

SHADOW STOCKS 2002: SMALL CAPS

OUT OF WALL STREET'S SPOTLIGHTS

By Wayne A. Thorp

By operating out of the spotlight of Wall Street, Shadow Stocks may offer unique opportunities for individual investors. This year, a total of 186 stocks passed the Shadow Stock screens. An Excel spreadsheet with detailed financials for all of these stocks is at AAll.com (go to Files From AAll in the Download Library).

Since 1985, the *AAll Journal* has presented its annual listing of Shadow Stocks. These are smaller companies that, to this point, have received little or no attention from the media, institutional investors, or financial analysts.

By operating out of the spotlight of Wall Street, Shadow Stocks may offer unique opportunities for individual investors. Research has shown that, over longer periods, the stocks of smaller companies often diverge from the trend of larger companies. Due to this divergent price behavior, the addition of smaller companies to an investment portfolio is a way to diversify and lower overall risk.

Historically, over the long term, small-company stocks have provided greater returns than larger-firm stocks. Even taking into account the higher risk usually associated with investing in small companies, the returns of small-firm stocks tend to outrun returns of large stocks.

Finally, the time and effort it takes an investor to analyze individual stocks may be better rewarded within the realm of small firms where analyst coverage is thin or nonexistent.

This year's selection criteria were slightly modified. However, as always, Shadow Stocks must be traded on the New York Stock Exchange, the American Stock Exchange, Nasdaq National Market, or Nasdaq Small-Cap Market. To this universe of stocks, the following screens are applied:

- The market capitalization of the company is between \$20 million and \$250 million; market capitalization is determined by multiplying the number of shares outstanding by the market price per share. The greater-than-\$20-million screen, which was lowered from \$50 million, eliminates the smallest firms that may be start-ups with little financial data available as well as an illiquid market for their shares. The less-than-\$250-million screen eliminates larger firms that tend to have regular coverage by financial analysts.
- The price per share of the company's stock is at least \$5. This criterion is new for this year and serves as a proxy for liquidity—the higher the share price, typically, the more liquid the market is for the stock.
- The company has relatively low institutional ownership—no more than 15%. Since there tends to be a direct relationship between institutional ownership and analyst coverage, this requirement helps eliminate firms that are covered by a relatively large number of analysts.
- The company has had positive earnings per share over the trailing four fiscal quarters as well as for the last two fiscal years; this eliminates turnaround situations that may require specialized investor knowledge. In addition, there must be at least three years of financial data available. This has been relaxed from the five years of financial data required in the past, but it still ensures that companies have an established financial history.
- The company is not a financial firm—financial or investment services company, insurance company, bank, or savings and loan. These firms are left out because their financial statements are not comparable to those of the other companies on the Shadow Stock list. In addition, conglomerates,

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The Shadow Stock series was started by AAll in January 1985; the list is updated each year. AAll's Web site contains links to further information on each Shadow Stock.

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SHADOW STOCKS 2002

Phone	Company (Exchange: Ticker)	Industry Group Number [†]	Price-Earnings Ratio (X)	12-Month Earnings per Share (\$)	5-Year Annual Growth Rate (%)
(310) 551-0062	A.C.L.N. Limited (N: ASW)	1109	2.0	4.63	55.8
(218) 327-3434	A.S.V., Inc. (M: ASVI)	0206	192.2	0.06	20.1
(727) 461-3000	* Aerosonic Corporation (A: AIM)	0203	62.0	0.31	17.5
(303) 792-7400	Air Methods Corporation (M: AIRM)	1109	12.0	0.50	33.0
(212) 815-8257	* Alcatel Optronics (M: ALAO)	1033	5.2	1.71	na
(631) 273-4000	* Allou Health & Beauty (A: ALU)	0521	38.9	0.14	-11.4
(781) 237-6655	American Biltrite Inc. (A: ABL)	0112	50.0	0.28	-2.1
(716) 664-9600	* American Locker Group (M: ALGI)	0209	9.9	1.56	20.2
(212) 705-4700	* AMREP Corporation (N: AXR)	0215	11.5	0.54	0.0
(440) 720-3301	* Anthony & Sylvan Pools (M: SWIM)	0215	19.3	0.42	48.3
(918) 573-2164	Apco Argentina Inc. (M: APAGF)	0609	7.9	2.65	21.9
(516) 391-5262	ARCADIS NV (M: ARCAF)	0215	8.8	1.06	17.3
(302) 453-6900	Artesian Resources Corp. (M: ARTNA)	1209	20.5	1.55	2.3
(214) 220-4600	Associated Materials Inc. (M: SIDE)	0112	13.1	3.05	76.8
(716) 447-9013	Astronics Corporation (M: ATRO)	0215	10.7	1.08	26.5
(800) 497-7659	Atlantis Plastics, Inc. (A: AGH)	0112	na	0.04	15.1
(763) 592-1900	Ault Incorporated (M: AULT)	1024	na	0.22	3.1
(808) 531-8400	* Barnwell Industries, Inc. (A: BRN)	0609	7.4	2.93	25.7
(415) 989-6580	BF Enterprises, Inc. (M: BFEN)	0215	14.8	0.67	33.0
(212) 483-2323	Biacore International AB (M: BCOR)	1030	54.7	0.60	13.9
(847) 949-5200	* Bio-Logic Systems Corp. (M: BLSL)	0812	20.3	0.32	-12.1
(203) 735-1888	* Birmingham Utilities Inc. (A: BIW)	1209	5.2	3.59	5.2
(303) 582-1117	* Black Hawk Gaming & Dvlp. (M: BHWK)	0912	12.8	0.88	15.4
(732) 679-4000	Blonder Tongue Labs, Inc. (A: BDR)	1003	35.1	0.10	-6.6
(703) 941-6300	* Bowl America Inc. (A: BWLA)	0936	15.7	0.71	12.5
(702) 792-7200	Boyd Gaming Corporation (N: BYD)	0912	27.0	0.23	15.6
(414) 291-9000	* C2, Inc. (M: CTOO)	0218	40.3	0.20	na
(732) 542-7711	Camtek LTD. (M: CAMT)	1030	25.3	0.15	126.8
(405) 604-9200	* Canaan Energy Corp. (M: KNAN)	0606	16.6	0.63	na
(612) 445-7223	* Canterbury Park Holding (M: TRAK)	0936	15.7	0.49	22.9
(408) 542-1000	Catalyst Semiconductor (M: CATS)	1033	6.8	1.16	29.9
(941) 330-1558	* Central European Dist. (M: CEDC)	0503	26.7	0.47	41.9
(707) 254-4200	Chalone Wine Group, Ltd. (M: CHLN)	0503	43.6	0.22	-8.4
(508) 279-1789	Chase Corporation (A: CCF)	0103	8.2	1.47	19.2
(302) 734-6799	Chesapeake Utilities (N: CPK)	1206	13.7	1.49	-4.0
(714) 848-3747	* Chicago Pizza & Brewery (M: CHGO)	0942	13.9	0.40	19.7
(630) 357-8500	* Chicago Rivet & Machine (A: CYR)	0127	10.5	2.13	6.4
(203) 830-3400	Cognitronics Corporation (A: CGN)	1003	39.5	0.11	24.0
(410) 712-0275	* CompuDyne Corporation (M: CDCY)	0972	23.6	0.81	31.6
(610) 582-8711	Conestoga Enterprises (M: CENI)	0915	99.8	0.32	-21.8
(345) 945-4277	* Consolidated Water Co. (M: CWCO)	1209	16.9	0.67	na
(314) 727-3485	D&K Healthcare Resources (M: DKWD)	0803	26.9	2.31	55.2
(605) 697-4000	Daktronics, Inc. (M: DAKT)	0903	24.3	0.38	119.5
(952) 944-3462	Datalink Corporation (M: DTLK)	1036	43.8	0.14	3.8
(609) 799-0071	Dataram Corporation (M: DRAM)	1021	99.2	0.13	50.7
(214) 357-9588	Dave & Buster's, Inc. (N: DAB)	0942	9.6	0.66	22.8
(212) 983-1702	* Delta Galil Industries (M: DELT)	0403	10.2	0.93	na

Phone	Company (Exchange: Ticker)	Industry Group Number [†]	Price-Earnings Ratio (X)	12-Month Earnings per Share (\$)	5-Year Annual Growth Rate (%)
(212) 838-3777	Deswell Industries, Inc. (M: DSWL)	0112	8.1	2.37	11.0
(781) 863-5858	* DeWolfe Companies (A: DWL)	0939	8.4	0.29	66.4
(214) 891-6500	Docucorp International, I (M: DOCC)	1036	22.3	0.28	-14.4
(972) 864-8610	Dorchester Hugoton, Ltd. (M: DHULZ)	0609	6.6	2.20	18.9
(650) 969-7277	Drexler Technology Corp. (M: DRXR)	1021	45.6	0.52	41.5
(713) 673-6432	Dynacq International, Inc. (M: DYII)	0806	29.9	0.77	80.2
(716) 684-8060	* Ecology and Environment (A: EEI)	0975	21.1	0.42	9.7
(301) 428-9405	ECtel Ltd. (M: ECTX)	0915	27.1	0.74	46.0
(918) 622-4522	* Educational Development (M: EDUC)	0927	16.2	0.36	-2.6
(407) 849-1090	ELXSI Corporation (M: ELXS)	0942	4.0	2.04	26.5
(919) 941-5185	Embrex, Inc. (M: EMBX)	0803	18.9	0.99	25.8
(406) 791-7500	* Energy West Incorporated (M: EWST)	1206	9.7	1.18	15.1
(251) 450-4774	EnergySouth, Inc. (M: ENSI)	1206	15.8	1.25	-6.9
(215) 355-9100	Environmental Tectonics (A: ETC)	1030	35.8	0.21	42.1
(913) 621-9500	EPIQ Systems, Inc. (M: EPIQ)	1036	60.5	0.33	58.5
(812) 467-1200	Escalade, Inc. (M: ESCA)	0430	11.3	4.59	99.0
(352) 377-1140	Exactech, Inc. (M: EXAC)	0812	24.0	0.66	24.3
(210) 496-5300	Exploration Company of DE (M: TXCO)	0609	5.8	0.37	26.6
(516) 333-8230	E-Z-EM, Inc. (A: EZM.A)	0812	41.4	0.14	-31.3
(317) 237-3678	FinishMaster, Inc. (M: FMST)	0103	12.6	0.68	2.2
(866) 372-9663	Fletcher Challenge Forest (N: FFS)	0115	na	0.46	45.5
(410) 224-8770	FTI Consulting, Inc. (N: FCN)	0909	28.2	0.81	5.9
(303) 222-3600	Gaia, Inc. (M: GAIA)	0521	68.2	0.32	36.9
(801) 975-7200	Gentner Communications (M: GTNR)	1003	26.2	0.86	85.1
(864) 987-5200	* Gerber Childrenswear Inc. (N: GCW)	0403	7.9	0.86	na
(212) 815-4372	* Grupo Industrial Durango (N: GID)	0133	1.5	3.69	15.1
(864) 225-6232	Hampshire Group, Limited (M: HAMP)	0403	6.6	2.07	1.6
(909) 739-6200	Hansen Natural Corp. (M: HANS)	0506	14.6	0.29	35.7
(770) 419-0691	* HealthTronics Surgical (M: HTRN)	0812	28.7	0.32	na
(310) 410-9600	Herbalife International (M: HERBA)	0954	10.6	1.34	14.2
(800) 326-5789	Hickory Tech Corporation (M: HICO)	0915	31.2	0.59	-2.6
(631) 789-8228	* Hi-Tech Pharmacal Co. (M: HITK)	0803	17.9	0.68	12.9
(714) 933-3000	* Hycor Biomedical, Inc. (M: HYBD)	0803	74.4	0.08	45.4
(215) 757-0200	ICT Group, Inc. (M: ICTG)	0909	31.6	0.60	41.1
(212) 983-1702	* ICTS International N.V. (M: ICTS)	0972	2.0	4.00	na
(949) 206-2700	I-Flow Corporation (M: IFLO)	0812	24.1	0.13	-1.7
(212) 889-7201	IIC Industries Inc. (M: IICR)	0206	14.9	0.72	-6.6
(650) 567-8000	* ILOG S.A. (M: ILOG)	1036	82.0	0.16	15.8
(818) 407-9100	Image Entertainment, Inc. (M: DISK)	0921	9.8	0.26	-1.5
(201) 488-1200	Innodata Corporation (M: INOD)	1018	11.0	0.33	27.2
(978) 640-0460	Instrumentarium Corp. (M: INMRY)	0812	3.6	5.78	10.8
(334) 633-9000	* Integrity Incorporated (M: ITGR)	0430	11.0	0.56	23.0
(212) 983-2640	Inter Parfums, Inc. (M: IPAR)	0521	18.8	0.46	-1.0
(214) 503-5500	* Internacional de Ceramica (N: ICM)	0209	4.5	1.59	17.8
(781) 622-1000	Kadant Inc. (A: KAI)	0218	15.3	0.97	-5.8
(704) 873-7202	* Kewaunee Scientific Corp. (M: KEQU)	1030	17.2	0.49	28.2
(616) 459-3311	Knappe/Vogt Manufacturing (M: KNAP)	0209	13.8	0.94	161.4

* New to the Shadow Stock listing.

[†] See the Guide to Industry Group Numbers on page 19.

Data Source: AAI's Stock Investor/Market Guide, Inc. Statistics are as of December 28, 2001.

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

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(414) 964-5000	* Koss Corporation (M: KOSS)	0409	11.9	1.32	31.8
(631) 981-9700	* Lakeland Industries, Inc. (M: LAKE)	0812	16.4	0.57	13.3
(847) 967-1010	Lifeway Foods, Inc. (M: LWAY)	0515	25.8	0.26	12.9
(403) 250-1222	* Liquidation World, Inc. (M: LIQWF)	0963	12.3	0.52	10.2
(003) 539-1444	* Magal Security Systems (M: MAGS)	0972	30.2	0.43	13.8
(727) 531-1700	MarineMax, Inc. (N: HZO)	0963	7.2	1.02	17.5
(808) 877-3351	Maui Land & Pineapple Co. (A: MLP)	0515	267.9	0.09	17.8
(614) 431-5800	* Max & Erma's Restaurants (M: MAXE)	0942	13.5	1.00	14.0
(937) 291-8282	MCSI, Inc. (M: MCSI)	1015	18.0	1.29	40.6
(973) 808-1819	Measurement Specialties (A: MSS)	1030	26.8	0.39	51.0
(631) 231-4600	Medical Action Industries (M: MDIC)	0812	26.9	0.58	39.8
(801) 936-1111	* Motor Cargo Industries (M: CRGO)	1115	11.1	1.09	8.6
(304) 387-5712	MTR Gaming Group, Inc. (M: MNTG)	0912	22.6	0.79	32.5
(513) 381-1480	* Multi-Color Corp. (M: LABL)	0930	15.1	1.30	21.0
(800) 661-8831	Nam Tai Electronics, Inc. (M: NTAI)	1027	87.3	0.20	13.1
(408) 435-9600	Nanometrics Incorporated (M: NANO)	1033	38.0	0.52	12.7
(954) 581-0922	National Beverage Corp. (A: FIZ)	0506	14.3	0.88	-0.5
(516) 626-0007	* National Med. Health Card (M: NMHC)	0806	35.6	0.27	-19.4
(281) 243-0100	Newmark Homes Corp. (M: NHCH)	0215	6.1	2.36	40.3
(610) 891-8200	* Nobel Learning Communities (M: NLCI)	0969	21.3	0.34	-11.0
(330) 425-2330	North Coast Energy, Inc. (M: NCEB)	0609	6.2	0.56	19.0
(724) 443-9600	North Pittsburgh Systems (M: NPSI)	0915	33.3	0.56	-5.7
(435) 655-6106	* Nutraceutical Int'l Corp. (M: NUTR)	0803	7.8	0.64	30.4
(952) 937-1107	ONTRACK Data Int'l (M: ONDI)	1018	163.8	0.04	12.3
(215) 245-7500	* Orleans Homebuilders (A: OHB)	0215	7.9	1.02	39.9
(858) 571-5555	Overland Data, Inc. (M: OVRL)	1021	38.3	0.22	-19.5
(631) 694-1800	* P & F Industries (M: PFIN)	0406	12.4	0.60	20.6
(405) 948-1560	Panhandle Royalty Co. (M: PANRA)	0609	7.2	2.07	15.9
(973) 631-6190	Paravant, Inc. (M: PVAT)	1015	117.5	0.05	-7.1
(973) 983-0888	* Party City Corporation (M: PCTY)	0963	15.9	0.82	15.5
(703) 679-4900	PEC Solutions, Inc. (M: PECS)	1018	83.3	0.49	42.3
(770) 441-1580	* Pediatric Services of Am. (M: PSAI)	0806	27.4	0.82	0.0
(205) 592-0011	Pemco Aviation Group Inc. (M: PAGI)	0203	6.9	2.32	31.4
(603) 882-5191	Pennichuck Corporation (M: PNW)	1209	16.5	1.63	15.5
(304) 842-6256	Petroleum Development (M: PETD)	0609	6.1	1.00	38.4
(972) 701-9955	Pizza Inn, Inc. (M: PZZI)	0942	6.7	0.23	-5.2
(415) 445-3201	PLM International, Inc. (A: PLM)	0939	22.3	0.22	6.1
(617) 868-7455	Psychomedics Corp. (A: PMD)	0803	133.3	0.03	2.7
(216) 881-5300	Pubco Corporation (M: PUBO)	0206	8.9	1.11	-11.4
(310) 966-5500	* Qiao Xing Universal Tele. (M: XING)	0915	22.1	0.25	-11.9
(805) 583-7744	Qualstar Corporation (M: QBAK)	1021	13.2	0.45	46.5
(305) 623-8700	Quipp, Inc. (M: QUIP)	0218	17.8	0.83	14.6
(602) 437-9620	* Radyne Comstream, Inc. (M: RADN)	1003	23.8	0.25	26.7
(540) 777-4427	* RGC Resources Inc. (M: RGCO)	1206	16.5	1.21	-4.2
(305) 365-9694	Rica Foods, Inc. (A: RCF)	0515	22.9	0.07	19.0
(952) 944-8144	Rimage Corporation (M: RIMG)	1015	13.4	0.67	49.4

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(970) 259-0554	* Rocky Mountain Chocolate (M: RMCF)	0515	15.7	0.94	12.4
(619) 881-2800	* Royale Energy, Inc. (M: ROYL)	0609	4.3	1.66	41.5
(719) 576-3200	SAES Getters S.p.A. (M: SAESY)	0103	6.6	1.07	9.8
(978) 532-9000	* Saucony, Inc. (M: SCNYA)	0418	12.7	0.41	41.0
(515) 239-6000	Sauer-Danfoss Inc. (N: SHS)	0218	30.7	0.27	-8.9
(847) 827-9494	Schawk, Inc. (N: SGK)	0930	40.0	0.28	11.5
(203) 625-0770	* Security Capital Corp. (A: SCC)	0521	31.3	0.40	4.0
(248) 702-6000	SEMCO Energy, Inc. (N: SEN)	1206	18.7	0.63	2.3
(703) 550-7000	* Sensytech, Inc. (M: STST)	0203	23.3	0.30	-7.2
(305) 895-0304	* SFBC International Inc. (M: SFCC)	0803	25.4	0.90	na
(540) 984-4141	Shenandoah Telecommunic. (M: SHET)	0915	32.2	1.23	9.6
(301) 309-6161	* Sherwood Brands, Inc. (A: SHD)	0515	14.2	0.66	35.8
(702) 897-7150	Shuffle Master, Inc. (M: SHFL)	0912	25.2	0.68	43.5
(214) 631-1166	Silverleaf Resorts, Inc. (O: SVLF)	0918	na	1.07	30.9
(954) 596-1000	* Singing Machine Co. (A: SMD)	0430	27.3	1.08	22.2
(617) 421-5400	Sonesta Int'l Hotels Corp. (M: SNSTA)	0918	32.1	0.19	13.5
(616) 878-2000	Spartan Stores, Inc. (M: SPTN)	0957	9.4	1.32	22.7
(818) 790-2717	* Sport Chalet, Inc. (M: SPCH)	0963	10.1	1.01	48.6
(419) 522-2722	* Stearns & Lehman, Inc. (M: SLHN)	0506	14.2	0.44	30.1
(952) 937-3000	* Stratasys, Inc. (M: SSYS)	1015	20.3	0.32	14.9
(310) 792-7024	Summa Industries (M: SUMX)	0112	9.7	1.04	23.6
(408) 363-8000	Sunrise Telecom, Inc. (M: SRTI)	1030	27.3	0.16	60.8
(248) 619-2800	Syntel, Inc. (M: SYNT)	1018	21.9	0.63	11.8
(502) 329-2000	Sypris Solutions, Inc. (M: SYPR)	1024	23.2	0.57	15.7
(716) 694-0800	* Taylor Devices, Inc. (M: TAYD)	0218	17.1	0.45	11.6
(281) 331-6154	* Team, Inc. (A: TMI)	0909	14.5	0.42	17.0
(732) 748-1700	* TeamStaff, Inc. (M: TSTF)	0909	33.5	0.17	16.4
(781) 229-7896	Tech/Ops Sevcon, Inc. (A: TO)	1024	20.7	0.39	2.1
(954) 493-8601	Technisource, Inc. (M: TSRC)	1018	13.5	0.13	0.9
(972) 243-2228	* Thousand Trails, Inc. (A: TRV)	0936	12.2	0.60	-10.8
(561) 655-8977	* Todhunter International (A: THT)	0503	7.8	1.12	4.2
(800) 603-8076	Trinity Biotech plc (M: TRIB)	0803	19.3	0.08	17.5
(631) 231-0333	TSR, Inc. (M: TSRI)	1036	6.9	0.83	40.0
(713) 297-7000	U.S. Physical Therapy (M: USPH)	0806	31.8	0.65	42.4
(516) 466-6464	United Capital Corp. (A: AFP)	1003	5.6	3.92	68.8
(631) 273-0900	* United-Guardian, Inc. (A: UG)	0803	12.7	0.41	47.6
(801) 954-7100	USANA Health Sciences Inc. (M: USNA)	0521	5.7	0.22	7.7
(304) 234-4460	* Valley National Gases Inc. (A: VLG)	0951	14.0	0.46	3.7
(770) 938-2080	* Video Display Corporation (M: VIDE)	1024	567.0	0.02	-51.4
(973) 467-2200	* Village Super Market, Inc. (M: VLGEA)	0957	7.5	3.26	35.3
(561) 622-5656	Wackenhut Corporation (N: WAK)	0972	69.7	0.34	13.3
(845) 986-8080	Warwick Valley Telephone (M: WWVY)	0915	14.2	4.13	27.4
(919) 325-3000	Waste Holdings, Inc. (M: WWIN)	0975	11.8	0.53	1.9
(925) 930-5300	Westaff, Inc. (M: WSTF)	0909	na	0.12	-6.0
(918) 664-8200	XETA Technologies, Inc. (M: XETA)	1003	14.6	0.50	29.7
(717) 845-3601	* York Water Company (M: YORW)	1209	22.9	1.28	6.6

* New to the Shadow Stock listing.

[†] See the Guide to Industry Group Numbers on page 19.

Data Source: AAIL's Stock Investor/Market Guide, Inc. Statistics are as of December 28, 2001.

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

real estate investment trusts, and limited partnerships are also excluded.

AAII's *Stock Investor*, a fundamental screening and database program covering over 9,000 companies, is used to screen and create the Shadow Stocks list.

When AAIL revisits the Shadow Stocks each year, the prior year's listing is re-examined—new stocks are added and some old ones are dropped. This year the evaluation process for Shadow Stock “veterans” was streamlined. Existing Shadow Stocks—those that were on the list the prior year—are now dropped if they have had negative earnings over the trailing four fiscal quarters or for the last fiscal year, if they merge, are acquired by another firm, or are delisted from an exchange. If a stock falls below the market value (market capitalization) screen by 50%—below \$10 million—for two years in a row, it is dropped from the list. Likewise, if a stock exceeds the market-cap screen by 100%—above \$500 million—for two years, it is eliminated. By relaxing the market value ceiling, existing Shadow Stocks are allowed to grow, in terms of

market value, to the upper range of small-cap stocks.

A critical element added this year eliminates a company after it has been on the Shadow Stocks list for more than five years. Over time, one would expect a strong company to become larger and attract attention. After five years, if a company has not graduated to a higher level of market cap, it is dropped from the list. This also helps to inject an element of freshness into the Shadow Stock group.

Lastly, an increase in institutional ownership is no longer a reason to eliminate a stock. Since increased institutional ownership tends to be a positive sign, a company should not be penalized because it is starting to garner institutional attention.

The 2002 list of Shadow Stocks consists of 186 companies, 73 of which are new to the group. The companies are listed on the table beginning on page 16 and an asterisk before the name indicates newcomers.

In this table, you will find the company name, telephone number, and a four-digit industry group number assigned by Market Guide,

the primary data provider for *Stock Investor* (see the table on page 19 for industry groups).

Each company's price-earnings ratio, earnings per share (EPS) figure for the trailing four quarters (12 months), and the five-year annualized growth rate in earnings per share are also included in the table. The price-earnings ratio is based on the trailing four-quarter (12-month) earnings per share and is a measure of the market's expectations regarding the company's growth prospects and risk. Earnings per share is simply the total earnings per share of common stock for the latest four fiscal quarters (12 months). The growth rate in earnings per share serves as an indication of the strength in the company's earnings growth.

Beyond the list of Shadow Stocks found in this article, we have also prepared an Excel spreadsheet that contains detailed financial data for all 186 companies. This file is available for downloading from the AAIL Web site (www.aail.com) at the Download Library area under Files from AAIL.

The Shadow Stocks are only intended as a starting point for your investment analysis; it is not a recommended list of companies. Throughout the year, the *AAII Journal* and the AAIL Web site present articles illustrating how individual investors can analyze the prospects of specific stocks by applying a variety of secondary screening criteria. These articles also serve to demonstrate how such techniques might be useful. At the Stock Screens area of the AAIL Web site you will find a Shadow Stocks Value Screen and a Shadow Stocks Growth Screen. The results of these screens are updated and posted on a monthly basis, as are performance charts going back to 1998.

By applying screening criteria to a universe of stocks, investors arrive at a more manageable group of companies to research and analyze. Doing so also enables individual investors to gain a better understanding of

Definitions of Terms

The following terms are used in the Shadow Stock tables on pages 16 and 17.

Price-Earnings Ratio (x): Market price per share divided by the firm's earnings per share for the last 12 months. A measure of how the market currently values the firm's earnings growth and risk prospects.

12-Month Earnings per Share (\$): The net income of the firm over the last fiscal year divided by the number of common stock shares outstanding. Evaluates earnings stability and the trend in earnings when comparing each year.

5-Year Annual Growth Rate (%): Compound annual increase of basic, non-diluted earnings per share over the last five fiscal years. A measure of how successful the company has been in generating the bottom line, net profit, and serves as an indication of the strength in the company's earnings growth.

GUIDE TO INDUSTRY GROUP NUMBERS

Industry Group			Industry Group			Industry Group		
Number		Percentage of 2002 Shadow Stocks*	Number		Percentage of 2002 Shadow Stocks*	Number		Percentage of 2002 Shadow Stocks*
01	BASIC MATERIALS	5.9%	0509	Crops	0.0%	0930	Printing Services	1.1%
0103	Chemical Manufacturing	1.6%	0512	Fish/Livestock	0.0%	0933	Real Estate Operations	0.0%
0106	Chemicals—Plastics & Rubbers	0.0%	0515	Food Processing	2.7%	0936	Recreational Activities	1.6%
0109	Containers & Packaging	0.0%	0518	Office Supplies	0.0%	0939	Rental & Leasing	1.1%
0112	Fabricated Plastic & Rubber	2.7%	0521	Personal & Household Prods.	2.7%	0942	Restaurants	2.7%
0115	Forestry & Wood Products	0.5%	0524	Tobacco	0.0%	0945	Retail (Apparel)	0.0%
0118	Gold & Silver	0.0%	06	ENERGY	4.8%	0948	Retail (Catalog & Mail Order)	0.0%
0121	Iron & Steel	0.0%	0603	Coal	0.0%	0951	Retail (Department & Discount)	0.5%
0124	Metal Mining	0.0%	0606	Oil & Gas—Integrated	0.5%	0954	Retail (Drugs)	0.5%
0127	Misc. Fabricated Products	0.5%	0609	Oil & Gas Operations	4.3%	0957	Retail (Grocery)	1.1%
0130	Non-Metallic Mining	0.0%	0612	Oil Well Services & Equip.	0.0%	0960	Retail (Home Improvement)	0.0%
0133	Paper & Paper Products	0.5%	07	FINANCIAL	0.0%	0963	Retail (Specialty Non-Apparel)	2.1%
02	CAPITAL GOODS	11.3%	0703	Consumer Financial Services	0.0%	0966	Retail (Technology)	0.0%
0203	Aerospace and Defense	1.6%	0706	Insurance (Accident & Health)	0.0%	0969	Schools	0.5%
0206	Construction & Agri. Mach.	1.6%	0709	Insurance (Life)	0.0%	0972	Security Systems & Servs	2.1%
0209	Construction—Supp. and Fix.	1.6%	0712	Insurance (Miscellaneous)	0.0%	0975	Waste Management Servs	1.1%
0212	Construction—Raw Mat'ls	0.0%	0715	Insurance (Prop. & Casualty)	0.0%	10	TECHNOLOGY	20.4%
0215	Construction Services	3.7%	0718	Investment Services	0.0%	1003	Communications Equip.	3.2%
0218	Misc. Capital Goods	2.7%	0721	Misc. Financial Services	0.0%	1006	Computer Hardware	0.0%
0221	Mobile Homes & RVs	0.0%	0724	Money Center Banks	0.0%	1012	Computer Networks	0.0%
03	CONGLOMERATES	0.0%	0727	Regional Banks	0.0%	1015	Computer Peripherals	2.1%
0303	Conglomerates	0.0%	0730	S&Ls/Savings Banks	0.0%	1018	Computer Services	2.7%
04	CONSUMER CYCLICAL	4.8%	08	HEALTHCARE	11.3%	1021	Computer Storage Devices	2.1%
0403	Apparel/Accessories	1.6%	0803	Biotechnology & Drugs	4.8%	1024	Electronic Instrum'ts & Controls	2.1%
0406	Appliances & Tools	0.5%	0806	Healthcare Facilities	2.1%	1027	Office Equipment	0.5%
0409	Audio & Video Equipment	0.5%	0809	Major Drugs	0.0%	1030	Scientific & Tech Instruments	3.2%
0412	Auto & Truck Manufacturers	0.0%	0812	Medical Equip. & Supplies	4.3%	1033	Semiconductors	1.6%
0415	Auto & Truck Parts	0.0%	09	SERVICES	25.8%	1036	Software & Programming	2.7%
0418	Footwear	0.5%	0903	Advertising	0.5%	11	TRANSPORTATION	1.6%
0421	Furniture & Fixtures	0.0%	0906	Broadcasting & Cable TV	0.0%	1103	Air Courier	0.0%
0424	Jewelry & Silverware	0.0%	0909	Business Services	2.7%	1106	Airline	0.0%
0427	Photography	0.0%	0912	Casinos & Gaming	2.1%	1109	Misc. Transportation	1.1%
0430	Recreational Products	1.6%	0915	Communications Services	3.7%	1112	Railroads	0.0%
0433	Textiles—Non-Apparel	0.0%	0918	Hotels & Motels	1.1%	1115	Trucking	0.5%
0436	Tires	0.0%	0921	Motion Pictures	0.5%	1118	Water Transportation	0.0%
05	CONSUMER/NON-CYCLICAL	8.6%	0924	Personal Services	0.0%	12	UTILITIES	5.4%
0503	Beverages (Alcoholic)	1.6%	0927	Printing & Publishing	0.5%	1203	Electric Utilities	0.0%
0506	Beverages (Non-Alcoholic)	1.6%				1206	Natural Gas Utilities	2.7%
						1209	Water Utilities	2.7%

*Percentages will not add up to 100% due to rounding.
Adapted from Market Guide's industry classifications.

financial data and the process of individual stock selection in the framework of fundamental analysis.

Before making any investment decisions, it is important to perform your due diligence—gather all pertinent information and thoroughly understand the investment.

Page 21 provides sources for corporate reports and other detailed information on small-company stocks. Also, keep in mind that no one investment technique works in all types of market environments, and the techniques that worked in the past may not be as useful going forward.

Building a well-diversified investment portfolio, minimizing taxes and transaction costs, maintaining a portfolio of investments at a level of risk that you are comfortable with, and taking a longer-term perspective are investment approaches that will prove the most valuable over time. ♦

Changes to the Rules

Stock screening rules are dynamic—while you should not be changing the rules with every market zig and zag, longer-term market conditions sometimes dictate rule revisions so that the screen continues to capture the kinds of firms you are seeking to analyze as potential investments.

A look at the changes to the Shadow Stock rules over the last 10 years can give you an overall indication of the kinds of revisions that should be made periodically to any screening system.

RULES FOR ADDING SHADOW STOCKS

2002 Rule Changes

- Price per share of at least \$5 is now required: This rule serves as a proxy for liquidity. One of the risks associated with investing in smaller companies is the lack of a liquid market for their shares. Stocks with very low share prices—less than \$1.00, for example—often are less liquid. Low-priced stocks may trade fewer shares each day and may also have a larger spread, the difference between the bid and ask price, adding to the cost of acquiring and disposing of shares.
- The market-capitalization floor was lowered, requiring a stock to have a market capitalization of at least \$20 million; the prior floor was \$50 million. The previous \$50 million floor was used to ensure the liquidity of a company's shares. After implementing the \$5 minimum share price—a proxy for liquidity—is was possible to lower the market-cap floor.
- Three years of financial data instead of five years: This rule ensures that companies have an established financial history. By requiring only three years instead of five years of data, start-ups are still eliminated from contention, yet newer companies are able to be considered for inclusion in the Shadow Stocks.

1999 Rule Changes

- Market capitalization floor raised, requiring a stock to have a market capitalization of at least \$50 million; the prior floor was \$20 million. The floor was raised because companies with a market cap below \$50 million were found to have illiquid markets for their shares, which added an element of risk and cost when investing in them.
- Market capitalization ceiling raised, requiring that a stock have a market capitalization no greater than \$250 million; the prior ceiling was \$100 million. The ceiling was raised because, in general, market caps increase over time. Therefore, it is necessary from time to time to recognize this overall rise in market caps by adjusting the ranges used to define the target market cap.

RULES FOR DROPPING SHADOW STOCKS

2002 Rule Changes

- Stock is eliminated from the list if the market capitalization exceeds the Shadow Stock screen ceiling (currently \$250 million) by 100%; the prior rule was to eliminate the stock if the ceiling was exceeded by 50%. This rule was relaxed to allow a company to grow into the upper market-cap range of small stocks.
- Stock is dropped from the list if it has been on the Shadow Stock list for five years in a row. This rule was added because, over time, one would expect the market capitalization of a stock to rise. If, after five years, a company had not grown out of small-cap status it has "stagnated." This rule results in a more dynamic group of Shadow Stocks as well as injects a level of freshness to the annual listing.
- An increase in institutional ownership no longer eliminates a stock from the Shadow Stock listing. This rule was dropped because it had the unforeseen effect of penalizing companies that were garnering additional institutional interest. Ideally, this interest results from strong growth by the company and/or the quality products or services it provides.

Sources of Information for Small and Micro-Cap Stocks

Corporate Reports

The annual report contains the income statement, cash flow statement, and balance sheet for recent years and a summary of earnings and dividends. The 10-K incorporates the annual corporate report sent to shareholders, detailed financial statements, and exhibits organized by lines of business. Most publicly traded companies maintain investor information segments on their Web sites that include annual and quarterly reports, press releases, and possibly transcripts from analyst conference calls. Annual reports are available by writing or calling the firm, or through one of the following sources:

Public Register's Annual Report Service

Request reports by phone at 800/4-ANNUAL, by fax at 860/974-2229, or through the Internet at www.prars.com.

SEC—EDGAR

All publicly traded firms must file quarterly and annual reports electronically with the Securities & Exchange Commission. The SEC makes this electronic database available free at its Web site (www.sec.gov).

EDGAR Online

Free and fee-based Web service with enhanced search and retrieval compared to the SEC site. Company filings can be searched by a number of variables including ticker. Full reports are available as well as organized segments. (www.edgaronline.com)

Stock Exchanges

Stock exchanges maintain Web sites that publicize and promote corporations. The exchange sites typically feature company news, financial statement data, earnings estimates, SEC filings, as well as company links.

American Stock Exchange:

www.amex.com

Nasdaq: www.nasdaq.com

New York Stock Exchange:

www.nyse.com

Publications

Standard & Poor's Corp.

www.standardandpoors.com

Publishes various reports on companies available in libraries or by calling (800) 221-5277: the S&P Stock Guide (monthly) and S&P Stock Reports (bimonthly).

Value Line Publishing

www.valueline.com

The Value Line Investment Survey and Value Line Investment Survey—Expanded Edition offer comprehensive one-page reports of companies that are updated continuously (800/634-3583). The Investment Survey for Windows is an electronic subscription version on CD-ROM.

Software

AAll's Stock Investor

AAll's *Stock Investor* screening software provides in-depth fundamentals on over 9,000 firms (800/428-2244). Monthly and quarterly subscriptions are available on CD-ROM for Windows systems.

Web Sites

AAll.com

www.aall.com

Quotes, news, financial snapshots, charts, S&P Reports, and SEC filings of company reports can be accessed free by AAll members through the links provided under the Tools area on AAll.com. Stock screening articles and results can be obtained at AAll's Web site in the Stock Screens area.

Business Week Online

www.businessweek.com/investor

Combines elements of the Business Week publication, Standard & Poor's data and analysis, and financial data and tools from Telescan and Zacks.

CNBC on MSN Money

moneycentral.msn.com

Free site combining the news of CNBC-TV with the powerful financial tools of MoneyCentral. Features charting, news, and top-notch screening and analysis consisting of an advanced stock filtering tool, detailed company reports, free real-time quotes, and a valuation module.

Morningstar.com

www.morningstar.com

Full-featured site whose content includes market monitoring and stock screening and research.

Multex Investor

www.multexinvestor.com

Offers a full range of free stock data including company snapshots, real-time quotes, fundamental data, earnings estimates, charts, and analyst recommendations. Registered users can access a free Java-based screening tool.

Quicken.com

www.quicken.com

Free site that offers all the basic tools including quotes, news, charts, basic stock screening, stock fundamentals, estimates, and SEC filings. Includes a simple worksheet for estimating the intrinsic value of stock.

Wall Street City

www.wallstreetcity.com

Free and fee-based site that offers a wide selection of data and analytical tools including real-time and historical quotes, charting, news, Zacks earnings reports, analysts' ratings, detailed stock data and screening.