



Shadow Stock Rookies: Firms That Are New to the 1997 Listing

By John Bajkowski

Our annual screen for Shadow Stocks turned up 94 companies not included in last year's listing. Once a year we screen for companies to meet our initial Shadow Stock requirements—the complete list of Shadow Stocks and a description of the criteria for inclusion can be found in the article starting on page 15.

The initial screen for Shadow Stocks is meant only to be a starting point for further screening and analysis. The listings on the following pages present a financial profile of the stocks new to the Shadow Stock list. The phone numbers for these firms can be found on the complete list of Shadow Stocks, if you wish to contact them to receive further information, such as an annual report, 10-K and 10-Q filings, and a proxy statement.

Examining the Figures

The companies are ranked in ascending order by the current price-earnings ratio. The price-earnings ratio is computed by dividing the stock price by the firm's earnings per share over the 12 most recent months. This ratio provides a quick feel for how the market is valuing the stock's future earnings potential. Firms with high price-to-earnings multiples are generally trading with high expectations of future earnings growth, although earnings drops perceived as temporary by the market may lead to extreme values such as the 176.2 ratio for T-NETIX.

Value investors typically seek out firms with low price-earnings ratios with the belief that the market may have

overreacted to company events or it is not correctly valuing its future earnings potential. Comparing the current price-earnings ratio to a benchmark such as the market's ratio or the company's own historical average or trend provides some insight as to fair value of the company's price-earnings ratio. The company's price-earnings ratio one year ago provides a quick indication of the change in the market's valuation of the firm since last year. For example, Morrow Snowboards' current price-earnings ratio of 15.6 is less than a third of the 54.3 ratio one year ago. While earnings for Morrow have increased 43%, its stock price has declined by 59% over the last year. When expectations are high, any disappointment can send a stock's price tumbling downhill. An oversupply of snowboards in the retail channel led to increased discounting and reorder slowdown in the company's critical fourth quarter period.

Earnings per share growth is one of the main benchmarks for measuring company performance. The growth rates for this group range from -26.7% for Chalone Wine Group to 143.7% for General Employment. Growth rates at these extreme levels are not typically meaningful; high rates may occur, for example, because earnings in the base year used in the calculation were at an extremely low level. Beyond overall growth rates, investors should look at year-to-year trends. Overall growth rates can mask the variability and risk of the underlying figures.

The ratio of the price-earnings ratio to the growth rate for earnings compares the valuation of the price-earnings ratio to the growth rate. When a firm's price-earnings ratio is high relative to historical earnings growth, its price reflects high expectations relative to what the firm has been able to produce in earnings historically. However, when this ratio is low, an investor is able to purchase historical growth at a reasonable price. As a general rule of thumb, firms with ratios near 1.0 may be considered fairly valued, those with ratios less than 0.5 may be undervalued, and those with ratios above 1.5 may be overvalued. Morrow's 0.8 ratio of

A complete explanation of the Shadow Stock series, along with a list of all Shadow Stocks, appears on page 15 of this issue; new members receive explanations in the new member packet.

John Bajkowski is AAIL's senior financial analyst and editor of Computerized Investing. Kenneth J. Michal provided research assistance.

The New Shadow Stocks

Phone	Company (Exchange)	P/E Ratio		EPS Last 12 Mos. (\$)	EPS Growth Rate (%)	P/E to EPS Growth (X)	Sales		52-Week Relative Strength (%)	Price as % of 52-Wk. High (%)	Description
		Current (X)	Yr. Ago (X)				Last 12 Mos. (\$ Mil)	Growth Rate (%)			
MAI Systems Corp. (A: NOW)		3.9	4.2	1.65	21.6	0.2	64.5	-27.7	-19	61.1	Information sys solutions
AG Associates (M: AGAI)		4.5	7.9	1.22	67.9	na	82.0	38.0	-66	36.7	Equip used to mfg integrated circuits
International Remote Imaging (A: IRI)		4.7	na	0.86	37.5	0.1	15.0	25.1	-54	31.4	Technology for urinalysis workstations
American United Global (M: AUGI)		4.8	7.0	1.67	16.8	0.3	110.7	31.5	104	60.9	Sells construction equip
BTU International (M: BTUI)		4.8	7.0	0.63	24.6	0.2	48.1	12.0	-46	40.7	Thermal processing equip
Deswell Industries (M: DSWLF)		6.6	7.6	1.42	71.8	na	31.9	49.3	-13	83.4	Plastic parts for equip mfg
JPE, Inc. (M: JPEI)		6.8	8.9	1.05	na	na	193.1	na	-35	63.4	Devlps mfg & distrib businesses
Hilite Industries (M: HILI)		7.8	13.2	0.61	na	na	74.0	na	-61	40.4	Engineered prods for auto applications
Perfumania (M: PRFM)		8.2	32.2	0.41	19.0	0.4	130.6	14.2	-41	43.6	Brand-name & designer perfumes
Tower Air, Inc. (M: TOWR)		8.2	19.7	0.33	9.9	0.8	480.6	23.3	-69	33.1	Charter passenger & cargo air servs
National Home Health Care (M: NHHC)		8.4	15.8	0.68	16.0	0.5	37.4	17.9	-17	77.8	Home health care servs
Capital Pacific Holdings (A: CPH)		8.5	na	0.37	15.1	0.6	217.8	-4.7	-15	69.6	Single-family homes in southwest
IMP, Inc. (M: IMPX)		8.6	154.4	0.26	17.5	0.5	83.8	8.4	-74	9.4	Integrated circuit solutions
U.S. Home & Garden (M: USHG)		8.7	13.2	0.24	33.8	0.3	27.0	270.0	-26	55.9	Lawn & garden care prods
High Plains Corp. (M: HIPC)		9.0	12.3	0.58	22.9	0.4	69.2	30.7	-1	81.3	Ethanol for motor fuel
Hampshire Group (M: HAMP)		9.1	7.2	1.48	43.1	0.2	132.4	10.9	1	100.0	Sweaters, hosiery and legwear
Strober Organization, The (M: STRB)		9.3	5.7	0.64	-10.2	na	130.6	3.3	35	97.9	Building supply centers
Image Entertainment (M: DISK)		9.5	13.9	0.35	59.9	0.2	88.9	14.6	-61	42.6	Laser video discs
DDL Electronics (N: DDL)		10.2	na	0.10	15.3	0.7	33.1	-15.7	-66	34.7	Customized mfg services
Submicron Systems (M: SUBM)		10.2	na	0.40	na	na	165.3	na	-58	36.7	Chemical process'g & deliv'y sys
Mackie Designs Inc. (M: MKIE)		10.6	16.2	0.61	140.6	na	73.0	158.1	-46	51.0	Audio mixers
PVC Container Corp. (M: PVCC)		10.8	11.0	0.38	18.1	0.6	57.6	14.2	49	91.8	Plastic bottles from chloride compounds
RF Power Products (A: RFP)		11.3	67.1	0.22	na	na	34.3	na	-62	30.8	Radio freq power systems
Salton/Maxim Housewares (M: SALT)		11.3	30.2	0.62	4.4	2.6	110.8	13.5	77	80.0	Small kitchen appliances
Anuhco (A: ANU)		11.4	1.1	0.70	24.0	0.5	101.8	na	-22	84.2	Motor freight transport system
Thermal Industries (M: THMP)		11.9	8.5	1.01	2.7	4.4	41.4	7.7	18	95.0	Vinyl-framed windows
Transmedia Network (N: TMN)		11.9	20.2	0.41	59.0	0.2	74.1	54.1	-56	49.4	Discount dining charge card
Astronics Corp. (M: ATRO)		12.0	8.5	0.42	36.3	0.3	34.3	3.9	45	83.3	Prods & servs for electronic sys & print/pkg
Fountain Powerboat Indus. (M: FPWR)		12.2	9.5	1.49	23.0	0.5	44.9	17.4	174	95.4	Recreational power boats
Calnetics Corp. (M: CALN)		12.3	9.8	0.55	29.9	0.4	35.2	21.3	56	65.9	Plastic parts & components
Sonesta Int'l Hotels Corp. (M: SNSTA)		12.4	15.1	0.80	36.4	0.3	58.8	-2.7	46	88.9	Hotels, cruise ships
TST/Impreso (M: TSTI)		12.7	9.0	0.65	25.1	0.5	47.7	-2.0	7	80.5	Paper products for office & home
SL Industries (N: SL)		13.2	11.7	0.59	19.5	0.7	117.3	16.5	-9	68.1	Mfgs engineered products
Tech/Ops Sevcon (A: TO)		13.5	13.4	0.95	11.9	1.1	26.3	5.9	-1	56.3	Speed controllers for battery vehicles
Square Indus (M: SQAI)		13.8	52.5	2.10	29.1	0.5	66.5	-0.6	182	91.3	Operates parking lots & garages
SMT Health Services (M: SHED)		14.3	12.8	0.60	39.9	0.4	16.4	35.3	74	79.1	Magnetic Resonance Imaging units
General Physics Corp. (N: GPH)		14.4	14.5	0.28	24.1	0.6	113.1	11.8	7	84.2	Engineering & technical support servs
Mesa Laboratories (M: MLAB)		14.4	15.0	0.37	13.4	1.1	8.3	18.1	1	50.6	Instru & sys in hemodialysis therapy
Ault Inc. (M: AULT)		14.6	25.0	0.46	36.1	0.4	35.6	11.6	54	40.9	Mfrs power supplies, transformers
Colorado MEDtech (M: CMED)		14.7	17.7	0.20	32.0	0.5	19.1	33.8	-13	77.3	Advanced medical prods, technolgs & servs
Meridian Medical Tech (M: MTEC)		15.1	46.8	0.57	-16.2	na	35.3	-7.6	-17	71.9	Technology-based healthcare devices
General Employment (A: JOB)		15.4	12.2	0.57	143.7	0.1	21.4	-1.3	81	54.0	Permanent employ agencies
Morrow Snowboards (M: MRRW)		15.6	54.3	0.43	19.7	0.8	32.0	119.9	-61	43.5	Snowboards & related prods
Cybex Computer Products		15.7	16.3	0.91	55.3	0.3	26.8	53.0	-15	68.7	Computer products
Engineered Support System (M: EASI)		16.7	10.4	0.89	53.1	0.3	74.7	1.7	82	95.2	Nuclear, biological, & chemical defense sys
Owosso Corp. (M: OWOS)		16.7	7.7	0.39	11.3	1.5	124.8	16.2	-38	64.0	Component prods & agricul equip
Panatech R & D Corp. (M: PNTEC)		16.7	10.5	0.38	19.5	0.9	10.9	20.6	19	94.3	Accessor for paint-spraying equip
Applied Signal Technology (M: APSG)		16.8	16.1	0.28	-23.2	na	78.8	14.3	-3	62.7	Equip to process telecomm signals
Summa Industries (M: SUMX)		17.9	10.8	0.35	22.2	0.8	12.7	28.7	20	96.2	Optical compon for lighting indus

LIST CONTINUES ON FOLLOWING PAGES

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Statistics are based on figures as of December 31, 1996.
Data Source: AAI's Stock Investor/Market Guide, Inc.

The New Shadow Stocks

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		Current (X)	Yr. Ago (X)				Last 12 Mos. (\$ Mill)	Growth Rate (%)			
	Equitrac Corp. (M: ETRC)	18.3	15.4	0.64	0.7	26.1	37.0	11.5	87	92.2	Commun network to track equip usage
	RCM Technologies (M: RCMT)	18.6	8.6	0.47	30.0	0.6	49.9	-0.4	141	56.9	Contract personnel to business
	CTC Communications (M: CPTL)	19.0	62.5	0.42	12.6	1.5	33.0	15.5	-51	44.4	Sells local communications servs
	Eagle Point Software (M: EGPT)	19.3	55.0	0.27	59.2	0.3	18.5	70.3	-76	24.4	Software for architecture, engineering
	Skyline Chili (A: SKC)	19.3	16.4	0.34	31.9	0.6	27.7	4.8	35	97.2	Franchise chili restaurants
	SigmaTron Int'l (M: SGMA)	19.8	10.5	0.93	na	na	76.9	na	120	89.2	Mfgs electronic components
	Transmaton, Inc. (M: TRNS)	20.2	15.7	0.51	40.5	0.5	39.9	9.6	46	95.3	Electronic monitoring instruments
	Hello Direct (M: HELO)	21.1	14.3	0.23	16.2	1.3	43.5	43.6	-47	56.7	Direct mkts telecomm prods
	C.H. Heist Corp. (A: HST)	22.8	11.1	0.35	-1.0	na	105.4	24.0	-9	88.7	Industrial services, temp staff
	Applied Innovation (M: AINN)	23.8	22.3	0.26	67.2	0.4	40.1	88.0	-57	43.8	Network mediation for telecomm indus
	Wegener Corp. (M: WGNR)	24.5	275.6	0.16	27.7	0.9	23.2	7.8	-77	27.6	Electronics for TV, radio, private network
	Consolidated Delivery (M: CDLI)	26.0	na	0.17	21.8	1.2	158.4	9.3	-65	36.7	Nat'l same-day ground & air delivery
	BeautiControl Cosmetics (M: BUTI)	27.0	12.3	0.60	-2.5	na	76.4	7.2	46	87.8	Skin care items, health & beauty sup'ments
	Chemi-Trol Chemical Co. (M: CTRL)	27.3	14.0	0.39	-9.1	na	69.0	2.1	-23	81.9	Auto tools, vegetation control
	Audits/Surveys Worldwide (A: ASW)	28.4	10.6	0.10	16.1	1.8	57.1	-3.8	44	87.9	International market research
	Data Systems & Software (M: DSSI)	29.2	2.0	0.20	87.5	0.3	138.2	76.4	-36	62.3	Computer servs for semicond mfg
	Cyanotech Corp. (M: CYAN)	29.3	118.8	0.22	27.1	1.1	9.7	35.1	-49	54.2	Devlp's products from microalgae
	Nobel Education Dynamics (M: NEDI)	29.4	19.2	0.34	18.0	1.6	56.6	4.3	-49	54.8	Private education alternative
	Hydron Technologies (M: HTEC)	29.8	10.9	0.06	20.7	1.4	8.3	122.1	-19	54.6	Products for oral health field
	Catalina Lighting (N: LTG)	33.2	28.6	0.15	-18.3	na	185.8	15.9	-10	64.0	Lighting fixtures, lamps
	Big Rock Brewery (M: BEERF)	34.0	32.4	0.21	3.1	11.0	10.0	20.2	-32	67.4	Produces specialty beer in Canada
	STM Wireless (M: STMI)	34.1	43.5	0.21	-10.2	na	35.9	34.0	-68	38.6	Wireless commun products
	Alpha Technologies Group (M: ATGI)	34.6	8.9	0.11	32.3	1.1	71.1	40.5	-59	41.4	Thermal mgmt prods & servs
	Wholesome & Hearty Foods (M: WHFI)	34.7	25.6	0.18	39.0	0.9	39.0	84.6	-40	64.9	Frozen meatless food items
	Micron Corp. (M: MICN)	35.8	12.8	0.61	na	na	44.2	na	74	54.0	Systems for semicond integrated circuits
	Candle's (M: CAND)	36.2	na	0.07	15.8	2.3	39.6	-2.5	-15	82.7	Men's & women's casual footwear
	Photocomm, Inc. (M: PCOM)	36.2	68.1	0.06	20.2	1.8	20.4	18.3	-45	60.9	Solar electric power systems
	ACR Group, Inc. (M:ACRG)	36.8	9.1	0.05	17.5	2.1	70.9	55.8	235	91.3	Distrib's heating, air condit'ing equip & slps.
	Chalone Wine Group (M: CHLN)	44.4	na	0.27	-26.7	na	30.6	12.7	8	95.0	Premium table wines from Calif. and Wash.
	Catalyst Semiconductor (M: CATS)	45.3	17.3	0.06	21.2	2.1	59.5	12.9	-65	29.6	Semiconductor memory prods
	Actrade International (M: ACRT)	47.6	25.8	0.16	41.3	1.2	25.9	39.8	280	91.6	International trade & finance
	Euphonix (M: EUPH)	49.7	58.2	0.09	33.6	1.5	19.2	150.8	-58	35.4	Audio mixing consoles
	Variflex, Inc. (M: VFLX)	51.1	6.1	0.09	na	na	72.4	na	-38	47.5	In-line skates, skateboards, bicycles
	Industrial Holdings (M: IHII)	56.2	35.3	0.20	16.5	3.4	44.9	18.5	131	97.8	Indus'l metal fasteners, pipeline valves
	IVC Industries Inc. (M: IVC)	58.2	59.5	0.02	na	na	104.2	na	-56	31.5	Vitamins & nutrition supplements
	Reliv' International (M: RELV)	59.0	27.6	0.11	na	na	35.6	na	144	51.0	Nutritional food prods
	Unimed Pharmaceuticals (M: UMED)	59.3	50.2	0.12	21.7	2.7	7.5	14.5	-2	73.7	Prescription pharmaci'l products
	PrimeEnergy Corp. (M: PNRG)	60.9	26.4	0.08	-12.1	na	20.7	12.7	59	95.0	Crude oil & natural gas
	USDATA Corp. (M: USDC)	61.8	na	0.09	23.8	2.6	43.7	9.7	-68	22.7	Productivity-enhancing systems
	Biopool Int'l (M: BIPL)	65.0	16.3	0.05	16.5	3.9	7.2	23.3	59	91.3	In vitro diagnostic prods
	TSR, Inc. (M: TSRI)	74.9	9.1	0.37	116.9	0.6	34.1	18.8	835	55.7	Contract computer programming
	AMNEX (M: AMXI)	82.8	132.4	0.04	15.0	5.5	106.4	22.8	-40	67.1	Long-distance telecomm servs
	DRCA Medical Corp. (A: DRC)	93.8	25.0	0.05	-18.7	na	16.2	14.8	14	86.7	Orthopedics & occupational medicine servs
	Emons Transportation Group (M: EMON)	129.6	18.6	0.03	-24.9	na	15.2	7.5	73	63.6	Freight transport and distrib
	T-NETIX Inc. (M: TNTX)	176.2	26.4	0.06	22.0	8.0	33.6	89.7	-8	65.2	Specialized telecomm systems
Median of New Shadow Stocks		16.8	15.1	—	21.6	0.7	44.0	15.7	-13.0	64.0	
Median of All Shadow Stocks		16.6	16.1	—	19.2	0.8	62.9	13.5	-10.0	74.0	
Median of All Companies		18.0	16.6	—	11.6	0.9	98.2	9.3	-8.0	80.9	

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price-earnings to earnings growth can be interpreted to mean that the stock is fairly to slightly undervalued. In contrast, Audits/Surveys Worldwide's ratio of 1.8 would be interpreted as an indication of an overvalued stock.

We use market capitalization to measure company size when identifying Shadow Stocks. The total level of sales provides an alternative measure that does not rely on market valuation to judge a firm's size. But keep in mind that sales levels vary by industry, so it's best to compare firms within the same sector.

The sales growth rate is often used to confirm the strength of growth in earnings per share. Sales are less susceptible to accounting choices than reported earnings and often point to a change in overall company trends before it becomes apparent in earnings. Revenue growth directly impacts the bottom line and the effect will be magnified if costs can be contained. For example, Skyline Chili was able to increase growth in earnings per share

to a 31.9% rate on 4.8% growth rate in sales over the same time period.

Beyond examining the overall sales growth rate, it is important to look at year-to-year numbers to see the consistency of the growth—the greater the variability, the greater the risk. The revenue growth rates for the new Shadow Stocks range from a -27.7% to a positive 270.0%. As with earnings growth, very high sales growth is not sustainable.

The 52-week relative strength figure measures how a company's stock price has performed relative to the S&P 500. A figure of 0 indicates that the stock's performance was equal to the overall market; positive numbers indicate performance above the market's strong 20.2% price increase last year, while negative numbers indicate performance below that of the S&P 500.

The last data column provides an indication of price momentum. High relative strength, coupled with a figure near 100% for price as a percentage of 52-week high, indicates that the com-

pany is still maintaining its price strength, while a low percentage indicates that the stock price has come down from its high.

Micrion Corp. has a high relative strength index of 74% indicating that it has outperformed the S&P 500 by 74%. Its price has doubled from its close of \$10.50 at the end of 1995 to \$21.75 for 1996. However, the stock is 54% off of its high for 1996. The stock peaked at \$40.25 in May; while it has shown some strength in the fourth quarter of 1996, the stock performance is not as strong and steady as implied by the relative strength measure alone. In contrast, Fountain Powerboat has a relative strength of 174% and an equally strong price as a percent of 52-week high figure of 95.4%. Fountain Powerboat showed strong price performance throughout 1996.

The list of new Shadow Stocks is a diverse group of companies. The profiles presented here should illustrate some useful preliminary screens in the stock selection process.



Definitions of Screens and Terms

The following is a short description of the screens and terms used for this month's Shadow Stock listing.

Price-Earnings Ratio—Current: Market price per share divided by the most recent 12 months' earnings per share. A measure of the market's expectations regarding the firm's earnings growth and risk. Firms with very high price-earnings ratios are being valued by the market on the basis of high expected growth potential.

Price-Earnings Ratio—Yr. Ago: Firm's price-earnings ratio one year ago. Provides a measure of comparison for judging current price-earnings ratio.

Earnings per Share Last 12 Months: Net income after all expenses and preferred stock dividends divided by the average shares outstanding during the year.

EPS Growth Rate: Annual growth in earnings per share over the last five fiscal years.

P/E to EPS Growth: The price-earnings ratio of a stock divided by its annual

earnings per share growth rate over the last five years. Market valuation relative to historical earnings growth. A ratio below 1.0 is reason for further analysis.

Sales—Last 12 Months: Net sales in millions of dollars for the last 12 months.

Sales—Growth Rate: Annual growth in sales over the last five fiscal years.

52-Week Relative Strength: The price performance of a stock during the last year relative to the performance of the overall stock market. The market is defined as the S&P 500 index. A figure of 0 indicates the stock had the same percentage price performance as the market. A figure of 5 indicates that the stock outperformed the market by 5%.

Price as % of 52-Week High: Current price divided by the highest price over the past 52 weeks. An indication of current price strength.