of the rush to globalization, and it provides language translation services related to maintaining enterprise content, technical support, training materials, sales, and marketing information for clients in the technology, consumer products, life sciences, industrial, financial, automotive, and retail industries. Its biggest client is

Microsoft. When Microsoft comes up with new software, LIOX ensures that the software can be sold and serviced and is compatible in any language in any country Microsoft sells its product.

The acquisition of Brown Global Solutions three years ago has caused some indigestion for LIOX, but no customers were lost. It is at break-even now, but the company has strong cash flow. There are two drivers: the increased globalization of products in all areas, and new product introductions that require its services before they go international. Google is a new customer. The company is buying in its own shares. LIOX sold as high as \$8 a share a year ago.

Larry Rader

Earnings for Larry Rader's 2007 pick, **Pool Corp.** (NASDAQ: POOL), is running short of his projections due to a slump in the company's new pool and irrigation products. Management's guidance is for 2007 earnings to come in between \$1.45 to \$1.55 a share. Rader was looking for closer to \$1.80. The majority of its business is derived from the maintenance, repair, and replacement market. Currently, it is under year-end tax-selling

pressures, and is likely to be hurt by the adverse publicity in the housing market.

Ray Dirks

As readers will acknowledge, Ray Dirks comes to the plate with one thing in mind—to put the ball out of the park. His 56% gain in 21st Century Holdings (NASDAQ: TCHC) was good for extra bases in 2005. But last year was another story, as **Flamel Technologies** (NASDAQ: FLML), a drug delivery company focused on polymer-based technology, got blindsided by GlaxoSmithKline's FDA problem with Avandia and plunged dramatically.

Jim Cramer

Cofounder of TheStreet.com and host of CNBC's *Mad Money*, had one pick last year: **Drugstore.com** (NASDAQ: DSCM), an online provider of health, beauty, wellness, and pharmacy products and solutions, addressing a \$252 billion industry. Cramer was attracted to the potential of its Auto Delivery program, one that sets up a regular delivery of frequently used products and its partnership with WebMD. That potential may be gelling now, as DSCM has been able to trim its losses in recent earnings reports, but not enough to produce a profit. **E**

FAVORITES OF THE FAMOUS: 2007 PICKS

Company	Symbol	Money Manager	Nov. 13, 2006 Price	Nov. 20, 2007 Price	Percent Change
IRobot	NASDAQ: IRBT	Fred Kobrick	\$19.90	\$15.87	-20%
Myers Industries	Amex: MYE	Mario Gabelli	\$15.51	\$18.42	+19%
EON Communications	NASDAQ: EONC	Max Bowser	\$1.54	\$0.60	-61%
NetScout Systems	NASDAQ: NTCT	Mike Markowski	\$8.15	\$10.31	+27%
Florida Rock	NYSE: FRK	Tom Putnam	\$42.29	\$63.57	+50%
ACCO Brands	NYSE: ABD	John Rogers	\$24.80	\$18.00	-27%
Cott Corp.	NYSE: COT	Peter Schliemann	\$14.25	\$5.71	-60%
Pool Corp.	NASDAQ: POOL	Larry Rader	\$41.17	\$20.58	-50%
Flamel Technologies	NASDAQ: FLML	Ray Dirks	\$29.97	\$8.61	-71%
Drugstore.com	NASDAQ: DSCM	Jim Cramer	\$3.60	\$3.13	-13%

Average of 10 Selections—Nov. 13, 2006 to Nov. 20, 2007 = -21%
S&P 500—Nov. 13, 2006 (1384.42), to Nov. 20, 2007 (1439.70) = +4%

FAVORITES OF THE FAMOUS: 2008 PICKS

Company	Symbol	Nov. 20, 2007 Price	Money Manager
Sun Hydraulics	NASDAQ: SNHY	\$27.09	Kobrick
Lin TV	NYSE: TVL	\$10.10	Gabelli
Global Med. Technologies	OTC BB: GLOB	\$1.07	Bowser
Transend Services	NASDAQ: TRCF	\$15.15	Markowski
Ambassadors Group	NASDAQ: EPAX	\$18.67	Putnam
CB Richard Ellis Gp	NYSE: CBG	\$18.45	Rogers
Lionbridge Technologies	NASDAQ: LIOX	\$3.11	Schliemann