

SHADOW STOCKS 2000:

CHARACTERISTICS OF THE ROOKIES

By Kenneth J. Michal

Earnings per share growth is one of the main benchmarks used for measuring company performance. Beyond an overall growth rate, individual investors should look at year-to-year trends as well—for growth rates can mask the variability and risk of the underlying figures.

A total of 77 additional companies filtered their way through the *AAII Journal's* annual screen for Shadow Stocks. Every year at this time we screen for companies that meet the Shadow Stock requirements and can be added to the list. 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 only a starting point for further screening and analysis. The listings on the following pages present a brief financial profile of stocks new to the Shadow Stock group.

EXAMINING THE FIGURES

The price-earnings ratio, also referred to as the earnings multiple, provides a quick feel for the market's valuation of a firm. It is computed by dividing the stock price by the firm's earnings per share for the most recent 12-month period. Stocks trading with high price-earnings ratios are generally trading with high expectations of future earnings growth, and an earnings drop perceived as temporary by the market may also lead to extreme values, such as Mobius Management's 264.6 ratio. This high price-earnings ratio also reflects the stock's low earnings per share of three cents. Stocks with low price-earnings ratios generally have lower growth expectations or are perceived to possess higher risk. Value investors often seek good quality firms trading with low price-earnings ratios with the belief that the market may be overreacting to company events and is incorrectly valuing the stock's future.

When examining a firm's price-earnings ratio, some insight can be gained by comparing it against benchmarks, such as the price-earnings ratio for the market, for the company's industry, and even the company's own historical levels. The market multiple can be found in financial papers such as the *Wall Street Journal* and *Barron's*. Industry multiples are a little bit harder to come by, but can be found in publications like *Value Line Investment Survey* or in software programs such as *AAII's Stock Investor*.

Earnings per share growth is one of the main benchmarks used for measuring company performance. The range of five-year earnings growth rates for this group of 77 firms swings from -32.6% for recreational boat seller MarineMax to 121.2% for information technology service provider Technisource. Extremely high growth rates may not be meaningful; for example, high rates may occur because earnings in the base year used in the calculation were at an extremely low level or near zero. Technisource is a perfect example here since the company's earnings per share figure in the base year of the calculation was -0.01. Beyond an overall growth rate, individual investors should look at year-to-year trends as well—for long-term growth rates can mask the variability and risk of the underlying figures.

The ratio of the price-earnings ratio to the earnings growth rate (PEG ratio) provides an indication of how the market values the firm relative to its historical earnings growth rate. When a firm's price-earnings ratio is high

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.

Kenneth J. Michal is associate editor of Computerized Investing.

SHADOW STOCKS 2000: THE ROOKIES

Company (Exchange: Ticker)	P/E Ratio Current (X)	Earnings per Share		P/E to EPS Growth (X)	Sales		52-Week Price		52-Week Relative Strength Rank		Description
		Last 12 Mos. (\$)	5-Yr. Growth (%)		Last 12 Mos. (\$ Mil.)	5-Yr. Growth (%)	High (\$)	Low (\$)	Firm (%)	Industry (%)	
800-JR CIGAR, INC. (M: JRJR)	10.9	0.80	44.7	0.2	312.6	30.9	23.25	7.25	8	0	Distribs & retails cigars & cigarettes
A.C.L.N. Limited (M: ACLNF)	6.7	2.52	na	na	93.9	na	20.88	5.88	86	55	Marine logistics for shipping autos
Anika Therapeutics, Inc. (M: ANIK)	44.1	0.16	24.4	1.8	13.8	24.2	9.00	4.50	71	81	Therapeutic prods for healing bone
Associated Materials Inc. (M: SIDE)	7.2	2.27	-5.6	na	438.2	5.4	16.44	10.00	74	36	Exterior bldg prods & elec cable
Balance Bar Company (M: BBAR)	31.0	0.44	69.5	0.4	97.8	159.1	15.00	4.88	69	16	Natural foods & beverages
Berkshire Energy Resource (M: BERK)	27.3	1.28	-4.5	na	50.7	-0.9	37.00	16.25	78	61	Holding co. for natural gas
Bernard Chaus, Inc. (N: CHS)	5.7	0.43	15.0	0.4	191.4	-1.9	3.44	1.63	54	10	Women's career & casual wear
Cade Industries, Inc. (M: CADE)	19.9	0.25	46.5	0.4	102.9	42.7	5.03	2.03	87	24	High-tech components for aerospace
Computer Outsourcing Ser. (M: COSI)	120.2	0.21	24.9	4.8	34.0	21.7	31.00	7.00	88	91	Information technology solutions
Comtech Telecomm. Corp. (M: CMTL)	11.5	1.28	29.7	0.4	40.9	20.5	29.50	3.83	89	99	Components & systems for telecom
Daktronics, Inc. (M: DAKT)	17.3	1.46	9.0	1.9	118.0	18.5	29.75	8.25	86	98	Electronic scoreboards & displays
Datalink Corporation (M: DTLK)	38.5	0.50	25.7	1.5	113.9	29.6	27.50	7.50	na	94	Data storage solutions
Digital Origin, Inc. (M: DODV)	9.5	1.28	16.0	0.6	10.4	-45.9	15.00	1.22	98	94	Digital video computer prods
DocuCorp International (M: DOCC)	25.1	0.28	na	na	51.9	na	9.88	3.69	64	94	Document automation software
Drexler Technology Corp. (M: DRXR)	21.7	0.45	25.7	0.8	16.4	54.6	13.75	6.50	37	87	Optical data storage prods
DualStar Technologies (M: DSTR)	47.7	0.16	8.4	5.7	97.6	26.0	9.25	1.00	97	36	Mechanical & electrical contracting
Electronic Processing Inc (M: EPIQ)	36.6	0.41	na	na	14.1	na	15.38	6.63	76	94	Software for bankruptcy trustees
ELXS Corporation (M: ELXS)	3.0	4.33	7.8	0.4	103.2	12.1	14.75	8.53	56	31	Bickford & Abdo restaurants
Embrex, Inc. (M: EMBX)	17.6	0.61	17.5	1.0	32.0	67.0	12.63	4.13	86	35	Biological tech for poultry indus
Environmental Tectonics (A: ETC)	42.0	0.36	26.8	1.6	32.4	11.4	15.50	4.81	92	84	Aircrew training & simulation sys
FinishMaster, Inc. (M: FMST)	14.2	0.56	-9.6	na	322.6	36.8	7.94	4.63	63	51	Auto collision repair prods
Fletcher's Fine Foods Ltd (M: FLCHF)	148.1	0.13	na	na	275.3	na	19.25	13.88	68	16	Fresh & prepared pork prods
Gaiam, Inc. (M: GAIA)	83.6	0.19	na	na	48.2	na	18.25	5.38	na	21	Healthy lifestyle goods & servs
Genesis Energy, L.P. (N: GEL)	17.5	0.46	39.8	0.4	1985.9	-2.6	16.31	6.63	17	75	Purchaser of crude oil
Gentner Communications (M: GTNR)	36.8	0.38	31.2	1.2	24.6	21.2	17.88	2.88	94	99	Conferencing services
Global Payment Tech. Inc. (M: GPTX)	12.7	0.73	4.6	2.8	44.0	35.3	16.25	7.06	63	10	Currency validation systems
Hauppauge Digital, Inc. (M: HAUP)	26.5	0.76	na	na	55.3	na	38.13	7.25	86	100	Digital video computer boards
HMG Worldwide Corporation (M: HMGC)	50.0	0.14	29.3	1.7	79.5	27.4	7.19	2.00	93	98	In-store marketing displays
Humphrey Hospitality Tr. (M: HUMPT)	7.6	1.03	7.9	1.0	52.0	18.9	14.31	6.19	41	27	Super 8, Comfort Inn & Wingate Inn
ICT Group, Inc. (M: ICTG)	33.1	0.37	47.6	0.7	149.7	40.2	15.63	2.50	96	27	Call centers for corps & institutions
I-Flow Corporation (M: IFLO)	18.0	0.22	16.9	1.1	28.4	32.9	5.00	1.13	93	55	Medical treatment systems
IIC Industries, Inc. (M: IICR)	18.3	0.54	na	na	180.8	na	12.88	9.00	61	46	Agricultural vehicles & equip
Inter Parfums, Inc. (M: IPAR)	15.8	0.60	-5.4	na	85.5	8.5	11.63	5.50	78	21	Fragrances & cosmetics
Jore Corporation (M: JORE)	14.7	0.53	na	na	62.5	na	13.19	6.50	na	59	Hand tools & power tool accessories
Manhattan Associates (M: MANH)	92.2	0.08	93.3	1.0	78.1	79.9	27.75	3.50	5	94	Info tech solutions for distrib centers
Mannatech, Inc. (M: MTEX)	12.7	0.41	na	na	175.5	na	44.50	4.38	na	81	Nutritional supplements
MarineMax, Inc. (N: HZO)	8.1	1.17	-32.6	na	427.2	21.2	13.00	7.50	67	7	Recreational boat dealer
Maui Land & Pineapple Co. (A: MLP)	18.7	0.93	18.4	1.0	151.1	1.8	30.75	8.88	83	16	Pineapples & real estate
Measurement Specialties (A: MSS)	17.4	1.20	28.8	0.6	50.6	28.8	23.88	4.06	96	84	Electronic sensor prods
Medical Advisory Systems (A: DOC)	56.5	0.23	na	na	5.9	na	29.88	4.38	92	91	Medical assistance prods & servs
Mobius Management Systems (M: MOBI)	264.6	0.03	36.9	7.2	71.5	33.1	24.44	3.25	16	94	Enterprise software products
MTR Gaming Group, Inc. (M: MNTG)	9.6	0.32	21.5	0.4	104.5	44.9	3.75	1.94	69	88	Hotel & gaming properties
Nam Tai Electronics, Inc. (M: NTAI)	37.5	0.37	-17.9	na	127.7	7.5	19.50	7.75	68	10	Original equip for consumer prods
Newmark Homes Corp. (M: NHCH)	4.3	1.38	66.7	na	471.1	75.7	8.50	4.00	41	36	Single-family homes in SW & SE
Noble International, Ltd. (M: NOBL)	11.1	1.29	na	na	155.0	na	20.13	8.88	78	13	Auto component supplier
NUR Macroprinters Ltd. (M: NURM)	161.6	0.07	23.4	6.9	15.9	39.5	13.00	2.38	96	59	Digital printing systems
Onix Systems Inc. (A: ONX)	19.8	0.31	41.5	0.5	141.7	13.1	7.88	4.50	50	84	Measurement & on-line sensors
Ontrack Data Int'l (M: ONDI)	26.8	0.45	60.3	0.4	38.3	36.7	13.75	3.38	83	91	Data recovery servs
OYO Geospace Corporation (M: OYOG)	29.3	0.35	53.8	0.5	48.6	28.7	15.75	6.75	66	84	Equip to process seismic data
PalEx, Inc. (M: PALX)	16.7	0.42	47.6	0.4	380.4	69.1	11.00	4.25	47	55	Pallet prods & related servs

Statistics are based on figures as of December 31, 1999.
Data Source: AAIL's Stock Investor/Market Guide, Inc.

Exchange Key: N = New York Stock Exchange
A = American Stock Exchange
M = Nasdaq

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		Last 12 Mos. (\$)	5-Yr. Growth (%)		Last 12 Mos. (\$ Mil.)	5-Yr. Growth (%)	High (\$)	Low (\$)	Firm (%)	Industry (%)	
Paravant, Inc. (M: PVAT)	8.2	0.44	na	na	34.5	na	4.38	1.72	81	82	Computer systems for military
Pennichuck Corporation (M: PNNW)	24.2	1.36	16.8	1.4	17.8	12.4	36.88	19.00	76	88	Hold co. for water utilities
Pentacon, Inc. (N: JIT)	15.6	0.20	27.2	0.6	272.9	14.6	6.19	2.06	29	36	Fasteners and small parts
Percon Incorporated (M: PRCN)	17.6	0.84	30.5	0.6	34.8	36.3	15.00	5.38	88	66	Data collection hardware & software
Playcore, Inc. (A: PCO)	9.4	0.86	-6.6	na	169.6	17.6	10.75	4.25	82	16	Playground equip & backyard prods
RADCOM Ltd. (M: RDCM)	47.7	0.15	18.9	2.5	25.9	88.6	7.88	2.19	85	82	Test & analysis equip for networks
Radica Games Limited (M: RADA)	6.7	1.10	-17.5	na	110.2	-21.8	16.31	7.00	15	16	Electronic hand-held games
Rentrak Corporation (M: RENT)	14.7	0.48	18.9	0.8	116.1	14.1	7.41	2.50	89	66	Video cassettes for specialty stores
Rica Foods, Inc. (A: RCF)	30.0	0.40	16.1	1.9	119.4	171.7	12.00	6.00	77	16	Poultry production
Rimage Corporation (M: RIMG)	13.3	1.20	15.8	0.8	35.7	15.5	19.25	11.50	70	82	CD record & duplicate equip
RWD Technologies, Inc. (M: RWDIT)	16.5	0.63	65.9	0.3	125.7	44.2	22.31	6.41	12	91	Integrated solutions for workers
Sanderson Farms, Inc. (M: SAFM)	5.8	1.47	3.8	1.5	552.5	14.1	16.75	7.44	17	16	Chicken & prepared food items
SCC Communications Corp. (M: SCCX)	49.0	0.12	-12.3	na	32.8	48.3	7.13	3.00	69	91	911 operations support systems
SEMCO Energy, Inc. (M: SMGS)	15.8	0.75	-4.4	na	461.8	17.1	17.50	10.94	29	61	Holding co. for natural gas
Silverleaf Resorts, Inc. (N: SVR)	4.7	1.53	47.4	na	209.2	44.2	10.63	5.56	32	27	Timeshare resorts
Skechers U.S.A., Inc. (N: SKX)	9.5	0.40	na	na	406.6	na	12.38	3.31	na	79	Contemporary footwear
Softworks, Inc. (M: SWRX)	37.4	0.26	82.1	0.5	53.7	43.4	16.88	3.03	73	94	Enterprise systems mgmt software
Sypris Solutions, Inc. (M: SYPR)	9.4	0.96	-23.0	na	196.5	-2.8	11.00	5.94	77	82	Industrial prods & technical servs
Technisource, Inc. (M: TSRC)	13.4	0.44	121.2	0.1	141.7	59.3	11.75	3.50	19	91	Information technology servs
Total Research Corp. (M: TOTL)	44.5	0.17	27.7	1.6	45.3	24.9	7.94	2.13	92	27	Marketing research
Troy Group, Inc. (M: TROY)	38.5	0.39	na	na	48.9	na	18.38	6.00	na	94	Enterprise output solutions
USANA, Inc. (M: USNA)	10.6	0.47	na	na	128.6	na	18.00	3.81	13	21	Direct market nutritional prods
Valley Media, Inc. (M: VMIX)	7.1	0.99	35.1	0.2	936.7	54.7	40.00	6.63	na	16	Music & video entertain prods
Vari-L Company, Inc. (M: VARL)	59.1	0.58	29.0	2.0	22.3	21.3	39.25	5.75	96	82	Signal processing components
Wackenhut Corporation (N: WAK)	17.8	0.84	28.5	0.6	2,079.3	21.6	29.75	12.38	18	66	Security support servs
Waste Industries, Inc. (M: WWIN)	14.1	0.80	28.8	0.5	202.5	26.3	19.50	10.25	23	20	Regional solid waste servs
Westaff, Inc. (M: WSTF)	137.5	0.06	na	na	639.6	na	9.81	4.50	71	27	Temporary staffing services
Wiztec Solutions Ltd. (M: WIZTF)	13.5	1.66	32.4	0.4	28.6	56.0	29.75	11.94	78	94	Info sys for TV operators
Median of New Shadow Stocks	17.6	—	24.9	0.8	97.6	26.3	—	—	73	—	
Median of All Shadow Stocks	14.7	—	19.1	0.7	83.2	17.8	—	—	58	—	
Median of All Companies	14.8	—	7.8	0.9	82.2	13.6	—	—	49	—	

Statistics are based on figures as of December 31, 1999.
Data Source: AAI's Stock Investor/Market Guide, Inc.

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A = American Stock Exchange
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Definitions of Screens and Terms

Price-Earnings Ratio—Current: Market price per share divided by the most recent 12 months' earnings per share.

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

Earnings per Share—5-Year Growth: Annual percentage 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—5-Year Growth: Annual percentage growth in sales over the last five fiscal years.

52-Week Price—High and Low: The highest and lowest prices reached by the stock over the last 52 weeks.

52-Week Relative Strength Rank—Firm: The price performance of a stock relative to the performance of all stocks, expressed as a percentile rank.

52-Week Relative Strength Rank—Industry: The price performance of the firm's industry relative to the performance of all industries expressed as a percentile rank. The higher the rank, the better the relative performance.

relative to historical earnings growth, high expectations are built into the price relative to what the firm has been able to produce in earnings growth historically. An example is NUR Macroprinters, with a price-earnings ratio of 161.6 and a historical growth rate of 23.4% which leads to a high 6.9 PEG ratio.

At the opposite end of the spectrum—when this PEG ratio is low—an investor is able to purchase historical growth at a relatively low price. As a general rule of thumb, firms with PEG ratios near 1.0 may be considered average, those with ratios less than 0.5 may be low, and those with ratios above 1.5 may be high.

Waste Industries' 0.5 ratio of price-earnings to earnings growth indicates that the stock may be priced low relative to historical growth, whereas Maui Land & Pineapple's ratio of 1.0 points to an average valuation.

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 is best to compare firms within the same industry.

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 figures. Revenue growth directly impacts the bottom line and the effect will be magnified if costs can be contained.

Beyond examining the overall sales growth rate, be sure to also look at

the year-to-year numbers to find consistency in the growth—the greater the variability, the greater the risk. The five-year sales growth rates for the new Shadow Stocks range from a negative 45.9% to a positive 171.7%. The median sales growth rate of 26.3% for the new Shadow Stocks group is noticeably higher than the 17.8% median for the complete Shadow Stocks group.

Examining the high and low prices over the most recent 52-week period gives an indication of its trading volatility over the past year. Last year saw dramatic swings, so it is not surprising to see wide ranges. Wackenhut, a security services provider to privatized correctional facilities, provides a good example of the wild price swings seen during 1999. Wackenhut started the year with a price near \$25 and hit a high of \$29.75 in June, only to see its price slide to \$14 in November. Wackenhut's stock closed out the year at a price of \$14.94.

The relative strength rank figure included in the Shadow Stock Rookies listing indicates how a company's stock price has performed relative to all other stocks. A rank of 50% indicates that the stock's performance was better than 50% of all stocks. A rank of 75% reflects performance better than 75% of all stocks—or performance that places the stock within the top 25% of the universe. The 83% relative strength rank for Maui Land & Pineapple illustrates strong relative strength. Investors seeking stocks showing price momentum often look for stocks with strong and improving relative strength ranks. The best way to do this is to check both a short-term relative strength figure and the performance over a long-term period. A high 52-week rank

coupled with a low figure for a more recent period—say a low 13-week rank—points to a company whose price strength is weakening.

The final piece of information included in the Rookies listing is a relative strength rank figure for the industry of the new Shadow Stock. Not only do you want to look at the relative strength numbers of the underlying company against the entire universe, but you also want to consider the performance of its industry. Here you can compare how well the industry is doing against other industries and determine if the industry is a leader or laggard.

For example, Hauppauge Digital, a manufacturer of digital video computer boards that allow users to watch television and other digital video images on their PC monitor has a 52-week relative strength rank of 86%, while its industry—semi-conductors—boasts an even stronger 100% percentile rank figure. In this example, Hauppauge Digital shows strong performance versus all stocks. Likewise, the semiconductor industry is performing well against all other industries. Many investors seek out hot industries and concentrate on the leaders among the group.

For any company's industry group number, please see the complete Shadow Stock listing on page 15.

This list of new Shadow Stocks is a diverse group of companies. The profiles presented here illustrate some useful preliminary screens in the stock selection process. We have prepared an Excel spreadsheet that contains detailed financials for all 257 Shadow Stocks. The file can be downloaded from the AAIL.com Web site; simply log onto the site, go to the Download Library and look under the section entitled Files from AAIL. ♦