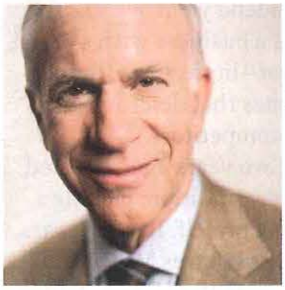

OPENING SHOT
JAMES K. GLASSMAN

Ten Stock Picks for 2013

HERE'S MY ANNUAL LIST of ten stocks for the year ahead, chosen from the selections of experts I admire. Although I have done pretty well over the long term, beating Standard & Poor's 500-stock index by an average of three percentage points per year over the past nine years, 2012 was the second straight year I lagged. My ten picks gained 12.7%, on average, while the S&P 500 returned 16.8% (returns and share prices are through November 2).

Still, for the third straight year, and in keeping with my recent penchant for minimizing risk, no single stock got crushed. My worst performer was Shire (symbol SHPG), an Irish biotech firm, which lost 9.4%. I had two big winners. SAP acquired one, SuccessFactors, a software company that helps businesses manage and assess employees, at a 48% premium to the price at which I recommended it. The other, Bolt Technology (BOLT), whose main business is gathering seismic data for energy exploration, soared 54%.

Micro-cap maven. Bolt was the choice of Daniel Abramowitz, of Hillson Financial Management, in Rockville, Md., making his debut as one of my stock selectors. For 2013, he has chosen another tiny outfit, **CENVEO**, a printing company with a $2 share price and a price-earnings ratio, based on estimated 2013 earnings, of just 4. Cenveo has a lot of debt, and the stock is speculative, says Abramowitz: "But the downside at these levels is limited, and the upside is pretty substantial."

In my recent column on top-performing mutual funds (see "Opening Shot," Nov.), I highlighted Donald Yacktman as that rare manager who has consistently produced strong returns. Yacktman Focused Fund (YAFFX) has beaten the S&P 500 by an average of 4.5 points per year over the past decade. One of Yacktman's favorite stocks is **STRYKER**, a large, skillfully managed maker of medical devices, including hip and knee implants. Currently trading at 12 times projected 2013 earnings, Stryker is one of those companies you can stash in your IRA for a few decades and profit from as the world ages.

The managers of the superb Matthews China Fund (MCHFX), which has clobbered its benchmark over the past decade, were responsible for one of my best picks in recent years: **NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP.** On my 2010 list, the stock gained a lovely 48% over the following 12 months. For the past year, however, New Oriental—which dominates the market for private educational services in China (55 schools and 726 learning centers)—has taken a dive, as have many Chinese stocks. It's now close to its early-2010 price, even though revenues have doubled. Let's try to ride it up again.

When it comes to ratings from the *Value Line Investment Survey,* my financial bible, you can't do better than a stock that's rated "1" for timeliness, "1" for safety and "A++" for financial strength. **KIMBERLY-CLARK,** maker of Kleenex, Huggies and other consumer products, is one of the few stocks that rings every bell. It yields 3.6%, trades at a reasonable 15 times estimated 2013 earnings and is much less volatile than the overall market. Plus, *Value Line's* analysts expect earnings to rise 16% in 2013. Who says you can't have it all?

The venerable investment firm Brown Brothers Harriman, which has catered to wealthy families since 1818, has launched some excellent mutual funds in recent years. The managers of BBH Core Select (BBTEX) look for stocks that sell for a "meaningful discount" from their judgment of a firm's intrinsic, or true, value, thus providing what financial scholar Benjamin Graham called a "margin of safety." A prime holding for the past eight years has been Minneapolis-based **U.S. BANCORP,** one of the best-run banks in the world. Its stock has risen 35% in the past year, but the P/E is still reasonable at 11, and the 2.3% dividend yield gives you more income than a ten-year Treasury bond. (For more on BBH Core Select, a former member of

"Investors don't believe that Ford can sustain today's high profits. I think they're wrong."

PETER ROSS

the Kiplinger 25, see "Big Changes at Two Kip 25 Funds," on page 40.)

Money manager James Roumell gained fame with his victories in the *Wall Street Journal*'s late, lamented, dartboard-versus-stock-pickers contests. Two years ago, he launched a mutual fund, Roumell Opportunistic Value (RAMVX). He is a regular on this list, and he's got a real contrarian choice: **DELL**. These are tough times for makers of personal computers but, in a letter to his investors, Roumell notes that Dell today derives two-thirds of its earnings from software, servers and services. And the stock is cheap! It has lost half of its value in eight months and trades at just 5 times estimated earnings for the year that ends in January 2014. Writes Roumell: "We are exercising our greed gene while others are locked in fear."

The annual ten-best list would be incomplete without a stock from Will Danoff, the manager of my favorite mutual fund of all time, Fidelity Contrafund (FCNTX), a member of the Kiplinger 25. During the first nine months of 2012, Danoff added only one new stock to his 25 largest holdings: **COMCAST**, the nation's biggest cable operator and the owner of NBCUniversal and its TV, movie and theme-park businesses. As the number of broadband Internet subscribers increases, Comcast is emerging as one of the most adept players on the changing telecom scene. Earnings are expected to rise 16% in 2013; for that kind of growth, the stock's P/E of 17 is modest.

Terry Tillman, who analyzes software stocks for the Raymond James investment firm, chose SuccessFactors for 2012. Now he's enthusiastic about **TANGOE**, which makes software that helps manage the telecom services that large and midsize companies use. Revenues in the July–September quarter were up 39% from the same period in 2011. When you consider Tangoe's fast growth, its P/E of 20, based on 2013 earnings estimates, seems attractive. But I'm mainly drawn by the firm's similarity to SuccessFactors. Two in a row?

Among funds that invest in large foreign stocks with a blend of growth and value attributes, Artisan International Value (ARTKX) has delivered the best return over the past ten years—an amazing 14.3% annualized, according to Morningstar. Near the top of its portfolio is **REED ELSEVIER**, a London-based firm that offers professional information services, including scientific journals and the LexisNexis legal database. Getting my attention are a sterling balance sheet, a P/E of 12, a dividend yield of 1.9% and a business with a broad moat—in this case, brand names that deter inroads by competitors.

Two years ago, I started a new tradition: picking a stock myself. In both years, it was iShares MSCI Brazil Index (EWZ), an exchange-traded fund that tracks the Brazilian stock market. It bombed twice, and I am not going to that well again. I'm picking **FORD MOTOR**, whose heroic CEO, Alan Mulally, turned down bailout money and guided the business through tough times to 13 straight quarters of pretax profitability, including surprisingly strong earnings of $1.6 billion in the third quarter of 2012. Ford still has room to grow. Despite the firm's achievements, the stock has dropped 40% since early 2011, and the P/E is 8. The P/E is low because investors apparently don't believe that Ford can sustain those high profits. I think they're wrong and believe that Ford deserves a higher valuation.

I'll conclude with my annual warnings: I expect these stocks to beat the market over the next 12 months, but I am not a believer in short-term investing, and you should consider these long-term holdings. The companies vary by sector, geography and size, but they aren't meant to represent a truly diversified portfolio. Finally, these are just suggestions. Ultimately, the decisions are yours. ■

By the Numbers

GLASSMAN'S PICKS: FROM CARS TO CABLE

The author has a value bent, so it's not surprising that some of his picks sport extraordinarily low price-earnings ratios. The recommended list is also well diversified by industry and by company size.

Company	Symbol	Sector/Selector	Recent price	Market value (billions)	Price-earnings ratio*	Yield
Cenveo	CVO	Printing/Abramowitz	$2	$0.1	4	0%
Comcast	CMCSA	Cable TV/Danoff	38	99.9	17	1.7
Dell	DELL	Computers/Roumell	9	15.9	5†	3.5
Ford Motor	F	Cars/Glassman	11	42.6	8	1.8
Kimberly-Clark	KMB	Consumer staples/Value Line	83	32.7	15	3.6
New Oriental Education & Tech	EDU	Education/Matthews China Fund	17	2.6	14#	0
Reed Elsevier	RUK	Business svcs/Artisan Intl Value	39	11.9	12	1.9
Stryker	SYK	Medical devices/Yacktman	53	20.0	12	1.6
Tangoe	TNGO	Software/Tillman	13	0.5	20	0
U.S. Bancorp	USB	Banks/Brown Bros. Harriman	33	62.9	11	2.3

Through November 2. *Based on estimated earnings for 2013, unless otherwise noted. †Based on estimated earnings for the fiscal year that ends January 2014. #Based on estimated earnings for the next four quarters. SOURCES: Thomson Reuters, Yahoo.

JAMES K. GLASSMAN IS EXECUTIVE DIRECTOR OF THE GEORGE W. BUSH INSTITUTE. HIS RECENT BOOK ON THE ECONOMY IS TITLED *THE 4% SOLUTION*. HE OWNS NONE OF THE STOCKS MENTIONED.