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## Why This Stock Is a Winner

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January 13, 2011

If you could wave a magic wand and bestow just *one* characteristic on all of your investments, what would it be? (Besides the ability to print money, that is.)

I began thinking about this after reading Tom Gardner's "[A 25-Bagger in Five Years](#)," in which he identified three things that give a company the chance to achieve outsized gains over the years -- on the level of 25-baggers that turn \$5,000 into \$125,000. Of the three he mentions, one characteristic is most important to me: a high level of insider ownership.

### Why it matters

But this makes sense, right? Think about any of your major personal investments:

1. You are a stockholder, with a good deal of your wealth riding on this company's performance.
2. Founders and managers with high levels of ownership also have their wealth riding on the company's performance.
3. They are doing everything they can to increase the long-term value of their stock -- of *your* stock.

### Having a wonderful time ...

You can be fairly sure that with their reputations, livelihoods, and careers on the line, these managers and board members are motivated to do what's best for the company. It's like having someone on the inside, working for you -- every day.

What's the opposite of that? Businesses where management has very little tied up in company stock, or where actions may be motivated by things that actually *harm* the stock's performance, such as office politics, power plays, or a tendency to work more with an eye on the clock (is it 5 yet?) than on improving the business model. Or, even worse, businesses where management rewards itself with high salaries and bonuses that have nothing to do with outstanding performance.

But smaller companies overall are a much different story. In small-cap land, CEOs and managers with high levels of ownership are much more likely to rise above the mediocrity and work toward the common goal of great stock performance.

### For instance ...

I ran a screen for companies with high insider ownership -- but I went a bit beyond that. The following businesses also have high margins and returns on equity, and they've all generated sales and earnings growth over the past year. That's a potentially winning combination.

Company	Insider Ownership	Sales Growth*	EPS Growth*	Net Margin*	ROE*
<b>Baidu</b> (Nasdaq: <a href="#">BIDU</a> )	23%	65%	107 %	42%	49%
<b>China MediaExpress Holdings</b> (NYSE: <a href="#">CCME</a> )	60%	132%	151%	49%	81%
<b>L&amp;L Energy</b> (Nasdaq: <a href="#">LLEN</a> )	28%	223%	123%	25%	57%

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<b>International</b> (Nasdaq: <a href="#">YONG</a> )	24%	116%	NM	24%	38%
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<b>Ebix</b> (Nasdaq: <a href="#">EBIX</a> )	14%	48 %	51%	43%	33%
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<b>China-Biotics</b> (Nasdaq: <a href="#">CHBT</a> )	51%	52%	51%	43%	33%
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**Marvell Technology**

<b>Group</b> (Nasdaq: <a href="#">MRVL</a> )	13%	43%	NM	25%	19%
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Source: Capital IQ, a division of Standard & Poor's.

\*Trailing 12 months. NM = Not meaningful.

**And beyond**

Insider ownership, especially in smaller companies, is one positive indicator in the quest for tomorrow's multibaggers. There are many more, of course, but this is one of the core variables we look for in many of our stock recommendation services, including *Motley Fool Pro*.

This service seeks to make money in any market using long and short positions in a broad range of securities, including common stocks, publicly traded put and call options, and exchange-traded funds. On Tuesday, Jan. 18, *Pro* will be opening up for just a few days to small group of new members, for the first time since last June. If you'd like more information, just enter your email address in the box below.

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