INVESTING IN A VOLATILE, RANGE-BOUND MARKET

Over the last year all three major indexes, the Dow, the S&P 500, and the Nasdaq, have been stuck in trading ranges. These ranges are rather wide (7% to 13%). More recent the daily ranges in the Dow have also been quite large—up or down 100 points or more. It's as if the market is poised to make a protracted and drastic move in one direction, but it's not clear yet whether that's up or down.

Quality companies, with strong fundamentals, purchased when they are not overpriced, are the kinds of stock investments that can do well in this kind of market. They should be less vulnerable to huge down moves in a plunging market. And these stocks will most likely be lifted along with a rising market.

The energy stocks that I have been recommending are up substantially in the last year, but I don't think it's too late to add energy companies to your portfolio. Until we find more sources or otherwise reduce our demand for oil and natural gas, energy companies stand to continue profiting from the supply/demand scenario we have now. Meanwhile, I recommend buying these stocks on dips.

Summer is typically a bad season for stocks, so there may be dips in the near future.

The following companies meet my criteria for Growth Stocks (growth at a reasonable price/GARP) or Stable Growth/Income Stocks:

GROWTH STOCK RECOMMENDATIONS

The following stocks meet these criteria: 1) their growth outlook is more robust than that of the S&P 500; 2) they are lead by topnotch management; 3) debt is reasonable; and 4) they are not overpriced, as measured by ratios of price to earnings, sales, and future earnings growth (P/E/G = price/earnings/5-year growth, in which 1 is often considered fairly valued, and less than 1 is considered undervalued).

TECHNOLOGY –

Motorola (MOT $17, P/E/G 1.29)

Motorola has been busy signing deals with Vonage (supplying routers), Nextel (making affordable, rugged phones), Verizon (fiber-to-the-premises networks), Apple (iTunes phones), and Comcast (cable TV set-top boxes), as well as working on its carbon nanotubes (tiny filaments for color display). Whether or not their customers will continue to increase spending, Motorola appears to be gaining market share. The company expects solid, if moderate, growth in all its business segments and gross margins to continue to increase. They are using free cash flow to pay down debt. I believe they have turned the corner and are a good, long-term buy.

INDUSTRIALS –

Companhia Vale do Rio Doce (RIO $29, P/E/G .19)
Based in Brazil, "Rio" is the world's largest producer of iron ore for use in steelmaking. In recent price negotiations they secured a 71% price increase from its iron ore customers. China, the largest importer of iron ore, has restricted imports to only the largest mills, which benefits Rio. The company also produces manganese, aluminum, gold, and potash, and plans in expand into copper and nickel. Brazil's many exports have been hampered for years by poor infrastructure, making transport of goods overseas overwhelmed by strong demand. Now the government has announced intentions to fund a huge infrastructure upgrade, particularly rails and roadways, to alleviate logistics problems. As an owner of railroads and ports, Rio can only benefit from any success of the planned government upgrades. The stock is priced very cheaply if its projected earnings estimates and 35% annual growth rate manifest. The downside risk lies in the ever-present political uncertainty of South America.

ENERGY

Nabors Industries (NBR $57, P/E/G .37) – Nabors is the largest oil and gas land drilling contractor, operating primarily in the U.S., but also internationally, with some offshore rigs in the Gulf of Mexico. Earnings for 2006 are expected to increase almost 30% over 2005, which showed an almost 50% increase. Standard & Poor's has increased their 12-month target price to $71, retaining their Strong Buy rating.

Drilling is a high risk business, because of the frequent negative impacts of weather and geopolitical turbulence. However, the current rise in demand for oil and gas, coupled with the depletion of reserves, bodes well for the drilling and oilfield services sector. As Briefing.com puts it, "Rising trends in demand for oilfield services will give companies license to implement price hikes without impeding drilling activity." Nabors has enough excess capacity to take advantage of the increased need for drilling, and they are spending some of their recent profits to upgrade their rigs.

STABLE GROWTH/INCOME RECOMMENDATIONS

These stocks will generally not be as volatile as more growth-oriented companies, and/or they add cash to your portfolio. With these companies the growth is more evident in their ability to consistently grow earnings and increase dividend payouts.

FINANCE

RAIT Investment Trust (RAS $29, Dividend Yld 8.28%, EPS Growth 20%) – RAIT Investment Trust is a Real Estate Investment Trust (REIT) that provides mortgage financing to commercial owners of real estate in the form of bridge loans and mezzanine loans. (The first is short-term, meant to be refinanced soon; the second is subordinate to a primary loan.) The income from these loans allows them to pay shareholders dividends, currently $0.60 per share, yielding more than 8%. For the last 11 quarters they have paid at least $0.60 per share. RAIT also acquires real estate for itself (accounting for about 23% of its assets), and 31% of its income for 2003 was rental income. Real estate lending can be risky, but this trust has been doing this for a

long time and has developed a disciplined screening process for what they consider to be worthwhile deals. On top of the 8% dividend yield, growth for the company is estimated by analysts to grow almost 20% annually. Return on equity for RAIT is more than double that of the REIT industry. I consider this stock a low-risk, income-oriented investment with growth to boot.

INDUSTRIALS

Ingersoll Rand (IR $75, Dividend Yld 1.33%, EPS Growth 13%) – The company began in the 1870s as a drill company. Now it is a leading global provider of industrial equipment and security solutions. Recognizable IR brands and products include Schlage locks, Thermo King transport and temperature control equipment, Bobcat construction machinery, and Club Car golf cars and utility vehicles. The current macroeconomic environment suggests capital spending will continue on infrastructure and building, which supports the anticipated 12% increase in 2006 earnings ($6.55) over 2005 earnings ($5.82). Using S&P's discounted cash flow and historical P/E methods for calculating their $100 price target, the share price could increase as much as 33%. That kind of growth is atypical for my "stable growth" recommendations, but is possible because of the company's efforts to diversify away from the cyclical construction sector into other, faster growing businesses.

ENERGY

Devon Energy (DVN $46, Dividend Yld 0.61%, EPS Growth 8%)

Devon is both an oil and natural gas company, involved in exploration, development, production, and transportation of oil, natural gas, and natural gas liquids (NGLs). They have merged with or acquired other companies once in each of the last four years, buying properties at reasonable prices, and building themselves into the largest independent U.S.-based oil and gas producer. The current estimates of 8% annual earnings growth for the next five years and $4.70 in earnings for 2005 may prove to be on the low side, in my opinion. The company is selling off its non-productive and shorter-lived properties and plans to use the proceeds to buy back shares. The stock price is no longer inexpensive, but still trades at only 10 times (the underestimated) earnings for 2005. I would buy on a dip.

Valero (VLO $72, Dividend Yld 0.56%, EPS Growth 7%) – New to list

This U.S. refiner is also an independent retailer of refined products. In each of the last three years revenues have been up more than 40%. In the first quarter of this year operating earnings were up 111%, following an increase of 288% the quarter before. This is history that may not be repeated, but one huge strategic advantage Valero has in the refining arena is its ability to process heavy/sour crude (high sulfur) oil, which they can purchase at a wide discount to the lighter "sweet" crude (low sulfur). The planned acquisition of Premcor, another refiner, will reduce costs and allow organic growth. S&P has a Strong Buy recommendation with a $90 price target.

Linda Stewart for www.fizone.com
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