

THE 1999 SHADOW STOCK ROOKIES:

COMPANIES NEW TO THE LIST

By Kenneth J. Michal

This year's screening resulted in 65 companies that are new to the Shadow Stock list, and their financial profiles indicate a diverse group of companies.

The *AAIL Journal's* annual screen for new Shadow Stocks resulted in 65 companies added to the list. Every year at this time, we screen for new companies that meet the 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 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. We have also prepared an Excel spreadsheet that contains detailed financials for all 276 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.

EXAMINING THE FIGURES

The companies are sorted here in ascending order by the current price-earnings ratio, computed by dividing the stock price by the firm's earnings per share for the most recent 12-month period. The price-earnings ratio, also referred to as the earnings multiple, provides a quick feel for the market's valuation of a firm. Stocks trading with high price-earnings ratios are generally trading with high expectations of future earnings growth, but an earnings drop—perceived as temporary by the market—may lead to rather extreme values such as Gallery of History's 937.5 ratio. This high price-earnings ratio reflects the stock's low earnings per share of two cents. Stocks with low price-earnings ratios generally have lower growth expectations or are perceived to possess higher risk. Value investors often seek out good quality firms trading with low price-earnings ratios with the belief that the market may be overreacting to company events and is not correctly 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 such financial papers 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 AAIL'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 65 firms swings from -53.7% for energy developer Besicorp Group to 94.7% for manufacturer Zoltek Companies. Growth rates at these levels are not typically 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. Zoltek is a perfect example, since the company's earnings per share figure in the base year of the calculation was \$-0.03. Another example is Banner Aerospace with its five-year growth rate of 86.2% and

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 assistant editor of Computerized Investing.

THE 1999 SHADOW STOCK 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. (\$)	Growth Rate* (%)		Last 12 Mos. (\$ Mil.)	Growth Rate* (%)	High (\$)	Low (\$)	Firm (%)	Industry (%)	
Besicorp Group (A: BGI)	1.0	29.40	-53.7	na	152.5	-2.2	40.00	23.63	58	27	Power projects and energy technologies
Banner Aerospace, Inc. (N: BAR)	2.7	3.44	86.2	na	286.0	13.3	13.00	7.38	49	58	Parts & servs to intl aerospace indus
Ampex Corporation (A: AXC)	3.5	0.30	15.7	0.2	67.7	-19.5	3.25	0.69	14	15	Mass data storage systems
Toymax International, Inc. (M: TMAX)	4.7	1.08	22.7	0.2	104.5	24.3	11.38	4.19	24	39	Designs & distribs toy products
Quigley Corporation (M: OGLY)	6.0	0.92	na	na	48.5	na	16.44	4.94	10	27	Homeopathic remedies; Cold-Eeze
LMI Aerospace, Inc. (M: LMIA)	6.3	1.00	na	na	61.2	na	11.88	4.00	na	58	Aluminum components for aerospace
Sauer Inc. (N: SHS)	7.3	1.04	na	na	571.4	na	18.38	6.06	na	27	Hydraulic sys for mobile equip
GeoScience Corporation (M: GSCI)	7.8	1.41	-20.4	na	120.8	14.0	14.50	8.25	57	17	Seismic data acquisition systems
Blonder Tongue Labs, Inc. (A: BDR)	8.3	0.80	54.0	0.2	70.0	22.3	16.13	5.13	16	15	TV & satellite signal distrib equip
Semitool, Inc. (M: SMTL)	8.5	0.72	47.6	0.2	195.5	47.3	14.75	4.25	16	35	Semiconductor fabrication equip
Formula Systems (1985) (M: FORTY)	8.5	2.95	na	na	148.3	na	47.25	12.00	46	70	Israeli software & info technology
North Pittsburgh Systems (M: NPSI)	8.6	1.55	na	na	65.4	na	18.75	11.00	37	77	Telecomm equip & servs in PA
European Micro Holdings (M: EMCC)	9.4	1.14	32.9	0.3	116.6	35.6	17.13	4.75	na	66	Distribs microcomputer prods
Trendwest Resorts, Inc. (M: TWRI)	9.8	1.27	43.1	0.2	182.7	31.0	23.38	4.88	21	3	Timeshare resorts in western U.S.
Dorchester Hugoton, Ltd. (M: DHULZ)	10.2	0.99	45.4	0.2	17.4	30.9	16.75	10.00	30	0	Natural gas producer
OMNI Energy Services Corp (M: OMNI)	10.6	0.40	63.7	0.2	78.1	69.0	20.75	3.63	9	0	Oilfield services
Guess ?, Inc. (N: GES)	10.7	0.45	-12.2	na	457.7	0.1	8.38	3.63	34	17	Jeans & casual wear for men & women
Atlantis Plastics, Inc. (A: AGH)	11.6	0.69	-40.0	na	253.8	6.3	9.13	4.75	88	52	Produces polyethylene films
Vitech America, Inc. (M: VTCH)	11.7	1.33	na	na	165.7	na	21.25	7.50	60	66	Computer equip in Brazil
Zoltek Companies, Inc. (M: ZOLT)	12.3	0.75	94.7	0.1	86.5	56.7	42.25	8.25	8	24	Carbon fibers for aircraft brakes
Tower Semiconductor Ltd. (M: TSEMF)	12.7	0.75	na	na	98.0	na	13.00	5.63	60	35	Semiconductor integrated circuits
National Beverage Corp. (A: FIZ)	13.0	0.72	31.8	0.4	406.4	3.8	12.06	8.81	57	72	Soft drinks & juice prods
Hickory Tech Corporation (M: HTCO)	13.1	0.99	17.0	0.8	89.3	6.2	15.75	10.25	72	77	Parent of telecommun prod firms
EnergySouth, Inc. (M: ENSI)	13.2	1.67	4.8	2.8	74.0	6.3	27.50	18.00	na	71	Distribs natural gas in AL
Globe Business Resources (M: GLBE)	13.4	0.93	-5.8	na	129.2	30.5	21.25	9.75	25	17	Rents and sells furniture
Pizza Inn, Inc. (M: PZZI)	13.4	0.33	17.5	0.8	68.3	5.1	6.63	4.25	42	52	Pizza chain franchise & food distrib
American Locker Group (M: ALGI)	14.4	1.75	23.9	0.6	46.2	12.6	39.00	6.19	99	27	Sells & rents checking lockers
Thermedics Detection (A: TDIX)	14.8	0.52	20.4	0.7	85.2	24.1	11.69	6.00	38	17	On-line detection & measure systems
Conestoga Enterprises (M: CENI)	15.6	2.26	2.4	6.5	61.2	15.6	35.25	28.75	80	77	Telecomm servs in Penn.
Hansen Natural Corp. (M: HANS)	16.3	0.33	na	na	52.9	35.6	6.81	1.47	98	72	Fruit juices, Smoothies, & sodas
National Vision Assoc. (M: NVAL)	16.3	0.33	31.0	0.5	224.7	31.1	8.75	2.19	54	52	Sells optical goods & servs
Shoe Pavilion, Inc. (M: SHOE)	17.4	0.43	na	na	52.4	na	11.50	3.41	na	77	Off-price retail of brand name shoes
Warwick Valley Telephone (M: WWVY)	17.8	2.19	na	na	15.9	na	43.50	36.13	na	77	Telephone service in NY & NJ
Overland Data, Inc. (M: OVRL)	18.3	0.39	38.0	0.5	85.6	44.6	7.50	3.38	83	10	Magnetic tape data storage sys
Christiana Companies Inc. (N: CST)	19.4	0.99	15.5	1.3	89.6	14.0	43.63	16.13	17	24	Public warehousing & logistic servs
ATEC Group, Inc. (M: ATEC)	19.7	0.40	na	na	188.9	na	10.75	2.91	97	66	System integrator & info technology
Apco Argentina Inc. (M: APAGF)	20.2	0.98	3.0	6.7	38.5	5.7	36.00	16.00	23	0	Participates in oil & gas devlp
Procom Technology, Inc. (M: PRCM)	20.4	0.48	47.0	0.4	111.9	21.8	16.00	3.50	27	10	Data storage & info access solutions
Roadhouse Grill, Inc. (M: GRLL)	20.8	0.26	20.9	1.0	118.4	60.9	6.31	2.75	90	52	Operates restaurant chain
VSI Holdings, Inc. (A: VIS)	21.0	0.25	7.9	2.7	166.8	50.7	8.13	3.19	37	33	Integrated marketing services
Champion Industries, Inc. (M: CHMP)	21.8	0.47	10.8	2.0	121.3	31.5	17.25	9.25	27	63	Commercial printing; business forms
Hach Company (M: HACH)	22.2	0.54	6.5	3.4	134.3	6.4	14.50	8.50	60	17	Lab instruments to test water
Ag-Chem Equipment Co. (M: AGCH)	23.4	0.48	16.7	1.4	321.1	23.6	22.13	9.50	45	5	Off-road equip for agriculture
ATG, Inc. (M: ATGC)	25.4	0.29	na	na	29.7	na	10.19	4.63	na	14	Hazardous waste mgmt
Point of Sale Limited (M: POSIF)	25.4	0.28	na	na	12.3	na	7.88	3.13	na	70	Software solutions for retail
Omega Research, Inc. (M: OMGA)	27.3	0.11	55.2	0.5	27.6	57.6	6.38	1.06	22	70	Investment analysis software
LandCare USA, Inc. (N: GRW)	29.4	0.33	na	na	111.4	na	10.13	5.00	na	73	Landscape services
Detection Systems, Inc. (M: DETC)	30.0	0.30	-6.0	na	132.9	33.8	14.13	7.88	29	27	Electronic detection equip
Elcotel, Inc. (M: ECTL)	30.6	0.18	55.2	0.6	66.3	34.3	6.72	4.13	54	15	Microprocessor public comun prods
Presstek, Inc. (M: PRST)	31.0	0.22	28.8	1.1	94.1	48.7	30.25	5.25	5	27	Digital imaging technologies

*five-year

Statistics are based on figures as of December 31, 1998.

Data Source: AAIL's Stock Investor/Market Guide, Inc.

Exchange Key: N = New York Stock Exchange

A = American Stock Exchange

M = Nasdaq

THE 1999 SHADOW STOCK 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. (\$)	Growth Rate* (%)		Last 12 Mos. (\$ Mil.)	Growth Rate* (%)	High (\$)	Low (\$)	Firm (%)	Industry (%)	
Texas Pacific Land Trust (N: TPL)	31.3	1.72	31.8	1.0	8.5	25.0	54.63	35.75	78	52	Land management; oil & gas royalties
A.S.V., Inc. (M: ASVI)	35.8	0.50	60.5	0.6	38.9	53.0	26.38	14.13	57	5	Track-driven, all-season vehicles
Psychemedics Corp. (A: PMD)	39.4	0.13	41.5	0.9	17.6	30.9	6.00	4.00	49	27	Hair analysis substance abuse detect
LabOne Inc. (M: LABS)	39.4	0.33	-30.1	na	96.1	1.2	18.50	9.25	37	7	Lab tests for insurance
X-Ceed, Inc. (M: XCED)	40.5	0.21	27.2	1.5	59.3	66.7	10.25	2.06	98	97	Performance improve projects business
Broughton Foods Company (M: MILK)	42.3	0.42	25.5	1.7	153.6	5.8	18.50	14.38	68	73	Dairy-related food products
Thermo Power Corp. (A: THP)	43.1	0.18	27.7	1.6	226.7	28.8	12.13	7.25	53	27	Indus refrigeration equip
ThermoSpectra Corporation (A: THS)	45.0	0.25	85.6	0.5	206.1	55.2	12.75	8.25	74	17	Precision inspection & measure equip
Sunquest Inform. Systems (M: SUNQ)	45.6	0.31	-3.9	na	114.0	12.0	15.00	6.75	87	97	Healthcare info systems for hospitals
Colonel's International (M: COLO)	51.3	0.10	na	na	54.6	na	10.00	3.00	40	46	Mfrs auto bumpers
Siliconix Incorporated (M: SILI)	51.9	0.40	48.4	1.1	296.2	15.5	45.50	12.00	17	35	Semiconductor components computers
Arguss Holdings, Inc. (M: ARGX)	89.3	0.21	22.6	4.0	122.2	42.1	20.50	12.00	83	24	Constructs telecommun systems
Zoran Corporation (M: ZRAN)	102.9	0.17	23.9	4.3	44.1	43.8	19.19	4.88	87	35	Integrated circuits
Identix Incorporated (A: IDX)	281.3	0.03	16.5	17.0	81.4	46.2	10.56	4.44	53	10	Fingerprint ID prods
Gallery of History, Inc. (M: HIST)	937.5	0.02	32.0	29.3	2.8	-3.2	21.00	1.50	100	52	Markets historical documents
Median of New Shadow Stocks	17.8	—	23.9	0.8	94.1	25.0	—	—	49	—	
Median of All Shadow Stocks	14.8	—	21.0	0.6	74.3	15.9	—	—	54	—	
Median of All Companies	16.4	—	12.2	0.8	84.1	13.1	—	—	50	—	

*five-year

Statistics are based on figures as of December 31, 1998.

Data Source: AAIL's Stock Investor/Market Guide, Inc.

Exchange Key: N = New York Stock Exchange

A = American Stock Exchange

M = Nasdaq

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—Growth Rate: 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—Growth Rate: 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.

\$-0.17 base year earnings per share. Beyond an overall growth rate, individual investors should look at year-to-year trends as well—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 relative to historical earnings growth, its price has high expectations built into it relative to what the firm has been able to produce in earnings historically—and therefore might be

overvalued. An example of this is Zoran Corporation, with a price-earnings ratio of 102.9 and a historical growth rate of 23.9%, which leads to a high 4.3 PEG ratio.

At the opposite end of the spectrum—when the PEG ratio is low—an investor is able to purchase historical growth at a reasonable

price. As a general rule of thumb, firms with PEG 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. Omega Research's 0.5 ratio of price-earnings to earnings growth indicates that the stock may be undervalued, whereas Roadhouse Grill's ratio of 1.0 points to a fairly valued 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 is best to compare firms within the same sector.

The sales growth rate is often used to confirm the strength of earnings growth. 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 -19.5% to a positive 69%. The median sales growth rate of 25.0% for the new Shadow Stock group is noticeably higher than the 15.9% median for the complete Shadow Stock group.

Examining the high and low prices over the most recent 52-week period gives an assessment of the company's stock and its trading

range over the past year. Last year saw dramatic swings, so it is not surprising to see wide ranges. Banner Aerospace, a parts and services supplier to the aerospace industry, provides a good example of the wild price swings seen during 1998. Banner started the year with a price near \$11 and hit a high of \$13 in July, only to see its price slide to \$7.38 in October. Banner participated in the fourth-quarter market rally and closed out the year at \$9.43.

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 in the complete universe. 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. Banner Aerospace's relative strength rank of 49% indicates middle of the road performance. 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 more recent, low figure—say a low 13-week rank—points to a company whose price strength is weakening.

American Locker Group has a high 52-week relative strength rank of 99%, indicating that it has outperformed 99% of all stocks over the last 52 weeks. Its price has quadrupled from its close of \$6.25 at the end of 1997 to \$25.25 for 1998. However, its relative strength rank of 43% over the last 13 weeks

indicates a weaker performance over the last quarter of 1998. In contrast, Overland Data's relative strength is strong in both the short-term (13-week rank of 88%) and the long-term (52-week rank of 83%).

The final piece of information included in the Rookies listing is a relative strength rank figure for the industry in which the Shadow Stock operates. 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 its performance in relation to its industry. Here you can determine if the firm participates in an industry that is a leader or a laggard.

For example, Omega Research, the technical analysis software maker whose products are frequently reviewed in *Computerized Investing*, has a 52-week relative strength rank of just 22%, while its industry—Software and Programming—boasts a 70% percentile rank figure. At first glance, one would think Omega Research is wallowed in the mire. But a check of its 13-week relative strength rank shows 84%, providing an outlook that would appear to be improving dramatically.

For any company's industry group, please see the complete Shadow Stock listing beginning on page 16.

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. To browse through more of the data on these companies, log onto the AAIL.com site at www.aail.com and download the expanded 1999 Shadow Stock data in the Excel spreadsheet file or check the company financials through the Quotes and Research area found under Tools. ♦