



December 15, 2007

# WINNING INVESTING

WINNINGINVESTING.COM



*Your Comprehensive Guide to Safe,  
Successful Investing in Mutual Funds & Stocks  
by Harry Domash*

## Mixed Month



Although the month felt rough, two of our four stock portfolios recorded good gains since we printed our last newsletter on November 14.

Speculators, up 7%, and our Growth picks, up 6%, on average, were the two winners. Mattress Stuffers lost 1%, and our 18% Solution picks averaged a 3% loss for the month.

But even for our Growth and Speculators, it was mostly either feast or famine.

MEMC Electronic Materials, up 23%, and Manitowoc, up 18%, were the stars. But Dynamic Materials, Strata-

sys, Transocean and Mindray Medical also recorded double-digit gains.

On the downside, Ciena, down 20%, and ArthroCare, down 16%, were our only Growth or Speculators to record losses.

Except for Ciena, there wasn't any news to account for the big moves in either direction. Ciena reported strong October quarter results but predicted slower revenue growth in 2008 than analysts were expecting.

Except for DiamondRock, which dropped 11%, our 18% Solution and Mattress Stuffers, still pressured by concerns that the credit market problems would ultimately affect them, mostly suffered moderate losses.

Only Annaly Capital, up 7%, and Compass Minerals, up 6%, registered significant gains.

## Mutual Funds

All of our funds dropped and the portfolio averaged a 3% loss for the month. TR Price Media & Telecom and TR Price Capital Appreciation, both down 1%, did the best. Guinness Atkinson China, down 6%, dropped the most. For comparison, the S&P 500 and Nasdaq indexes both essentially broke even for the month.

Year-to-date, our 10 mutual funds gained 23%, on average. Guinness Atkinson China, up 61%, TR Price Latin America, up 49%, and TR Price Emerging Markets, up 39%, did the best. U.S. Global Energy, up 34%, Kinetics Paradigm, up 20%, and TR Price Media & Telecom, up 18%, were also worth mentioning. Stratton Small-Cap, down 2% for the year, was our only loser. For comparison, the S&P 500 gained 4%, year-to-date.

*continued on page 4*

# WINNING INVESTING

a monthly stock and mutual fund advisory newsletter

*Winning Investing* makes capital preservation priority number one! We cover stocks and mutual funds. We give you a short list of funds and stocks to buy, not a deluge of statistical mumbo jumbo.

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## How to Use *Winning Investing*

We offer a variety of portfolios, each serving a different need. The portfolios are listed **in order of increasing risk**. We suggest conservative investors allocate capital by **starting at the top**, and working your way down.

**the 18% Solution** ..... 5-7

Income producing investments selected so that the combination of dividends and capital appreciation totals 18% annually.

**Mattress Stuffers** ..... 8-9

Rock-solid dividend-paying stocks with targeted total annual returns in the 10% to 14% range.

**No Load Mutual Funds** ..... 14-15

A selection of small-, mid-, and large-cap funds for value and growth investors, plus sector funds suitable for profiting from changing economic trends.

**Growth Stock Discoveries** ..... 10-12

Stocks selected for rapid growth potential. Intended to be held from one to three years.

**Speculator** ..... 13, 16

Small companies, short-term plays, and other speculative investments. For your play money.

## Notice

Contents are based on information we believe to be reliable, but accuracy and completeness not guaranteed. Harry Domash, Norma Domash, and Newsletters Plus have positions in many of the investments featured in this issue.

Readers should not assume that recommendations will be profitable or will equal the performance of past recommendations. Before investing, consult with a financial advisor to determine if stocks and mutual funds are suitable investments for you.

### Newsletters Plus

411 Palmer Avenue • Aptos, CA 95003  
1 (800) 276-7721 • (831) 685-1932 • [wisales@winninginvesting.com](mailto:wisales@winninginvesting.com)

# QUICK VIEW

## WINNING INVESTING Current Portfolios

	First Buy	First Buy Price	Dividends Received	Recent Price	Gain Since First Buy	Gain This Year	Current Recommendation
<b>the 18% Solution</b>							
Aircastle (pg. 6)	6/15/07	39.6	1.25	26.6	-29.6%	-29.6%	<b>Sell</b>
AllianceBernstein (pg. 6)	9/15/06	69.1	5.62	79.2	22.7%	4.4%	<b>Do Not Add</b>
Annaly Capital (pg. 7)	11/15/07	16.7		17.5	4.6%	4.6%	Buy L.T.O.
Apollo Investment (pg. 5)	5/15/06	18.2	2.96	17.5	12.3%	-15.0%	<b>Do Not Add</b>
Constellation Energy (pg. 7)	8/15/07	41.4	0.56	32.3	-20.6%	-20.6%	<b>Do Not Add</b>
Copano Energy (pg. 5)	3/15/05	15.0	3.74	35.7	162.3%	24.9%	<b>Do Not Add</b>
DiamondRock (pg. 6)	3/15/07	18.5	0.72	15.7	-11.1%	-11.1%	<b>Do Not Add</b>
Ventas (pg. 7)	12/15/03	21.0	6.49	43.7	138.2%	6.6%	<b>Do Not Add</b>
<b>Mattress Stuffers</b>							
AGL Resources (pg. 8)	11/15/06	37.9	1.64	36.3	-1.1%	-3.7%	<b>Do Not Add</b>
Bank of America (pg. 8)	8/15/03	40.5	8.92	42.2	26.0%	-16.5%	<b>Do Not Add</b>
Compass Minerals (pg. 9)	4/15/05	25.3	3.23	38.7	66.4%	26.7%	Buy
Macquarie Infrastr. (pg. 9)	9/15/06	31.9	2.94	38.4	29.6%	15.1%	<b>Do Not Add</b>
<b>Growth Stock Discoveries</b>							
ArthroCare (pg. 11)	8/15/07	54.1		51.2	-5.3%	-5.3%	<b>Sell</b>
Ciena (pg. 10)	9/15/07	37.2		35.8	-3.9%	-3.9%	<b>Sell</b>
Dynamic Materials (pg. 12)	8/15/07	42.3		59.3	40.2%	40.2%	Buy
GFI Group (pg. 12)	2/15/07	65.8		98.6	49.8%	49.8%	Buy
Manitowoc (pg. 11)	10/15/07	46.6		48.1	3.4%	3.4%	Buy
MEMC Electronic (pg.11)	11/15/07	71.4		86.6	21.2%	21.2%	Buy
Stratasys (pg. 12)	10/15/07	29.3		25.2	-14.1%	-14.1%	Buy
Transocean (pg. 10)	9/15/07	103.7		136.0	31.2%	31.2%	Buy
<b>Speculator</b>							
<b>Capella Education</b> (pg.13)	12/15/07	new		69.9	new	new	<b>Buy</b>
Diana Shipping (pg. 13)	6/15/07	20.9	1.09	31.0	53.1%	53.1%	Buy
<b>Hill International</b> (pg.16)	12/15/07	new		12.8	new	new	<b>Buy</b>
LifeCell (pg. 16)	10/15/07	42.6		44.8	5.0%	5.0%	Buy
Mindray Medical (pg. 13)	7/15/07	31.9		41.7	30.7%	30.7%	Buy

Returns are based on closing prices as of December 14, 2007 and include **dividends received** since first added.

**Bold** indicates new or changed recommendation. *First Buy* is the date we first recommended the stock. *First Buy Price* is the closing price on the next market day after the first buy. Buy L.T.O. means buy for long-term only (2 years).

# HARRY DOMASH COMMENTARY

*continued from page 1*

## **Year In Review**

Here are the average year-to-date returns for our stock portfolios, assuming that the stocks were purchased when first recommended.

We sold five **18% Solution** picks this year for an average 29% gain. Those five stocks had been in the portfolio for 17 months, on average. The seven stocks still in the portfolio were up 44%, on average, and were held for 18 months, on average.

We sold two **Mattress Stuffers** for a 34% gain (hold time 23 months). The four stocks still held were up 30% (average hold time 28 months).

We sold 14 **Growth** picks, averaging a 10% gain (held six months). The six remaining stocks were up 22% and held four months, on average.

We sold eight **Speculators**, averaging a 21% gain (held seven months). The three stocks still in the portfolio were up 30% (held four months).

All returns include dividends received. Returns for stocks still held are as of December 14.

## **Fund Changes Coming**

We are reviewing our mutual fund selections and will make several changes in our January edition. Nothing has been finalized, but I can tell you that we will likely reorganize our fund categories and place more emphasis on global investing.

## **What's New?**

In a November 26 update, citing the credit market, we advised against adding to all 18% Solution and Mattress Stuffer picks. We are maintaining that advice with two exceptions.

This month we're adding two new Speculator picks. We're selling three stocks; one 18% Solution pick and two Growth picks. Here are the details.

## **University Has No Campus**

Capella Education, a new Speculator, offers college level and advanced degree courses to more than 20,000 students, but has no campus. It's a fast grower (page 13).

## **Who You Gonna Call?**

Say you're a Dubai prince and want to spend a half-billion or so to build a new financial center, maybe with a few hotels and shopping complexes. This new Speculator can make it happen (page 16).

## **Buy Annaly, Compass Minerals**

We're again advising adding to 18% Solution pick Annaly Capital Management (page 7) and Mattress Stuffer Compass Minerals (page 9). They are relatively insulated from the credit problems. Otherwise, with one exception, we are continuing to advise holding, but not adding to, our remaining 18% Solution and Mattress Stuffer picks. Despite strong long-term outlooks, they are vulnerable to short-term volatility.

## **Sell Aircastle**

This 18% Solution pick, already battered, could be hurt further if the corporate credit market dries up, as some fear (page 6).

## **Sell Ciena**

This Growth pick took a big hit last week in reaction to an insignificant cut in sales forecasts. The share price action warns that there's more to the story (page 10).

## **Sell ArthroCare**

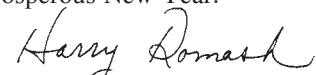
Concerns about new competition are pressuring this Growth pick's share price. It's time to sell (page 11).

## **Office Closed**

The Winning Investing office will be closed December 16-23 while we explore the Florida Keys. Norma won't let me take my laptop, so we'll return your calls and e-mails on the 24th or 26th.

## **Happy Holidays**

Norma and I want to thank you for subscribing and we wish you and your family the happiest of holidays and prosperous New Year.



hdomash@winninginvesting.com



## **Subscribers's Site**

This month's logon and password for our Subscriber's site are "cat" and "mouse".

# the 18% SOLUTION

DIVIDENDS PLUS PRICE APPRECIATION = 18%

## the 18% Solution Concept

This portfolio contains stocks we expect to return 18% annually through a combination of dividends and price appreciation, for instance, a 5% to 7% dividend yield plus 12% annual price appreciation.

- Your yield is the dividends received over the next 12 months divided by your purchase price. For instance, your yield is 10% if you pay \$10/share for a stock that pays you \$1.00 over the 12 months after you buy it (\$1.00/\$10.00).
- Many of the selections are real estate investment trusts (**REITs**) or master limited partnerships (**MLPs**). Both trade like stocks and are required to distribute most of their earnings to shareholders. MLPs offer a potential tax advantage because a portion of their payouts can be tax-deferred, but may not be suitable for tax-sheltered accounts. Consult your tax advisor for details.

### Copano Energy

DON'T ADD

Est. Next 12 Mo. Dividends: \$1.88  
Estimated Dividend Yield: 5.3%

Copano owns over 5,000 miles of natural gas gathering facilities and transmission pipelines, and five processing plants in Texas, Oklahoma, and Wyoming.

Natural gas gathering involves connecting individual wells to main pipelines.

Copano is growing primarily by acquiring additional pipeline and processing assets.

Copano is a limited liability company (LLC), which is similar to an MLP, except Copano has no general partner to take a cut off the top. However, for income tax purposes, Copano is treated the same as an MLP.

#### Current

Copano is currently paying a \$0.47 per unit (share) quarterly distribution (dividend). Analysts expect Copano to increase that payout by 32% to \$0.62 by this time next year.

Next Dividend: January/February



### Apollo Investment

DON'T ADD

Est. Next 12 Mo. Dividends: \$2.08  
Estimated Dividend Yield: 11.9%

Apollo is a Business Development Corporation that makes short-term, unsecured loans to small and mid-sized companies.

Apollo's loans are used to fund acquisitions, leveraged buyouts, restructurings, etc. Apollo also takes equity positions in its client companies.

Apollo Investment is managed by Apollo Management, a major private equity firm. That connection gives Apollo an advantage in attracting new clients.

#### Current

Apollo's share price has been pressured by fears that the credit market problems would slow its growth. However, according to S&P, Apollo "does not rely on short-term funding and is well capitalized to take advantage of the current environment.

Next Dividend: 0.52 per share on December 27.



# the 18% SOLUTION

DIVIDENDS PLUS PRICE APPRECIATION = 18%

## AllianceBernstein

DON'T ADD

Est. Next 12 Mo. Dividends: \$5.30  
Estimated Dividend Yield: 6.7%

AllianceBernstein provides investment management and related services to private clients and to institutional investors around the world. AB also operates more than 100 Alliance mutual funds.

AB, a master limited partnership (MLP), is controlled by French insurance firm AXA Financial. AB changed its name from Alliance Capital Management in 2006.

AB's profits come from fees based on the value of assets under management, which exclusive of market swings, are growing 7%-10%, annually.

### Current

AB said that at November 30, its assets under management totaled \$806 billion, down 4% vs. October 31, but 15% above the year-ago figure.

AB paid a \$1.20 per unit distribution (dividend), **38% above** year-ago, on November 15.

Next Dividend: February



## Aircastle

SELL

Est. Next 12 Mo. Dividends: \$2.80  
Est. Dividend Yield: 10.5%

Aircastle acquires and leases jet aircraft to passenger and cargo airlines.

While Aircastle is profitable, airplanes are costly and it takes on significant debt to finance its purchases.

### Current

Aircastle increased its quarterly dividend by 8% to \$0.70 per share.

Worries abound that the problems initially triggered by the subprime mortgage fiasco will spread to the corporate credit markets. Those concerns are not so far-fetched considering that many banks are absorbing huge losses resulting from stupid home mortgage lending decisions.

If corporate credit does dry up, Aircastle wouldn't be able to raise the bucks it needs to finance its airplane purchases.

### Sell Aircastle

Although Aircastle's weak share price action already reflects those fears, it would go even lower should they come true. We're selling Aircastle.



## DiamondRock

DON'T ADD

Est. Next 12 Mo. Dividends: \$0.96  
Est. Dividend Yield: 6.1%

DiamondRock Hospitality is a relatively new (May '05 IPO) hotel REIT that owns 21 upscale hotel properties with around 10,00 rooms that it leases to hotel operators, collecting a percentage of the revenues.

DRH grows by acquisition, mostly acquiring properties that can be increased in value by renovating and upscaling.

DRH's top management are former Marriott employees and most of its properties were acquired from Marriott. Also, Marriott holds around 9% of DiamondRock's shares.

### Current

Analysts expect DRH to grow its December quarter funds from operations (FFO is a cash flow measure) by 40% vs. year-ago. Revenues are expected to increase 39%.

Next Dividend: \$0.24 per share on January 10.



# the 18% SOLUTION

DIVIDENDS PLUS PRICE APPRECIATION = 18%

## Constellation Energy

DON'T ADD

Est. Next 12 Mo. Dividends: \$2.25  
Est. Dividend Yield: 7.0%

Constellation Energy Partners is a new (November '06 IPO) oil and natural gas producer organized as a limited liability company (LLC).

Constellation Energy Group, an integrated energy company and power utility, is CEP's largest shareholder. CEG established CEP to be its primary acquisition growth vehicle for oil and natural gas reserves. CEP focuses on properties with reserves that it deems "stable and long-lived."

Currently producing natural gas from methane found in coal beds, CEP plans to acquire additional types of energy reserves over time.

### Current

Thanks to a 165% year-over-year September quarter production increase, CEP increased its November distribution (dividend) by 22% over its previous payout and analysts expect distributions to grow another 14% over the next 12 months.

Next Dividend: February



## Annaly Capital Mgmt.

Est. Next 12 Mo. Dividends: \$1.72  
Estimated Dividend Yield: 9.8%

Annaly, a real estate investment trust, invests in home mortgage backed securities that it buys from quasi-government agencies Fannie Mae and Freddie Mac. The mortgages are insured by the agencies and Annaly bears no foreclosure risk.

Annaly's profit margin is the spread between the short-term rates that it pays to borrow and the (long-term) mortgage rates (yield curve). That spread is widening and analysts expect strong earnings growth, which, since Annaly is a REIT, would translate to strong dividend growth.

Analysts expect Annaly to pay out \$1.72 per share over the next 12-months, which equates to a 65% increase over its current rate.

### Current

Annaly bought a 10% interest in Chimera Investment, a new residential mortgage-backed REIT. Annaly will manage Chimera.

Next Dividend: December/January



## Ventas

DON'T ADD

Est. Next 12 Mo. Dividends: \$1.90  
Est. Dividend Yield: 4.3%

Ventas is a healthcare REIT, meaning that it owns, but does not operate healthcare properties.

Ventas owns 250 senior housing communities, 197 skilled nursing facilities, 42 hospitals, and 22 medical offices and other healthcare facilities in 43 states and in two Canadian provinces.

Ventas was spun off from Kindred Healthcare in 1998, and Kindred, accounting for 28% of revenues, is its biggest tenant. Ventas derives 67% of its revenues from private pay (non-Medicare) sources.

Ventas grows by acquisition, and is a steady grower, increasing cash flow and dividends more than 10% annually. Recently, it has placed increased emphasis on acquiring medical office buildings, where it sees attractive growth potential.

Next Dividend: \$0.475 per share on December 28.



# MATTRESS STUFFERS

DIVIDEND STOCKS: 10% TO 14% TARGETED ANNUAL RETURNS

## Bank of America

DON'T ADD

Est. Next 12 Mo. Dividends: \$2.56  
Estimated Dividend Yield: 6.1%

One of the world's largest financial institutions, Bank of America provides commercial, retail, and foreign banking services, as well as asset management services to individual consumers, and to businesses of all sizes.

BAC also issues credit cards and offers investment banking services to corporations.

### Current

BAC said, due to mortgage-related write-downs and lower trading revenues, it expects its December quarter results, although profitable, to come in below previous forecasts. BAC said it would set aside \$3.3 billion for mortgage losses and write-downs.

The falling value of collateralized debt obligations (CDOs), which are securities backed by pools of loans and bonds, are largely responsible for BAC's problems. Thanks to increased

mortgage defaults, CDO values have plummeted.

While BAC's \$3.3 billion write-down is a lot of money, it's not much compared to Citigroup's \$11 billion loss. To put the \$3 billion into perspective, analysts expect BAC to add \$19 billion to its balance sheet this quarter resulting from its holdings in China Construction Bank.

Both Moody's and Standard & Poor's rate BAC's bonds just one notch below "AAA" and its dividend appears safe. BAC will report its December quarter results on January 22.

Next Dividend; \$0.64 per share on December 28.

Like Dividends?

DividendDetective.com

\$5/mo for Winning Investing subscribers

## AGL Resources

DON'T ADD

Est. Next 12 Mo. Dividends: \$1.64  
Estimated Dividend Yield: 4.5%

AGL, a natural gas utility and distributor, serves the city of Atlanta and parts of Florida, Virginia, Tennessee and other states.

AGL operates storage facilities and maintains the natural gas delivery infrastructure for its distributors.

In Georgia, AGL supplies natural gas to regulated gas-marketing companies, who, in turn, sell to retail customers.

AGL's Sequent unit offers trading, price hedging and other consulting services to wholesale customers.

Analysts don't expect much earnings growth from AGL, but they are forecasting around 10% cash flow and dividend growth for the next two years.

### Current

AGL paid a \$0.41 per share dividend, the same as its last payout, on December 1.

Next Dividend: February



# MATTRESS STUFFERS

*DIVIDEND STOCKS: 10% TO 14% TARGETED ANNUAL RETURNS*

## Compass Minerals

Est. Next 12 Mo. Dividends: \$1.28  
Estimated Dividend Yield: 3.3%

Compass Minerals International is the U.S.' second largest salt producer. Its Goderich, Ontario, mine is the largest rock salt mine in the world. Compass also owns the largest salt mine in the U.K.

Compass also produces sulfate of potash, a specialty fertilizer used on crops such as wine grapes, nuts, citrus fruits and turf grasses.

Because a major use of salt is for road deicing, Compass' business fluctuates with the weather, but is relatively immune to economic cycles.

Compass has projects underway that will increase its production capacity by 20% over the next year or so. Compass also recently acquired two underground document storage businesses.

### **Current**

Compass paid a \$0.32 per share dividend, the same as its last payout, on December 14.

Next Dividend: February/March



## Macquarie Infrastructure

DON'T ADD

Est. Next 12 Mo. Dividends: \$2.48  
Estimated Dividend Yield: 6.5%

Macquarie Infrastructure Company Trust owns and operates properties such as natural gas distributors, airport parking lots, toll roads, utilities, and airport service operations, which provide fuelling, de-icing, aircraft parking, and other services to jet aircraft owner/operators.

These infrastructure businesses are steady cash producers and don't have to worry much about competition.

Macquarie says it intends to pay out all of its excess cash, after debt servicing costs, to shareholders.

Although its current businesses are growing, Macquarie grows mainly by acquiring additional firms operating in its existing business segments.

Macquarie is managed by Macquarie Group, an Australian investment bank. MIC's assets are all located within the U.S.

Macquarie, although structured as a



trust, has elected to be taxed as a regular corporation, simplifying shareholder tax reporting requirements.

### **Current**

MIC paid a \$0.62 per share dividend, up 2% vs. its last payout and 13% over year-ago, on December 10.

Next Dividend: March/April

### **Dividends vs. Earnings**

Dividends are paid from cash flow, not reported earnings. What's the difference?

Non-cash items such as depreciation are deducted from earnings, but they don't reduce the cash available to pay dividends. So, the cash available to pay dividends can be much higher than the reported earnings.



# GROWTH STOCK DISCOVERIES

STOCKS TO HOLD ONE TO THREE YEARS

## Transocean

Transocean is a global provider of deepwater oil and gas well drilling services. Its newest equipment is able to reach depths of 10,000 feet. Major customers include BP and Chevron.

Since the consumption of crude oil is growing around 2% annually, and the easily accessible oil reserves are being depleted, the demand for deepwater drilling services is growing rapidly.

Drilling rig rental rates are climbing and analysts expect Transocean's revenues to grow 63% this year to \$6.3 billion. They are looking for earnings of \$8.32 per share up 178% vs. year-ago.

### **Current**

Transocean merged with competitor GlobalSantaFe on November 27. Transocean shareholders received 0.6996 shares of the new company plus \$33.30 in cash for each old RIG share.

The new company is still named Transocean and trades using the "RIG" ticker. Buy to hold 6 to 18 months.



### **Transocean Merger Math**

Here's an example showing how to figure your gain or loss cost basis for Transocean shares. Assume that you bought 100 shares in September at \$106.

- You paid \$10,600 (100 x \$106). On the merger date, you received a cash dividend of \$33.30 per old share for a total of \$3,330. Your preliminary cost basis is \$10,600 minus \$3,330, which is \$7,270.
- You received 0.6996 new RIG shares for each old share. Thus you have 69.96 shares (100 x .6996). But, RIG didn't issue fractional shares. Instead it paid \$119.97 per share in cash, which would be \$115.17 (0.96 share x \$119.97). So your final cost basis is \$7,154.83 (\$7,270 minus \$115.17).
- Since you hold 69 new RIG shares, your cost basis is \$103.69 per share (\$7,154.83 divided by 69).

These figures pertain to your gain or loss, not your income tax basis.



## Ciena

**SELL**

Ciena makes equipment used to increase fiber-optic network capacity. Customers include telephone and cable companies, governments, and corporations.

### **Current**

On Thursday, Ciena reported October quarter earnings of \$0.30 per share, up 114% vs. year-ago. Excluding non-recurring items, adjusted earnings were \$0.48 per share, double year-ago and \$0.06 above analysts' forecasts. Revenues grew 35% to \$216.2 million. Analysts had expected \$211 million. Examining the financials turned up no 'red flags.'

Ciena said it expects January quarter sales above analysts' forecasts. But it expects 20% sales growth for all of 2008 vs. analysts' forecasts of 22%.

### **Sell**

Ciena's share price dropped 12% on the news and another 3% on Friday. At first look, the price drop appears to be an overreaction to management's conservative forecast. However, the price action hints that there's more to the story.

Normally, we'd be tempted to wait for more information. But, in this market, further bad news would hit the share price hard. The stakes are too high. The potential reward isn't worth the risk. Sell Ciena.

# GROWTH STOCK DISCOVERIES

STOCKS TO HOLD ONE TO THREE YEARS

## ArthroCare

**SELL**

ArthroCare makes medical devices used to perform minimally invasive soft-tissue surgeries.

Its proprietary Coblation technology uses radio frequency energy to precisely dissolve target tissue while minimizing damage to surrounding healthy tissue.

Originally focused on sports medicine, ArthroCare has expanded to ear, nose and throat surgeries and to minimally invasive spinal surgeries.

### Current

Reports that new competition is surfacing in the ear, nose and throat, and spinal surgery sectors have pressured ARTC's share price.

### Sell

Even if ArthroCare has superior products, the existence of new competition is bound to take some of ARTC's market share and pressure it to cut prices, and hence, profit margins. We're better off concentrating on stronger candidates. Sell ArthroCare.



## Manitowoc

Est. Next 12 Mo. Dividends: \$0.08  
Estimated Dividend Yield: 0.2%

Manitowoc makes construction cranes, manufactures commercial refrigeration equipment, and builds and repairs ships.

Thanks to a global construction boom, cranes, which already account for 75% of Manitowoc's sales, are in short supply.

Manitowoc's order backlog is at record levels and construction activity in emerging countries such as China and India show no signs of slowing. With only 40% of sales from North and South America, Manitowoc's outlook isn't particularly sensitive to the U.S. economy.

Although not low debt, Manitowoc is profitable, has cash in the bank, and its operations generate surplus cash every quarter.

### Current

MTW was added to the S&P 500 Index on November 16. Buy to hold 6 to 18 months.



## MEMC Electronic Mtrl.

MEMC Electronic Materials makes silicon wafers that chipmakers use to make the chips. MEMC operates R&D and manufacturing facilities in the US, Europe and in Asia. Its customer list includes almost all major chipmakers.

The chip business is notoriously cyclical. However, MEMC also supplies wafers used to make solar cells, and that business is booming. MEMC recently signed two new solar wafer deals worth about \$12 billion in sales over the next 10 years. To put those numbers in perspective, MEMC sales are currently running around \$2 billion annually.

MEMC is profitable, has \$1.2 billion in the bank, little debt, and generated more than \$0.5 billion in extra cash during the past 12-months. Analysts forecast 25% sales growth next year.

### Current

Solar power systems sales growth is accelerating and analysts now expect MEMC to report 29% sales growth in its December quarter. Buy to hold 12 to 18 months.



# GROWTH STOCK DISCOVERIES

STOCKS TO HOLD ONE TO THREE YEARS

## Dynamic Materials

Dynamic Materials makes “clad” metal plates using an “explosion-welding” process.

Clad metal is used in equipment requiring resistance to corrosion, high pressure, or high temperatures such as industrial pressure vessels and heat exchangers used in chemical plants, refineries, etc.

Dynamic operates factories in the U.S., France, and Sweden.

The U.S. only accounts for about 50% of sales and infrastructure construction in developing countries is fueling demand for Dynamic’s products.

Dynamic, growing both sales and earnings around 25% annually, is profitable, cash flow positive, and has no long-term debt.

### **Current**

Dynamic acquired a competitor in Germany with annual sales of \$73 million, a significant number compared to Dynamic’s current \$150 million annual run rate. Buy to hold 6 to 12 months.



## GFI Group

GFI Group provides brokerage services, and other products and services for institutional clients such as hedge funds and banks that want to trade complex derivatives, credit default swaps, and other exotic securities.

That’s where the action is in the investment world, trading volumes are growing rapidly, and many consider GFI to be the leader in the sector.

GFI maintains offices in Hong Kong, London, New York, Paris, and in other major financial centers.

GFI, a relatively recent IPO (January 2005), is profitable, has cash in the bank, no long-term debt, and is cash flow positive.

### **Current**

Analysts expect GFI to record 38% earnings growth this year and 25% growth in 2008.

Last month GFI said it was contemplating splitting its shares 4-for-1, but nothing is new on that front. Buy to hold 6 to 12 months.



## Stratasys

Stratasys makes equipment used to make 3-D models (prototypes) of products such as toys, consumer devices, automotive parts—you name it.

Stratasys is developing a new technology called “direct digital manufacturing” that allows its machines to make plastic production parts directly, instead of simply making prototypes.

This year, Stratasys discontinued selling products made by other manufacturers, so it’s only recording single-digit sales growth. Next year, analysts forecast 18% growth, and that doesn’t include direct digital manufacturing equipment sales.

Stratasys is profitable, cash flow positive, and carries no long-term debt.

### **Current**

Stratasys opened a new European sales office and introduced its first digital manufacturing machine, which it expects to ship in 2008. Buy to hold 12-18 months.



# SPECULATOR

SMALL COMPANIES, SHORT-TERM PLAYS, AND OTHER ADVENTURES

## Capella Education

NEW PICK

Capella Education Company operates Capella University, an accredited on-line college that offers BS, Masters, and Ph.D. level programs in health and human services, business management and technology.

Capella offers almost 900 online courses to more than 20,000 students. About 45% of its students are seeking masters degrees and 40% are in doctoral programs.

The university operates exclusively online, and focuses on the needs of adult students who want a high-quality education that they can pursue from any location.

Although established in 1991, Capella only went public in November 2006.

Capella is growing annual revenues and earnings in the mid-20% range. In its September quarter, revenues grew 27% vs. year-ago.

Capella is profitable, has money in the bank, no debt, and plenty of free cash flow. Buy to hold 6 to 12 months.



## Diana Shipping

Est. Next 12 Mo. Dividends: \$2.32  
Est. Dividend Yield: 7.5%

Diana, headquartered in Greece, owns a fleet of dry bulk ocean carrier ships used to transport iron ore, coal, cement, steel, grain and other cargo.

Dry bulk carriers are expected to be in short supply for at least the next year or so.

Diana plans to replace expiring long-term charter contracts with shorter day-rate deals that would better reflect market conditions.

Analysts look for Diana to grow earnings around 50% this year and 60% in 2008.

### Current

Diana paid a 0.58 per share dividend, up 14% over its previous payout, on December 6. Analyst expect Diana to pay \$0.92 per share this time next year, a whopping 59% increase.

Diana took delivery of another ship, bringing its fleet total up to 18 dry bulk carriers. Buy to hold 3 to 6 months.

Next Dividend: March



## Mindray Medical

Mindray Medical International, headquartered in China, makes medical equipment including patient monitoring equipment, ultrasonic imaging systems and diagnostic laboratory instruments.

About half of Mindray's sales come from China, with the balance from outside China. Mindray is a fast grower. Annual sales are expected to rise 54% this year and another 46% in 2008.

Mindray's equipment is not necessarily leading edge, but it produces high quality equipment at low enough cost so that it can profitably underprice international competitors.

Although operating since 1991, Mindray only went public in October 2006. Its shares trade as ADRs (American Depositary Receipts) on the NYSE.

Mindray is profitable, cash flow positive, and carries no long-term debt. Buy to hold 6 to 12 months.



# OUR PORTFOLIO OF

## Our Ratings

**Return:** compares a fund's historical performance to all U.S. stock funds over five years.

**Risk:** our evaluation of the fund's ability to survive market downturns, based on historical performance, and on the fund's current portfolio.

**Turnover:** measures trading activity. Turnover of 100% means the fund trades its entire portfolio, on average, each year.

## Closed Funds

These recommended funds are not accepting new accounts or have set high opening balance requirements to discourage new investors.

### **Bridgeway Aggressive Investors 1**

YTD Return 24.9% (BRAGX)

Return: Very High+, Risk: Very High

### **Bridgeway Ultra-Small Co.**

YTD Return -6.9% (BRSEX)

Return: Average, Risk: High

### **Dodge & Cox Balanced**

YTD Return 2.0% (DODBX)

Return: Average+, Risk Very Low

### **Fidelity Low-Priced Stock**

YTD Return 2.2% (FLPSX)

Return: High, Risk: Very Low

### **Royce Low-Priced Stock**

YTD Return -0.9% (RYLPX)

Return: High, Risk: Low

### **Vanguard Energy**

YTD Return 32.2% (VGENX)

Return: High, Risk: Very Low

## Value Funds

### **Kinetics Paradigm**

YTD Return: 20.2% (800) 930-3828

**Return: Very High**

**Risk: Low**

**Turnover: 52% (ave-)**

Follows classic value strategies, but also requires significant growth prospects. Five-year average annual return 27% vs. 13% for the S&P 500. Holds mid- to large-cap stocks, including 41% foreign holdings. '06 Return 27.8%. (WWNPX)

### **Stratton Small-Cap Value**

YTD Return: -2.3% (800) 634-5726

**Return: Very High**

**Risk: Low**

**Turnover: 29% (low)**

Uses traditional valuation ratios to pick undervalued stocks, but also requires good earnings growth prospects. Also, new picks must be smaller than any stock in the Russell 2000 index. '06 Return 13.8% (STSCX)

### **T. Rowe Capital Appreciation**

YTD Return: 4.2% (800) 638-5660

**Return: High**

**Risk: Very Low**

**Turnover: 54% (ave)**

An exceptionally stable fund that has not had a losing year since 1994, which is as far back as our records go. Holds mostly large-cap stocks, but its portfolio also includes bonds, and convertible securities. '06 Return 14.5% (PRWCX)

## Growth Funds

### **FBR Focus (was Small Cap)**

YTD Return: 0.5% (888) 888-0025

**Return: High**

**Risk: Low**

**Turnover: 3% (very low)**

This high-performing fund (20% 5-year average annual return) reopened to new investors on 1/2/07. Holds only 40 small- and mid-cap stocks that are not-widely followed and have registered high returns on capital. '06 Return 28.5% (FBRVX)

### **T. Rowe Emerging Mkt Stock**

YTD Return: 38.8% (800) 638-5660

**Return: Very High**

**Risk: Ave**

**Turnover: 49% (ave)**

Seeks out fast growing mid- to large-cap companies in a variety of emerging countries including Brazil, Hong Kong, India and South Korea. The fund's management is based in London. Five-year average annual return is 37%. '06 Return 32.0% (PRMSX)

### **Third Avenue Value**

YTD Return: 5.9% (800) 443-1021

**Return: High**

**Risk: Low -**

**Turnover: 7% (very low)**

Holds mostly growth-priced, mid-to large-cap stocks. Also sometimes buys debt of bankrupt firms and often holds foreign stocks. Biggest holdings (10/31): Cheung Kong, Henderson Land, Toyota Ind., and Posco. '06 Return 14.7% (TAVFX)

**YTD Return:** Year-to-date returns as of 12/14/07. For comparison, the S&P 500 and Nasdaq YTD returns were 3.5% and 9.1%, respectively.

# No Load FUNDS

## Sector Funds

*Giving you a way to profit from global economic trends*

**Guinness Atk. China/H.K.** YTD Return: 60.8% (800) 915-6566  
**Return: Very High Risk: Average+ Turnover: 65% (ave)**

The Guinness Atkinson China & Hong Kong fund gives you a way to participate in China's fast growing economy. Holds mostly large-cap, Hong-Kong-based growth stocks. Biggest holdings are industrial materials, energy and financial and business services. '06 Return 39.6% (ICHKX)

**T. Rowe Latin America** YTD Return: 49.0% (800) 638-5660  
**Return: High Risk: High Turnover: 35% (low)**

Holds 46 mostly large-cap growth stocks based in Latin America that the fund manager views as reasonably priced. Most holdings are in Brazil and Mexico, but the portfolio also includes a few stocks based in Chile. '06 Return 51.2% (PRLAX) *Note: this fund is available directly from TR Price, or via brokers E-Trade and Fidelity. It may not be available from other brokers.*

**T. Rowe Media & Telecom** YTD Return: 18.1% (800) 638-5660  
**Return: High Risk: Average Turnover: 55% (ave)**

Holds a diversified mix of U.S. and international firms (33%) in the advertising, Internet, media, and telecom industries. Biggest holdings (9/30): American Tower, Crown Castle, Leap Wireless, and American Mobile. '06 Return 28.6% (PRMTX)

**U.S. Global Inv. Global Res.** YTD Return: 33.5% (800) 873-8637  
**Return: Very High Risk: High- Turnover: 122% (high)**

U.S. Global Investors Global Resource fund gives you a way to profit from rising energy prices. Holds all sizes of firms operating in all facets of the energy industry. Also holds mining stocks. '06 Return 22.2% (PSPFX)

**Name Change: FBR Small Cap is now FBR Focus**

### How to Select Funds

If capital **preservation** is your highest priority:

- Pick funds with the lowest risk ratings first.

If capital **appreciation** is your highest priority:

- Pick funds with the highest return ratings first.

If you are a **short-term** investor (two years or less)

- Avoid funds with high risk

All Investors

- Mix it up. Diversify between styles and sectors.

## About Sector Funds

Our Sector fund portfolio gives us the ability to profit from changing economic trends.

For example, in our view, the entertainment and telecom sectors will be among the strongest performing industry sectors this year. The **T. Rowe Price Media & Telecom** fund gives you a way to participate.

The Chinese economy is likely to continue its strong growth for the foreseeable future and the **Guinness Atkinson China & Hong Kong** fund is a direct play on the Chinese economy.

We expect that the demand for oil will continue to grow faster than supply over the next few years, driving energy prices higher. If you agree, you can use **U.S. Global Investors Global Resources** to play that card.

Besides for China, Brazil and Mexico are home to two of the fastest growing emerging economies.

**T. Rowe Price Latin America** is a managed fund that holds large-cap growth stocks mostly in Brazil and Mexico. Political and economic conditions can change rapidly in Latin America. That's why we opted for a fund with an active manager at the helm who can react quickly rather than an exchange-traded fund that tracks a fixed index of stocks.

# SPECULATOR

SMALL COMPANIES, SHORT-TERM PLAYS, AND OTHER ADVENTURES

## LifeCell

LifeCell makes products derived from human (cadaver) tissue for use in reconstructive and orthopedic surgical procedures.

Its materials are superior to synthetics because they resist infection and rejection, and enable the body to regenerate lost tissue the same way that it naturally replaces damaged tissue.

LifeCell's main product, AlloDerm, is used mainly to repair abdominal hernias, but it has also been found useful for rotator cuff repair, breast reconstruction, and other procedures.

LifeCell has received permission from the FDA to market a new product, Strattice, which is derived from tissue taken from pigs instead of human

cadavers. Strattice offers potential advantages including unrestricted supply, more applications, and higher profit margins. Also, Strattice opens the door to European markets, where restrictions on the use of human tissue preclude the use of AlloDerm.

LifeCell is making Strattice available to surgeons on a limited basis this quarter, and plans a commercial launch in early '08.

LifeCell is profitable, has cash in the bank and no long-term debt.

### Current

Analysts are forecasting 26% sales growth in LifeCell's current (December) quarter and 23% sales growth next year. Buy to hold 6 to 18 months.



### Subscribers's Site

This month's logon and password for our Subscriber's site are "cat" and "mouse".

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## Hill International

NEW PICK

Hill International offers construction project management and claims consulting services for major projects around the world.

Recent construction management projects include the 57-story Comcast Center in Philadelphia, a 61-story residential, hotel and apartment tower, along with adjoining 12-story office and retail in Dubai, and the 52-story headquarters of Qatar Navigation in Doha, Qatar. Its claims management services target similar projects.

Operating since 1976, Hill was acquired by a special purpose acquisition firm in 2006, which then changed its name to Hill International. Hill is still managed by its founder.

With large projects springing up all over, Hill is in a hot market. Revenues are expected to grow 44% this year and 25% in 2008. Analysts expect '07 earnings flat with year-ago, but to grow 30% next year.

Hill is profitable, cash flow positive, and low debt. Buy to hold 6-12 months.

