

Our *Favorites of the Famous* stock pickers trashed the S&P 500 once again. That's 16 out of the last 19 times! EQUITIES' All-Pro team collectively gained 30%, more than three times the S&P's gain of 9% in 2006. Welcome *Mad Money's* Jim Cramer and Investment Legend Fred Kobrick. You may want to fire your broker.

BY GEORGE BROOKS



One for the money...

Will Hedge Funds Slay The Bull?

The big question for investors in small companies is whether or not 2006 will mark the death of a bull market in small caps that began in late 2002 and drove the Russell 2000 Index ahead some 140%.

The increasing concern on market savvy minds is the proliferation of hedge funds, of which there are now a whopping 9,000. The effect of a blow-up by one or more of these highly leveraged, unregulated playthings of the well-heeled might stop the small cap bull right in his tracks. Also, the economy appears to be tiring, the homebuilding bubble has burst and international uncertainties persist.

"We think there can be some kind of implosion here," says Ariel Capital's John Rogers. "I worry about hedge funds reeking havoc by forcing companies to sell when they don't want to. I

worry about them pressuring management to think more short-term than ever before. We believe in long-term investing. That's what investing is all about."

Peter Schliemann of Rutabaga Capital is critical of the newer hedge funds, which he calls "fee concept" funds versus investment funds. The implication is that their managers are in it to make a quick one year killing from their high fees. They don't have any controls; all they need is just one big year. After all, with fees at 20% of the profits, big money can add up quickly. It's amazing how naive people are. In fact, it's scary.

But there are those who aren't worried. "We are in a transition period," says Tom Putnam of FAM Value Funds, who suggests that the market could absorb a hedge fund explosion. He adds that some of the woes in early 2006, such as high energy prices and interest rates inflation, have now been

moderated. "Maybe I am too much of an optimist," he admits. "But I still believe we're in a stock picker's market."

Welcome Cramer and Kobrick!

We welcome two new contributors to our *Favorites of the Famous*, Jim Cramer and Fred Kobrick. Jim Cramer, our 55th Anniversary cover story is back and more wild about finding winners than ever. In case you haven't noticed, he's everywhere, though best known as the founder of TheStreet.com and the Host of CNBC's *Mad Money*.

Fred Kobrick is another guru we haven't heard from since he spoke at our June Conference. We are more than honored to include him on our panel. This money manager, investor and professor distinguished himself as the manager of State Street Research Capital Fund by earning a Top Five ranking 15 years in a row by USA Today. His Kobrick Fund was the only

fund to win the publication's All-Star Fund of the Year award two years in a row. He is the author of *The Big Money – Seven Steps to Picking Great Stocks and Finding Financial Security*.

This Year's Favorites...

Jim Cramer



In his debut to our Favorites of the Famous, Jim Cramer picks drugstore.com (Nasdaq: DSCM - 3.60),

a leading online provider of health, beauty, wellness, and pharmacy products and solutions, addressing a \$252 billion industry. "Shares of online pharmacy, drugstore.com look attractive over the next 12 months," Cramer says. "They achieved EBITDA (earnings before interest, taxes, depreciation, amortization) profitability for the second straight quarter on October 26, and the future of the company has changed from a broken-down internet business that was treading water to an online pharmacy in its early growth stage." Cramer believes that management's initiatives – including Auto Delivery (a program that sets up regular delivery of frequently used items) and its recent partnership with WebMD (Nasdaq:WBMD) – should provide a positive long-term thesis that the company lacked during the previous years while management struggled with solvency issues.

Frederick Kobrick



"Investors could sometimes fare better with the unemotional objectivity of a robot," explains Fred Kobrick,

fund manager, author, university professor and investor. "But being creative and marching, unlike a robot, to the beat of a different drummer, is the way to go."

Marching to a different beat is precisely what Kobrick does. This legendary money man seeks out companies Wall Street's analysts won't jump on until the big numbers hit the bot-

tom line and the big move has taken place. That's why he likes iRobot (Nasdaq:IRBT – 19.90), a leading producer of robots for the consumer, military, security, and law enforcement markets. "This stock is expensive on current earnings, yet very cheap on revenues," he says. "With a market value of roughly half a billion dollars and revenues next year that could be a quarter of a billion dollars, increases in profit margins stand to produce explosive earning power."

iRobot is a pioneer in its industry, producing the Roomba home robotic vacuum, robots for disarming bombs in Iraq and Afghanistan, and for patrolling borders, all of which results in lives saved. In addition, because of technological developments in software and semiconductors, iRobot is now in a position to extend its leadership in robotics to oceanic and space exploration, and a host of medical and industrial applications. "By the time iRobot has the juicy profitability that some of these Street analysts need to endorse the company, the stock will be triple the current price."

Tom Putnam

"If you have a computer, you probably have one of their products," said Tom Putnam last year, when he recommended American Power Conversion (Nasdaq:APCC – 30.22). Putnam was intrigued by the company's power protection and computer communication systems. And he was not the only one to sense a value here. On October 30, the company announced it was being acquired for \$31 cash by the French company Schneider Electric.

His new selection, Florida Rock Industries (NYSE: FRK – 42.29), a construction materials company, is loaded with fundamentals. While Putnam believes it will feel a slowdown in construction, a 45% correction from its \$66 high this year should discount most of the negatives.

Florida Rock produces aggregates, crushed rock, concrete and block, pre-stressed and pre-cast concrete, masonry cement and other hard goodies. The company serves regions in Florida, Virginia, Georgia, Tennessee, Alabama, North Carolina, Delaware and Washington D.C. The company enjoys a monopoly in its regions, solid manage-

ment and pristine balance sheet. "The company is also buying back stock," Putnam explains, a good sign that management is bullish on their future. He projects earnings of \$2.60 a share for FY September 2007.

Ray Dirks

When it comes to a home run derby, Ray Dirks of BrookStreet Securities, is always in the running. Never afraid to tackle high risk situations, Dirks is not without a loser from time-to-time. But when he connects, it is bound to be for extra bases. His last year's home run was 21st Century Holding Co. (Nasdaq: TCHC – 25.58), an underwriter of auto, property and casualty insurance. As one of the Street's savviest analysts of insurance stocks, Dirks seized on investors' post-Katrina's distaste for insurance stocks to recommend 21st Century. In anticipation of dire forecasts for a horrendous 2006 hurricane season, the company's stock nose-dived in May to \$11.00, only to rebound sharply into October when hurricanes were a no-show. Still a BUY.

Back at the plate, Dirks is swinging for the fences. This time, it's Flamel Technologies (Nasdaq:FLML – 27.97), a biopharmaceutical company that develops polymer-based delivery technologies.

Dirks' excitement for the company is fueled by the recent FDA approval of GlaxoSmithKline's (NYSE:GSK) COREG CR, a drug that treats heart disorders, including heart failure. Flamel stands to benefit because it produces the microparticles for Glaxo's COREG CR.

This exciting news might also force short sellers—who are now cornered—to cover more than 1.5 million shares. This could spell a big jump in the stock price. "This has to be one of the biggest things in years," smiles Dirks. He sees \$2.00 a share in 2007 and \$5.00 a share in 2008.

Larry Rader

A year ago, Larry Rader spotted a sleeper in Central European Distribution Corporation (Nasdaq: CEDC – 25.88), a major producer and distributor of beverages in Poland. At the time, the stock was encountering profit-taking by investors who had bought it somewhere in its run from \$3 to \$26, adjusted for a 3 for 2 split in 2006.

Over the last decade, CEDC has

garnered 30% of the alcoholic beverage distribution business in Poland and 19% of the country's production of its top two vodka brands.

"I still like the stock," Rader says. "It's at a reasonable multiple and it continues to penetrate not just the Polish market, but it is also starting to sell in other Eastern European countries." Rader projects earnings of \$1.39 for 2006 and \$1.67 for 2007—a multiple of 15 times earnings.

His new pick is Pool Corp (Nasdaq: POOL – 41.17). "It's a leader in the pool supply business," he explains. "The company has grown historically at 20%-plus."

Rader projects this year's earnings to be about \$1.80 and in 2007 about \$2.25, giving it a 17 and 18 earnings multiple. "Its internal growth rate is high single digits in terms of revenues and the growth rate in terms of acquisitions runs anywhere from 6% to 12%."

He believes that management has done an exceptional job with consistent earnings growth for the last 10 years. The majority of revenue growth comes from pool maintenance, a highly desirable area in any economic picture. "It has a 15% growth rate and has gone through housing cycles before."

John Rogers

Though his last year's pick—Hewitt Associates (NYSE:HEW – 25.05)—saw its stock drop to \$19 a share from \$30, John Rogers is still bullish on the company. Still a promising global human resources and consulting services firm, Rogers believes management changes stand to correct a problem in its Human Resources Business Process Outsourcing

(HRBPO) division. While HEW is likely to post a loss for 2006, Rogers expects a healthy rebound in 2007.

Currently, Rogers recommends ACCO Brands (NYSE: ABD – 24.80), a merger of ACCO World Corp., a spin-off of Fortune Brands (NYSE: FO) and General Binding Corporation (Nasdaq:GBND). Essentially, the merger combines a world leader in branded office products with a world leader in products that bind, laminate, and display information. Both companies are headquartered in Illinois.

Rogers sees an increasing interest in ACCO by the Street. His earnings per share estimate runs a little ahead of the average estimate of six analysts at \$1.50, up 44% from the consensus of \$1.04 for 2006.

Max Bowser

Crown him the king of micro-cap research. Max Bowser has clearly endeavored to rope in the mysterious world of tiny companies, most of which fall well below Wall Street's radar screens. His newsletter, The Bowser Report, earned a top ten rating for 2005 by The Hulbert Financial Digest. He also publishes The Bowser Directory of Small Stocks and The Bowser Micro-cap Stock Index of 50 securities.

While his 2005 selection, Hudson Technologies (Nasdaq: HDSN – 1.13), has been a disappointment, lack of buying rather than persistent selling has caused its 40% drop.

Revenues of this refrigerant services company advanced 33% in the six months ended in June 31. However, narrower gross profit margins flattened earnings for the period. Management

sees a return to normal margins in 2007. Still a BUY.

But if refrigerant services leaves you cold, how about eOn Communications (Nasdaq:EONC – 1.54), a fully blended communications system.

"The eOn Communications Platform is a solution for small and medium-sized installations requiring general business communication," he explains. "It blends voice, data, wireless and CTI technology into one diverse telephony server platform, ideal for multi-site networks, such as school systems, multi-tenant services, professional office distribution facilities and retail stores."

Last month, eOn introduced a new series of telephones. Orders have already been placed by SerWizSol, a huge outsourcing entity in India, the U.S. Small Business Administration, U. S. Coast Guard, Northrup Grumman, Professional Teledata, Intercall, Aramark and CallTech. Big clients, for sure. The company also boasts a clean balance sheet with no long-term debt.

Management predicts profitability in 2006.

Peter Schliemann

"We at Rutabaga Capital find stocks that people don't like now or don't know much about," claims Peter Schliemann.

Last year, he picked Microtek Medical Holdings (Nasdaq: MTMD – 3.44), an unknown with little institutional following. The company produces sterile drapes used in hospitals to control the spread of infection. Hospital infection kills more than 90,000 people a year and adds \$4.5 billion to the nation's health care bill.

Though its core business is growing,

FAVORITES OF THE FAMOUS - DECEMBER 2005

Company	Exchange Symbol	Money Manager	Dec. 16, '05 Price	Nov. 6, '06 Price	% Change
Rick's Cabaret	Nasdaq: RICK	Bob Flaherty*	\$3.75	\$7.29	+94
21st Century Hldgs.	Nasdaq: TCHC	Ray Dirks	\$16.37	\$25.58	+56
American Power Conv.	Nasdaq: APCC	Tom Putnam	\$20.00	\$30.22	+51
InfoCrossing	Nasdaq: IFOX	Mike Markowski*	\$8.20	\$12.32	+50
Groupe Danone	NYSE: DA	Mario Gabelli	\$21.62	\$31.40	+45
Central European Dist.	Nasdaq: CEDC	Larry Rader	\$21.10	\$25.88	+23
Microtek Medical Hldgs.	Nasdaq: MTMD	Peter Schliemann	\$3.66	\$3.44	-6
Hewitt Associates	NYSE: HEW	John Rogers	\$26.88	\$25.05	-7
Hudson Technologies	Nasdaq: HDSN	Max Bowser*	\$1.87	\$1.13	-40
S&P500 December 16, 2005 (1267.32) to Nov. 6, 2006 (1379.78)			+9%	*Financial writer	
Average of 9 selections December 16, 2005 to Nov. 6, 2006:			+30.0%		

it has great cash flow, 40% gross margins, an ironclad balance sheet and recently bought back two million shares, Microtek's stock has barely moved. "It is a totally neglected stock," he says. "I am still very enthusiastic about it." Microtek now trades in the lower end of its 52-week trading range of \$3.31 and \$4.11.

Schliemann's new selection is Toronto, Canada-based Cott Corp. (NYSE:COT - 14.25), a company that has fallen out of favor since September 2005 when it nose-dived from \$26 to \$11 (-58%) in less than six months. This drop was caused by management's over focus on sales growth without regard for profitability. Cott is a global producer and distributor of private label non-alcoholic beverages with 40% of its business products derived from Wal-Mart.

But new management came on board in 2006 with a change of focus from growth to reinstating operating margins, which had fallen from 10% to 6%. Schliemann believes the company is now expanding carefully. He believes that 2007 will be a recovery year for the company, and expects its earning power to really show in 2008. "It's basically selling at 7.5x EBITDA," he says. "And with steady cash flow this is inexpensive. I think it can get back to the 9x level." Schliemann thinks it should sell in the low-to-mid 20s.

Michael Markowski

Co-founder and Editor of StockDiagnostics.com and the OPS Newsletter, Michael Markowski brings his own fundamental discipline to

EQUITIES' Favorites of the Famous—a heavy stress on cash flow analysis. "This is far more revealing than earnings per share," he says.

His December 2005 pick, InfoCrossing (Nasdaq:IFOX - 12.32), attests to the value of his technique. It advanced more than 50% in less than 11 months. InfoCrossing provides IT outsourcing solutions to commercial and government entities. Satisfied with a handsome profit, he recommends a Sell.

In 2005, Markowski saw something most of the Street didn't. He saw that InfoCrossing's steep sell off in 2005 from \$20 a share to around \$6 was totally unjustified. The Street was responding to a decline in earnings per share, when Markowski's cash flow analysis was screaming the complete opposite—new highs. Delays in the company's product cycles and the delivery of new products contributed to this divergence, as the company was receiving revenues which had not yet shown up at the bottom line.

Markowski's favorite this time is NetScout Systems Inc, (Nasdaq: NTCT - 8.15), a provider of integrated network performance management solutions. Markowski loves the industry and is enormously impressed with the company's profitability. "All of its metrics look good and are at 20-quarter highs," he says, referring to its free cash margins, return on equity and profit margins. The company has also posted nine straight quarter increases in sales.

Mario Gabelli

Gabelli of The Gabelli Funds, picked Groupe Danone (NYSE: DA-

31.40) last year, a French producer of dairy products and bottled water as his promising stock for 2006. His rationale? The increasing health consciousness in America, a currency play on the U.S. Dollar and Kraft Foods (NYSE:KFT) taking interest in the company. Gabelli continues to recommend it. "We are delighted with Danone," he says. Its stock has risen with only a brief mid-year pause to consolidate. This confirms our long-held suspicion that Mario still has the magic touch.

This year, Gabelli offers another small cap surprise. "For a small cap idea, we're adding Myers Industries (Amex: MYE - 15.51)," he says. The company is a manufacturer and distributor of polymer products for industrial, agricultural, automotive, commercial and consumer markets. "We think it will prove quite attractive over the next several years. For '07 we think it will earn \$1.30 and grow at a 15% to 20% annual rate."

Bob Flaherty

Flaherty has gained the top billing for performance for EQUITIES Magazine this year with his pick of Rick's Cabaret (Nasdaq: RICK - 7.29), a chain of adult nightclubs catering to urban professionals, businessmen and athletes, as well as a sports bar and adult entertainment websites. Rick's management bet that its gentlemen's club concept would catch on like gambling stocks did in recent years. If its stock is any indication, Rick's is right. This windfall signals Flaherty's fourth straight double in five years. It is his last hurrah for Favorites of the Famous. He shall be missed.

FAVORITES OF THE FAMOUS – NEW SELECTIONS

Company	Exchange Symbol	Nov. 13,'06 Price	Money Manager
Drugstore.com	Nasdaq: DSCM	\$3.60	Cramer*
iRobot	Nasdaq: IRBT	\$19.90	Kobrick*
Flamel Technologies	Nasdaq: FLML	\$27.97	Dirks
POOL Corp.	Nasdaq: POOL	\$41.17	Rader
ACCO Brands	NYSE: ABD	\$24.80	Rogers
eOn Communications	Nasdaq: EONC	\$1.54	Bowser*
Cott Corp.	NYSE: COT	\$14.25	Schliemann
Florida Rock	NYSE: FRK	\$42.29	Putnam
Myers Industries	NYSE: MYE	\$15.51	Gabelli
NetScout Systems	Nasdaq: NTCT	\$8.15	Markowski*
November 13, 2006: S&P 500: 1379.78		*Financial writer	